Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.

It's in our nature

ALLIANCE FINANCE COMPANY PLC ANNUAL REPORT 2019-20

Caring for our people and planet is almost second nature to us. That is why we do not lose sight of our priorities while scaling our financial goals.

From our signature tree planting campaigns that are enabling our communities to work hand-in-hand to our wildlife conservation efforts, we are true to nature in all that we do.

Holding aloft the mission of following sustainable good practices, Alliance Finance Company PLC is keen to be a trailblazer in its arena and beyond - a true leader in building a sustainable Sri Lanka.

It's in our nature

About the Integrated Report

GRI-102-10 GRI 102-12 GRI-102-45 GRI-102-46 GRI-102-48 GRI-102-49 GRI-102-50
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Scope and Boundary

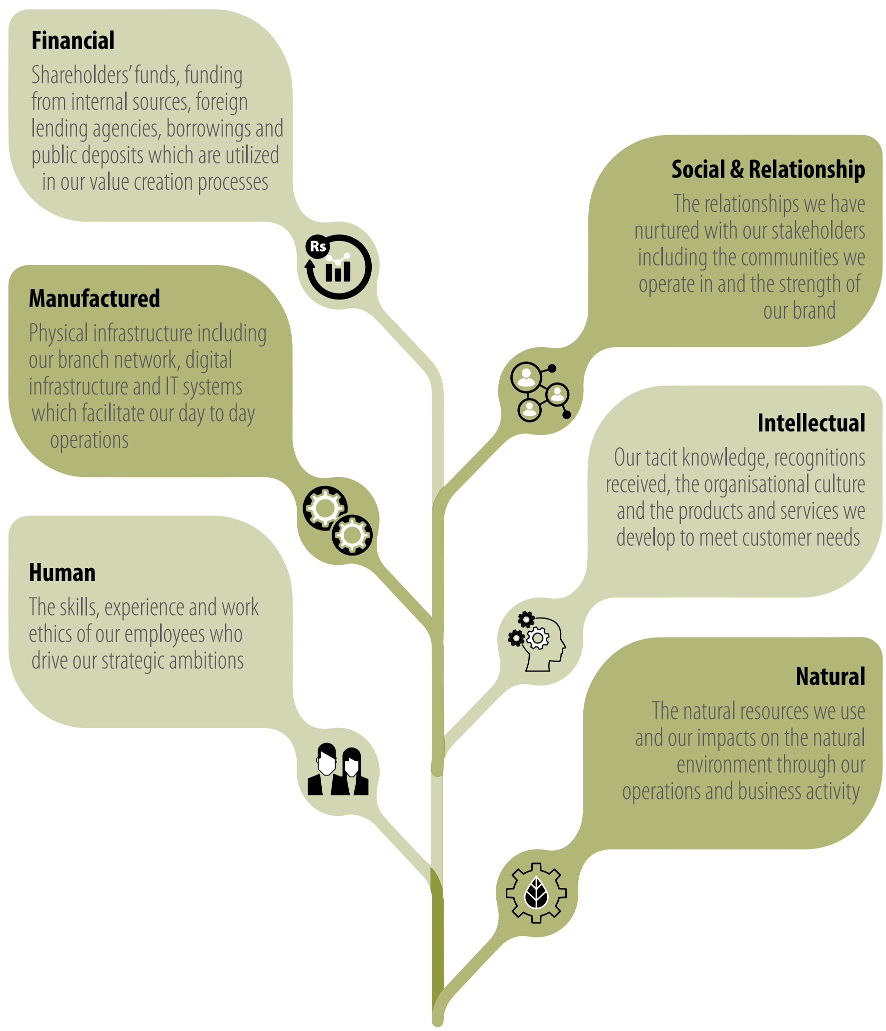
This report is Alliance Finance Company PLC's (AFC) 64th Integrated Annual Report and serves as the primary source of communication to all our stakeholders. Accordingly, the report covers AFC's operations for the period of 01st April 2019 to 31st March 2020 and other material events after this period and up to 29th June 2020, as approved by the Board of Directors have been included for completeness. Unless specified, all the financial and non-financial information disclosed herein pertains only to the parent Company. During the year under review there were no significant changes to the Company size, shareholding or supply chain. Following the annual report cycle, this report has been produced subsequent to the most recent report for the financial year ended 31st March 2020. In addition, there were no significant restatements of previously reported economic, social or environmental information.

Key Concepts

Materiality: This report has been produced through the application of Principles of Materiality to determine the content to be included. Accordingly, the most material aspects to the Company have been identified through a structured process, as detailed in pages 41-43 of this report. The material topics represents our stakeholder interests, risks, opportunities and other factors that could have a material impact on the ability of AFC to create value.

Capitals: In the interest of providing a more comprehensive view of the stakeholder value creation process, the report also contains a section (pages 68 to 102) graphically detailing how we use the various forms of capital to achieve our performance expectations in the short term and drive our medium term objectives within the context of our core purpose.

Our definition of the Capitals discussed in this report is illustrated below.



Sustainable Development Goals: This year's report has been prepared with the information with regards to the AFC's value creation on Sustainable Development Goals, illustrating how AFC has integrated SDGs into our corporate plan (pages 34-35), defining materiality (pages 41-43) and overall business model. Our contribution to each relevant SDG is also discussed in detail to provide a better understanding of the outcomes of the integration using the 5P approach of Sustainable Development (pages 34-35).

Reporting Frameworks

	Reporting Framework	Mandatory / Voluntary
Financial Reporting		
1)	Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRSs) and Lanka Accounting Standards (LKASs)	Compulsory
2)	Companies Act No. 07 of 2007	Compulsory
3)	Finance Business Act No. 42 of 2011 and amendments thereto	Compulsory
4)	Listing Rules of the Colombo Stock Exchange (CSE).	Compulsory
Corporate Governance Reporting		
1)	Companies Act No. 07 of 2007	Mandatory
2)	Finance Business Act No. 42 of 2011 and all Directions/ Guidelines issued thereunder	Mandatory
3)	Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Monetary Board of Central bank of Sri Lanka	Mandatory
4)	Listing Rules of the Colombo Stock Exchange (CSE)	Mandatory
5)	The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka	Voluntary
6)	Continuing Listing Requirements of the Colombo Stock Exchange (CSE)	Mandatory
7)	Finance Leasing Act No.56 of 2000	Mandatory
8)	Anti Money Laundering Laws and Regulations	Mandatory
9)	Inland Revenue Act No. 24 of 2017 and amendments thereto	Mandatory
10)	Shop & Office Employees Act No. 19 of 1954 and amendments thereto	Mandatory
Integrated Reporting and Sustainability Reporting		
1)	Six Capital Reporting format promulgated by the International Integrated Reporting council (IIRC)	Voluntary
2)	GRI Standards 2017 - In Accordance option - "Core"	Voluntary

Forward Looking Statements

The Report includes forward-looking statements, which relate to the possible future financial position and results of the AFC's operations. These statements involve an element of risk and uncertainty, as they relate to events and depend on circumstances that may or may not occur in the future. However, we do not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information or future events or otherwise.

Assurance

We use a combination of internal controls, management assurance and compliance and internal audit reviews to ensure the accuracy of our reporting.

Further, we have continued to hire independent service providers to assess and assure various aspects of the business operations, including elements of external reporting and Auditing of the financial statements by external auditors. (page 164-167)

Feedback

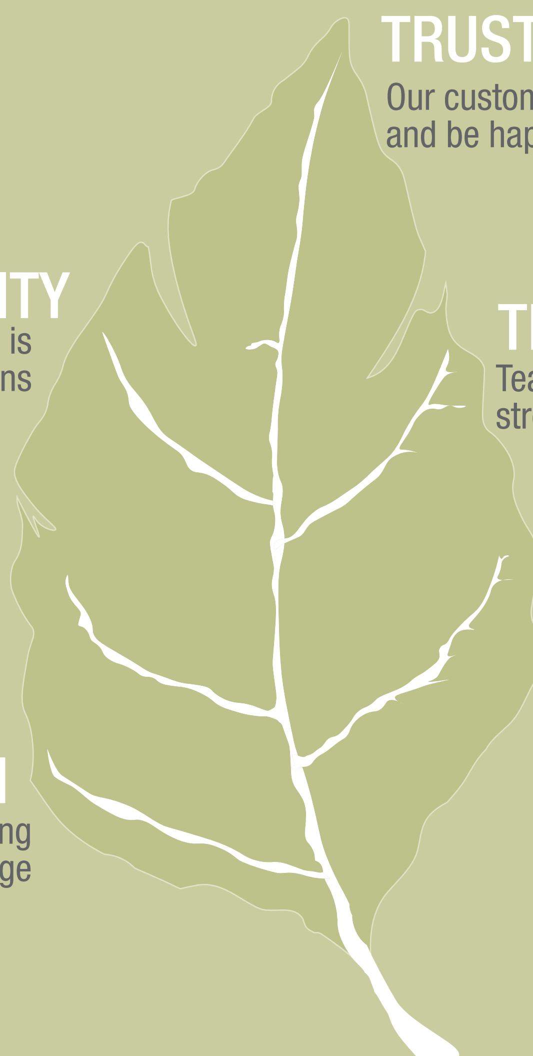
AFC welcomes feedback and requests that such feedback or queries to be directed to;

Head of Finance
Alliance Finance Company PLC
84, Ward Place, Colombo 7, Sri Lanka
Email: info@alliancefinance.lk

Our Purpose Statement

Make the world a better place through sustainable finance

Our Core Values



TRUST
Our customers need to trust us and be happy

ACCOUNTABILITY
Every one of us is accountable for our actions

TEAMWORK
Teamwork will make us stronger

RESPECT
We respect each other and the environment we live in

ETHICS
Ethics and integrity are critical

INNOVATION
We are open, brave and willing to drive innovation and change

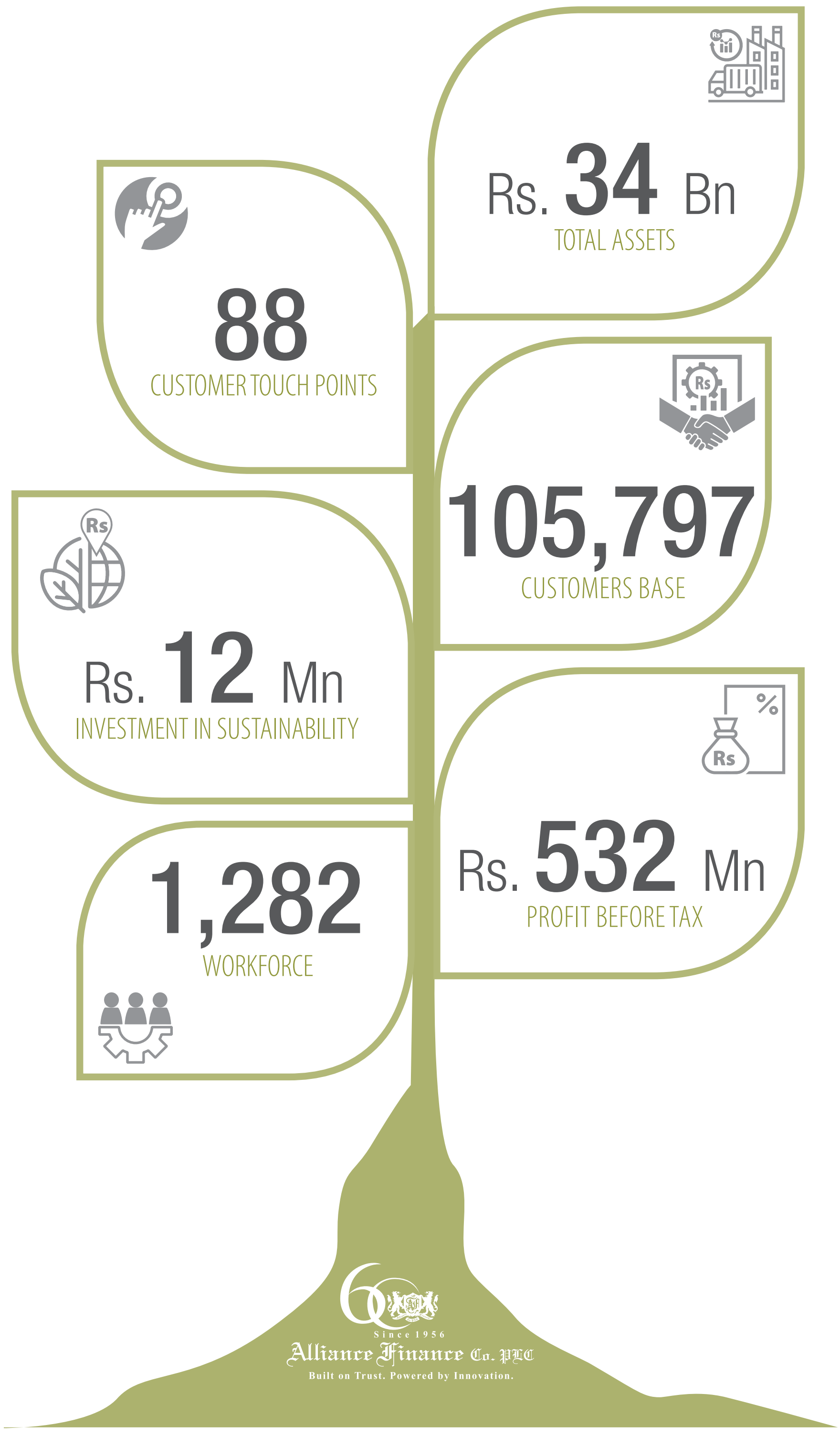
About AFC

GRI 102-1 GRI 102-2 GRI 102-4 GRI 102-5 GRI 102-6 GRI 102-7 GRI 102-8

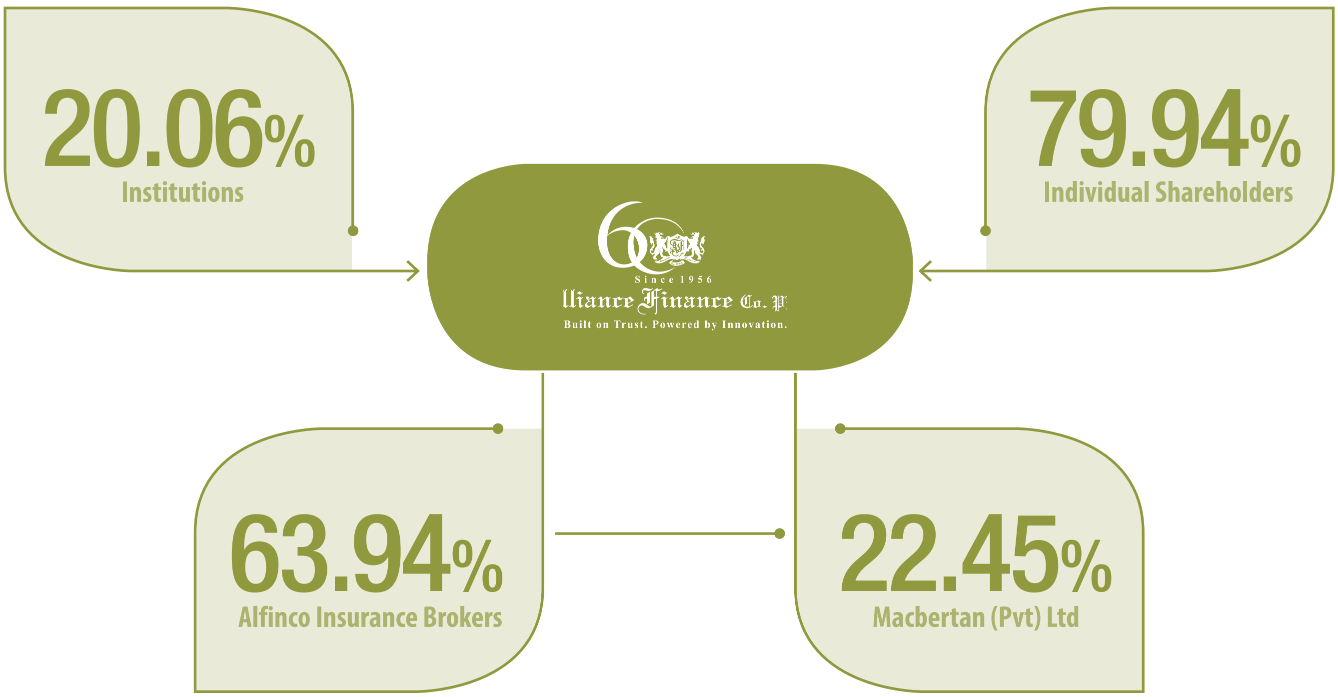
Alliance Finance Company PLC (AFC) is the 3rd oldest finance company, in Sri Lanka; incorporated in 1956 as a licensed finance company registered under the Central Bank of Sri Lanka. Over the years we have built a solid brand, based on the principles of trust and integrity. For more than six decades, AFC has been one of the few financial institutions in the country, which can claim to have served four generations of Sri Lankans. The Company offers a range of products and services to the customers, including leasing, gold loans, speed cash, savings and deposits. We also carry out vehicle trade-in services and Ezy drive vehicle fleet services as well under our Commercial Division. Our network of 88 touchpoints across the island reach out to serve more than 105,797 customers, individuals, micro-entrepreneurs and small and medium enterprises in Sri Lanka.

On our journey to become a most sustainable finance company in Sri Lanka, we have taken our first impactful step in 2017, by becoming the 1st Institution in the Banking and Finance sector of Sri Lanka to commit to the Karlsruhe Resolution, thereby agreeing to work towards achieving the Sustainable Development Goals and the Paris Climate Agreement. We are also working towards becoming the first certified Sustainable Financial Institution in Sri Lanka, by obtaining the global certification of Sustainability Standards and Certification Initiative (SSCI) developed for value-creating financial institutions.

Our team of 1,282 highly motivated and performance-driven individuals work diligently every day to bring to life AFC's high impact goals and core purpose, "Make the world a better place through sustainable finance" to deliver on this commitment.



The Ownership Structure GRI 102-5



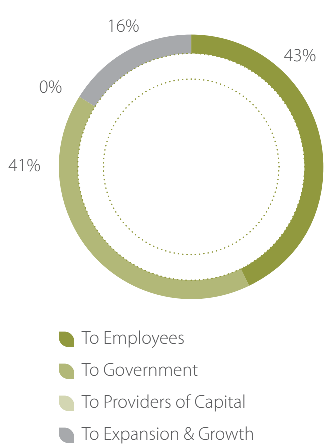
Our Products and Services GRI 102 - 2

Leasing and Loans Vehicle and equipment leasing Quick Cash Speed cash Pledge loans Mortgage loans	Portfolio: Rs. 26,087 Mn No of Customers: 78,357
Gold Loans Short term advances collateralized against gold Installment based gold investments	Portfolio: Rs. 2,104 Mn No of Customers: 18,360
Savings and Deposits Fixed deposits Savings deposits with special products to senior citizens and minors	Deposit Base: Rs. 12,347 Mn No of Investors: 170,795
Commercial Division Operative Lease Vehicle trade-in service Rental service Automotive service centre	Hiring Vehicle Fleet: 35

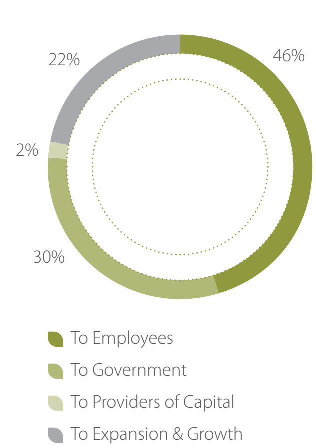
Value Added Statement - Company GRI 201 - 1

For the year ended 31st March	2020 Rs.	%	2019 Rs.	%
VALUE ADDED				
Income	7,501,158,320		7,029,001,945	
Interest Expense	(3,321,169,317)		(3,244,034,169)	
Cost of External Services	(2,279,913,345)		(2,075,302,887)	
	1,900,075,658		1,709,664,889	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries & other benefits	821,722,767	43%	780,351,399	46%
To Government				
Taxes	771,768,637	41%	522,924,549	30%
To Providers of Capital				
Dividend	-	0%	33,696,000	2%
To Expansion & Growth				
Depreciation	131,646,655	7%	136,086,759	8%
Reserves	174,937,599	9%	236,606,182	14%
	306,584,254	16%	372,692,941	22%
	1,900,075,658	100%	1,709,664,889	100%

Value Distribution 2019/20



Value Distribution 2018/19



Triple Bottom Line Value Creation

1,282
WORKFORCE

105,797
CUSTOMER BASE

PEOPLE

	Unit	2019/20	2018/19	Y-o-Y change (%)
HUMAN CAPITAL				
Employees	Number	1,282	1,400	(8)
Investment in training and development	Rs. Mn	5.1	7.8	(35)
Training hours	Hours	19,132	17,786	8
SOCIAL AND RELATIONSHIP CAPITAL				
Customers	Number	105,797	117,872	(10)
Customer touch points	Number	88	91	(3)
Female customer base	%	48	56	(14)
Social sustainability initiatives	Rs. Mn	4.77	6.57	(27)
CSR Initiatives	Rs. Mn	1.71	3.96	(57)

217,499
TREES PLANTED

Rs. 12 Mn
INVESTMENT IN SUSTAINABILITY

PLANET

	Unit	2019/20	2018/19	Y-o-Y change (%)
NATURAL CAPITAL				
Electricity consumption (Head Office)	kWh	356,483	403,603	(12)
Fuel consumption(Head Office)	Liters	14,996	14,458	4
Water consumption (Head Office)	Cubic Meters	9,078	8,627	5
Paper consumption	T	13.62	12.93	5
Environmental sustainability initiatives	Rs. Mn	4.67	14.02	(67)

PROFIT

Rs. 532 Mn
PROFIT BEFORE TAX

Rs. 78 Mn
CAPITAL EXPENDITURE

	Unit	2019/20	2018/19	Y-o-Y change (%)
FINANCIAL CAPITAL				
Net interest income	Rs. Mn	3,891	3,589	8
Profit after tax	Rs. Mn	209	306	(32)
Total assets	Rs. Mn	33,945	32,132	6
Return on average assets (post tax)	%	0.63	0.96	0
Return on equity (post tax)	%	4.57	6.95	(2)
Cost to income ratio	%	53.5	56.6	(3)
Gross NPL ratio	%	11.10	7.69	3
Earnings per share	Rs.	6.19	9.09	(32)
Net asset value per share	Rs.	136.90	133.85	2
Dividend per share	Rs.	-	1.00	(100)
Market price per share	Rs.	34.40	53.60	(36)
MANUFACTURED CAPITAL				
Property, Plant and Equipment	Rs. Mn	1,694	1,746	(3)
Capital expenditure	Rs. Mn	78	199	(61)

AFC Millstones

1956
AFC was incorporated on 18th July 1956

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

1981
Commemorated AFC Silver Jubilee

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

1998
Subscriber to the formation of "Alfinco Insurance Brokers"

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

2003
Opened the first Collection Centre in Kurunegala

Launch of Quick Cash Loan plan for depositors

2005
First Finance Company to introduce Savings Accounts

2008
Entered in to the Gold Loan Market

2012
Formal adoption of the Triple bottom line philosophy (People, Planet, Profit) across the Group

2013
Launch of Microfinance Division

2015
Obtained AFC's inaugural strategic foreign funding line from Triple Bottom Line based prestigious DFI, Triodos Bank of Netherlands

2020

Won Certificate of Merit for outstanding sustainability achievement at the Karlsruhe Sustainable Finance awards, Germany

Formed the AFC Digital Centre

2019

Recorded highest profit allocation for sustainability initiatives (over 4% of the previous year profit)

Obtained the membership of Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and Biodiversity Sri Lanka.

2019

Won a Merit Award under the Outstanding Development Project Awards at ADFIAP Awards 2019 held in the Philippines

2020

Became ACCA Sustainability Awards winner in the category of Insurance and Finance

Won certificate of Merit at CMA Excellence in Integrated Reporting Awards 2019

Won Certificate for finalist at Asia sustainability reporting award, Singapore

2020

Launched "Dalu- AFC Sustainability" programme

Launched "AFC 1Mn Trees for Unity" project

Implemented the SSCI sustainability standard

2018

The Managing Director received international recognition for his commitment and leadership in driving the sustainability mandate of the Company ("Sustainability leader of the year 2018", at Sustainable Finance Awards, Karlsruhe, Germany)

2018

Launched CASE tractor brand in Sri Lanka

Launch of AUTOSURE division

IFC partnered with AFC by offering a loan of 5 Mn USD and technical assistance to further improve business strategy and process

2017

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

2018

Recorded the highest profit in the AFC history.

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

2017

Secured an investment grade credit rating of BBB- with a stable outlook from ICRA Lanka

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

2018

Planted 176,000+ trees on World Environment Day 2018, with 990 schools; 371,000+ school children and completed planting 216,213 saplings during the year

2018

Launched "AFC Thuru Mithuru" tree planting programme, with a pledge to plant 1 Mn by 2023, to offset the Carbon Foot print of AFC Motor vehicle leasing customers (50 trees/lease).

Awards and Accolades

Sustainability Awards

2013
Best innovation in Sustainable Financial Services Merit award EOSD Global Sustainable Finance Awards, Germany

2014
Green Leadership Winner, Asia Responsible Entrepreneurship awards, Singapore

2018
Sustainability Leader of the year, Merit Award, Karlsruhe Sustainable Finance Awards, Germany

2019
Merit award for Local Economic Development ADFIAP Awards, Philippines

2020
Certificate of Merit for outstanding sustainability achievement, Karlsruhe Sustainable Finance awards, Germany

HRM Awards

2016
Merit award in the large scale of the service sector category Social Dialogue and Work Place cooperation Awards, organised by Department of Labour Ministry of Labour and Trade Union Relations, Sri Lanka

Certificate of Recognition for Best employer with outstanding employee culture in Sri Lanka Employer Brand Awards organised by Employer Branding Institute, India

Business Excellence Awards

2012
Joint Gold award in NBFI sector category at National Business Excellence Awards 2011, National Chamber of Commerce in Sri Lanka

Silver award for Best Management Practices in the BFI sector category at National Business Excellence Awards National Chamber of Commerce in Sri Lanka

2016
Certificate of Recognition for Best employer with outstanding employee culture in Sri Lanka at Employer Brand Awards Employer Branding Institute, India

Marketing Campaign of the year award for AFC Motorbike Show 2016 CMO Asia Awards for Excellence in Branding and Marketing in Sri Lanka

Annual Report Awards

2013
Certificate of Recognition, in NBFI sector category, ICASL Annual report awards, Sri Lanka

2015
Certificate of Recognition, in NBFI sector category, ICASL Annual report awards, Sri Lanka

2016
Certificate of Compliance, in NBFI ector category, ICASL Annual report awards, Sri Lanka

2017
Certificate of Compliance, in NBFI sector category, ICASL Annual report awards, Sri Lanka

2018
Certificate of Compliance, in NBFI sector category, ICASL Annual Report Awards, Sri Lanka

Certificate of Merit, in NBFI sector category CMA Annual Report Awards, Sri Lanka

2020
Winner, in Insurance and Finance sector category, ACCA Annual Report Awards, Sri Lanka

Certificate of Merit, in NBFI sector category CMA Annual Report Awards, Sri Lanka

Certificate of finalist, Asia Sustainability Reporting Awards, Singapore

Winner in the category of Finance Services and Insurance of ACCA Sri Lanka Sustainability Reporting Awards 2019
The highest achievement of the year for the Sustainability and Integrated Reporting.

AFC received International recognition for the 3rd time at the Karlsruhe Sustainable Finance Awards 2019, for the integration of Sustainability Principles into the Business Strategy and processes.
The 2018/19 Annual Report was recognized at the Asia Sustainability Reporting Awards (ASRA) 2019, Singapore and CMA Excellence in Integrated Reporting Awards 2019, Sri Lanka.

Chairperson's Statement

Loss of lives and devastating socio-economic costs of the COVID-19 virus continues to cause distress and the world remains overwhelmed by uncertainty. However, it is heartening to note that Sri Lanka's efforts to contain the spread of the virus thus far appears to have been a success, and we are hopeful that domestic economic activity could recover sooner than expected.

Dear Stakeholder,

I am pleased to welcome you to the 64th Annual General Meeting of Alliance Finance Company PLC and to place before you the Annual Report and Audited Financial Statements for the year ending 31st March 2020.

I write this message during an unprecedented time for the entire world; as loss of lives and devastating socio-economic costs of the COVID-19 virus continues to cause distress and the world remains overwhelmed by uncertainty. However, it is heartening to note that Sri Lanka's efforts to contain the spread of the virus thus far appears to have been a success, and we are hopeful that domestic economic activity could recover sooner than expected.

Performance in Context

I would like to present a few highlights of the performance (which is discussed in detail in the ensuing MD's Review and the MD&As) and an overview of the economic landscape which formed the backdrop to the industry's performance.

Alliance Finance proved its resilience in an adverse operating environment to achieve a 6% growth in its gross income. Profits Before Tax however, declined by 11% to Rs. 532 Mn due to increased credit cost. Due to the unfavourable tax policies (that prevailed until end 2019) resulted in many Finance companies, in the industry including AFC, being subject to a significantly higher tax rate. Owing to increased credit costs and higher taxes, Profit After Tax declined by 32% to Rs.209 Mn. During the year under purview, AFC's Net Interest Margin marginally improved by 0.5%.

Backdrop to Performance

The impacts of this crisis since March this year follows another year of low economic growth and stagnation in 2019 when tragedy struck our nation in the form of the Easter Sunday terror attacks. Moreover, the recession in plantation and field crop sectors along with animal husbandry sector led to a downturn in the overall Agriculture sector which recorded only a 0.6% growth compared to a 6.5% growth in 2018. These factors contributed to one of the most prolonged periods of economic stagnation as reflected in the deceleration of GDP growth to 2.3% in 2019 (by 1% from 2018); recording the 5th consecutive year of declining growth. The performance of the Agriculture sector has a cascading impact on the NBFI sector in the country. Moreover, growth of credit to the private sector recorded a sharp deceleration in 2019 amidst high market interest rates, policy uncertainty, dented business confidence after the Easter Sunday attacks and subdued economic activity during the year. Although a recovery was observed towards year end; year-on-year growth of credit to the private sector declined to 4.3% compared with 15.9% at 2018 end. Hence the NBFI sector's performance also weakened during the year, with negative credit growth, declining profitability and increase in NPLs. However, new policy measures at the end of 2019 stimulated investor confidence which resulted in rekindling of economic activity by early 2020. The tragic turn of events unfolded due to COVID-19 crisis has rendered a blow to the economy that was just beginning to see green shoots of recovery at the beginning of 2020.

Board Changes

I would like to welcome Mr. Hiran De Silva who joined our Board as a Non-Executive Director with effect from November, 2019. He brings with him over 30 years of management experience with extensive involvement in brand building, strategic planning and key account management. A Fellow of the Institute of Printing, he has over 40 years of experience in the Graphic Arts Industry and is currently a member of the Board of Governors of the Institute of Printing in Sri Lanka and is the Managing Director of Alliance Agencies Ltd. I wish him well and believe that his wide exposure in a multitude of areas will add value in driving AFC in its strategic path.

Governance

A cornerstone of AFC's success "built on trust", and its reputation as a safe, strong and stable financial entity, has been a result of its adherence to the highest standards in Governance. We believe that the highest standards in Governance are indispensable to creating long term value to our stakeholders and must be pursued uncompromisingly. It is about engendering trust and effective, transparent and accountable Governance by the management including the Board- the highest governing body. The Board thus sets the tone at the top by promoting professional standards and corporate values that cascade down to senior management and other employees of the Company.

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We have pledged to plant 1Mn trees by the year 2023, which will ensure a 5% contribution towards the Bonn Challenge of Sri Lanka, which is to increase the forest cover of the country to 32% by 2030.

Chairperson's Statement

Industry & Regulatory Environment

The NBFI sector remains intensely competitive with the number of players leading to a scenario of over financing, and hence, an erosion of margins; a compromise of the core principals of the financing models and a propelling of marketing costs. We as well as most stakeholders of the LFC's would like to emphasize the need for greater self-regulation by the industry associations. We have also repeatedly argued for a more level playing field for the NBFI sector who compete with banks. However, your company believes in the tremendous win-win opportunities that can arise when the industry, regulators and the government work collectively; and as such we will not waste any opportunity to contribute to macro and industry level progress.

Future & Strategies

Our company has carved a uniquely differentiated position in Sri Lanka's finance industry with the successful integration of the concept of social and environmental sustainability into our business model, helping us earn the confidence of international Development Finance Institutions (DFI's) and Impact investors. They continued to process loans for us and offered us liquidity support amidst the bleakest periods of the COVID-19 crisis ; thus saving us from liquidity shocks which many others in the industry had to endure. It is noteworthy that the company continues to meet our social and environmental obligations even during challenging times, proving our resilience and flexibility. A balanced corporate portfolio, steady growth and a host of other corporate intangibles have enabled us to establish this position.

We will continue to focus on strategies which have served us well in the past and still remain suitable despite changes in the socio-economic environment. The changing dynamics in the current economic environment, a weaker currency, reduced imports and a lower propensity to spend have necessitated that we review our portfolio structure for the year that has just begun. Each strategy will also be reviewed constantly to ensure that our plans comply with regulations stipulated for LFC's and the prudent risk management framework as detailed in the Corporate Governance and Risk Management sections of this Report.

The Triple Bottom Line approach as enumerated in the ensuing MD's Review, would be a foundation for future strategies for the company, reflecting the value we place on excellence, consistency and the sustainability of our growth.

Innovation of product and services, our processes and systems will continue to be key facets of our strategic positioning and of consistent growth we envisage for the medium to long term future.

While Sri Lanka has been able to curb a major spread of the COVID-19 outbreak in the country, the interconnected nature of the global economy will result in Sri Lanka experiencing spillover effects of the pandemic. Sri Lanka has had long-standing economic linkages with China, where the virus spread began in the latter part of 2019. Hence, the downturn in the Chinese economy is expected to have a significant impact on Sri Lanka across several sectors such as tourism, construction, and apparel in the near term.

The "New Normal" that the world now prepares for demands a sustainable mindset from individuals, households, and corporates across the world. Thus, your Company's intrinsic commitment to Triple Bottom Line, its ethos and its continuing investments and efforts to ensure a sustainable mindset in all its people; sees itself well-positioned with a head start to meet new opportunities in the future.

Through our "Diyanee" gas convered tuks project, we aim to convert 200,000 ordinary three wheelers into gas by 2025, which will reduce over 96,000 metric tons of CO2 and a considerable amount of other hazardous gas emission to the atmosphere. This conversion will be around 20% of the total three-wheeler vehicles of the country.

Conclusion

I would like to convey my sincere appreciation to my colleagues on the Board for their continued support and the confidence placed in me and to the entire team of employees led by the Group Managing Director whose talents, unreserved effort and commitment continue to broaden the horizons for the Company and its stakeholders as it strives "to Make the World a Better Place Through Sustainable Financing". My gratitude also goes to the Governor of the Central Bank of Sri Lanka and other regulatory bodies for the vital role they play and their contributions to the industry, and to all our stakeholders and customers for their loyalty which has inspired us for more than six decades.

Ramani Ponnambalam (Mrs.)
Chairperson

29th June 2020

Managing Director's Review GRI 102-14

The Company continued to perform reasonably well amidst these adverse economic conditions, to achieve a 6% growth in gross income, primarily supported by the growth in the vehicle Leasing segments. A sharp growth of 60% in the Gold Loan portfolio also contributed to this year's performance.

Dear Stakeholder,
It is my pleasure to present our 64th Integrated Annual Report and audited financial statements for the year ended 31st March 2020.

The year under review was one of double jeopardy. The severe social and economic impact of the COVID-19 virus which traversed all geographic, economic and social boundaries across the world; was close upon the heels of the inimical conditions of 2019 which saw Sri Lanka experience one of the most prolonged periods of economic stagnation. As I write this message, the crisis is ongoing and although Sri Lanka has been exemplary in its efforts to curtail the spread thus far, the next few months ahead remain critical in determining the country's prospects for the near to medium term future.

Performance

The Company continued to perform reasonably well amidst these adverse economic conditions, to achieve a 6% growth in gross income, primarily supported by the growth in the vehicle Leasing segments. A sharp growth of 60% in the Gold Loan portfolio also contributed to this year's performance. Profit Before Tax however, declined by 11% mainly on the back of a 60% reduction of our Micro Finance Group Loan portfolio, the ripple effect of the Easter bombing and the resultant negative economic outlook which led to increased impairment. Moreover, a rise in NPL's and the resulting higher impairment provisions also impacted profitability. An additional debt repayment levy which was imposed on financial institutions by the government, with effect from October 2018 charged at 7% on the value-added base during the first 9 months of the financial year under review saw the Financial VAT contribution

6%	Rs.34Bn	217,499Nos	6%
Income Growth	Asset Base	Trees Planted	Portfolio Growth

of the Company increase by Rs. 75 Mn in comparison to the previous year Profit after Tax saw a considerable 32% decline due to the unfavorable external environment and increased taxation.

As I mentioned in last year's review, the Micro Finance industry in Sri Lanka faced several constrictions due to Government policy changes, thus prompting the Company to minimize its exposure in this sector. The year under review also saw some residual impact as we reduced this portfolio. Together with that the Company had to bear the burden of a total of Rs. 1,112 Mn in impairment provisions. It is noteworthy that your Company's Return on Equity (before tax), at 12%, and the Net Interest Margin also at 12%, remained well above the industry averages during the year. In addition, the Risk Weighted Capital Adequacy ratio at 13% was also above the industry average.

The commendable growth in our Gold Loan portfolio was supported by active promotion of the product and the harnessing of AFC's strong island wide network developed over the years. Considering its high yields and low risk due to being asset-backed, the Company will continue to drive this product in the year ahead.

The rating of BBB-, ICRA awarded to Alliance Finance Company PLC. was upheld during the year; and as noted by the agency, is based on factoring in "AFC's established track record, fairly diversified lending and borrowing profiles and its adequate liquidity profile.

Continuing from 2018, we focused on bolstering our platform to sustain profitability into the future and to upscale our business over the next decade. Amongst them was a reengineering of our Business Processes (BPR), to enhance efficiencies and customer service across the Company, for which the foundation was laid in 2018. The BPR initiatives launched with input from the International Finance Corporation (IFC), under a Technical Assistance programme included the recommendation of a digitisation initiative to achieve greater efficiency as well as to meet the needs of the more tech-savvy customers of the younger generation. The project commenced under a cross functional team who will manage the entire process of automation and also position the Company in a digitised space. The automation of processes is also expected to yield a Triple Bottom Line impact, with the reduction of costs and paper usage and enhanced customer service with more opportunities to facilitate financial inclusion

Furthermore, AFC also divided its business regions into eight, from two, in order to facilitate better supervision and service whilst the Credit function was centralised as a means to improve credit quality and reduce the NPLs. The Company also invested in a state-of-the-art Delinquency Management System and a software system which will help to manage the early delinquencies better and then contribute to further reduce NPLs. The Company also revamped the Sales and Recoveries functions to enhance service and efficiencies.

Based on IFC's recommendations, the Company also took measures to consolidate the branch network, bringing all our products under one roof in a fully-fledged branch network, thus enhancing customer convenience as well as efficiency. Accordingly, the RFS (Regional Financial services), Development Finance and Gold Loan service centres were combined under the theme "One Team-One AFC", with each branch equipped with the capacity to offer the full range of products and serve all segments of the market. Thus, during the year our points of presence reduced from 91 to 88.

The commendable growth in our Gold Loan portfolio was supported by active promotion of the product and the harnessing of AFC's strong island wide network developed over the years. Considering its high yields and low risk due to being asset backed, the Company will continue to drive this product in the year ahead.

Managing Director's Review

Our partnership with WWCT has enabled us to contribute towards Biodiversity Conservation and Eco system restoration. This project will ensure the conservation of over 36 species of flora and fauna including the endangered umbrella species, Panthera pardus kotiya - the Sri Lankan Leopard.

Reflecting our commitment to a Triple Bottom Line, the Company also included three broad objectives that contribute to the nation's socio-economic upliftment as well as the environment, into our Strategic Plan. Namely, the development of the North & East and upliftment of the Micro and SME sectors of the country and reduction of the Carbon Footprint created by us and our customers. AFC affirmed and made its commitment to these overarching tangible objectives, by encompassing them in the Job Descriptions and the Key Performance Indicators of our people.

Accolades

I am happy to note that our continued commitment to a Triple Bottom Line business philosophy received several external and international accolades. AFC was the winner in the category of Insurance & Finance, at the Association of Chartered Certified Accountants' (ACCA) Sustainability Reporting Awards 2019. The Company also won a Merit award for outstanding achievement in sustainability for integrating sustainability into its Corporate Strategy at the Karlsruhe Sustainable Finance Awards, 2020. The Karlsruhe Resolution is a joint undertaking between the European Organisation 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. We were also recognised with a Merit award for Outstanding Development Projects awards at the Chartered Marketing Association's (CMA's) annual awards and became a finalist at the Asia Sustainability Reporting Awards. We expect these international accolades to help the company in its quest to seek more stable and longer-term funds that would help reduce the risk posed by the inherent asset-liability mismatch in the industry whilst aiding the Company's mandate of Sustainable Development.

Our People

Your company continued its efforts in raising its HR practices to a higher plane in the areas of Performance Management, Succession Planning and Talent Management. As part of our initiatives in conjunction with IFC, the year under review saw the launch of initiatives to retain and nurture top level talent in the Company as well as strengthen the "One Team – One AFC" concept made up of 1,282 individuals. We also launched a review and revision of the Job Descriptions which is to be formalized in the next financial year. Key Performance Indicators for all employees derived from Corporate strategy were also fine tuned to encompass the Company's commitment to the three broader objectives for nation building, training and development continued to be a priority with significant investments in training across segments with several senior employees benefiting from overseas exposure.

Our Focus on Sustainability

The contribution we make to the country's economic growth is one which we have held high and is intrinsic to the Triple Bottom Line approach to enterprise that we have adopted. It is not merely about being abreast with global trends in business and governance but one that truly springs from our belief that sustainability of an entity's growth ultimately depends on the sustainability of the community and environment that it is a part of. Our core area of business has been in lending- to the Small and Medium scale Enterprises (SME sector) of the country. This has given us an opportunity to make a valuable contribution to achieving some of the nation's macro-economic goals such as creating financial inclusion for those who could not access the banking system, and reducing the geographical disparity of income distribution through the creation of wealth amongst those disadvantaged outside the Western province. The company's policy of recruiting from the localities wherever possible for our island wide branch network, has also helped in employment generation and enabled us to become an integral part of those communities.

Our pioneering Triple Bottom Line initiative is the launch of the LPG powered three-wheelers, as an innovative transport solution. This initiative which follows four years of R&D, encompasses all three facets of the Triple Bottom Line and is a perfect case in point of how business objectives can be integrated into benefiting people and the environment. AFC in partnership with Vialle (a global leader in LPG fuel solutions for transport) has developed an efficient mechanism to convert the Petrol Tuk Tuks to run on LPG and has targeted to convert 200,000 (20% of the market) by 2023. It is estimated to reduce over 96,000 metric tons (30%) of CO_2 and a considerable amount of other hazardous gas emissions. The project, in addition to empowering the economically disadvantaged individuals by providing three wheelers converted by us, will also provide a cost advantage to customers due to the lower cost of LPG. Those who patronize this service, in addition to helping the disadvantaged, will be also contributing to saving the environment from harmful emissions. The project's initial phase also targets 100 women owner drivers; thus combining another objective of promoting women entrepreneurs and positively impacting the gender imbalance in the transport sector of the country.

Combining a social as well as an environmental impact, the Company also launched a campaign of "One million Trees for Unity", with the support of the Tri Forces and all communities across different regions of the country with a pledge to plant a million trees by 2023. We completed the first phase in November 2019. Details of our initiatives are shared in the Sustainability and the Natural Capital sections of this report.

Looking Ahead

The unexpected change in the dynamics of the current socio-economic environment has prompted us to review our strategies and explore alternatives whilst continuing with those strategies that have served us well in the past and continue to remain relevant. Given our Triple Bottom Line approach to enterprise, we will also continue to evaluate our strategic priorities in the context of changing environmental trends.

Amidst the spread of the COVID-19 virus, the Central Bank expects growth of credit to the private sector to remain low in the near term due to significant disruptions to economic activity. However, as the country recovers from the COVID-19 outbreak, the growth of credit to the private sector is projected to accelerate, supported by low market lending rates. The expected expansion in economic activity supported by fiscal and monetary stimulus, the debt moratorium and special credit support schemes is expected to positively impact SME businesses. It is encouraging that the financial sector is expected to remain resilient in the medium term, despite the near-term challenges due to the unfavourable developments in the domestic and external environment. Supporting the SME's through our financing solutions will continue to be a key element of our future strategy, and now more than ever to support their recovery from the impacts of the lock down. We continue to see tremendous potential in the growth markets of the North & East and will continue to focus on these geographies.

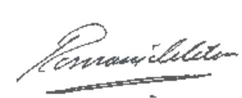
The Government's increased attention to the agriculture sector in the post COVID-19 environment is expected to promote enhanced markets for Agriculture commodities, value addition in the sector and development of entrepreneurial skills amongst farmers; thereby ensuring high levels of income for those engaged in agriculture and related activities. Your Company, with its presence in the rural sectors of the country, sees myriad opportunities for financing in this sector; providing weather conditions remain conducive.

The years ahead will also see AFC further expand the Leasing solutions to existing as well as new customers and also promote the LP Gas Tuk Tuks.

The new generation of customers will be more conscious of, and demand sustainable business, delivered also in a sustainable and responsible manner. We are happy to have begun a journey of Sustainable financing before it became a buzz word, and thus look with enthusiasm to meet the numerous opportunities ahead.

Appreciation

I would like to express my very sincere thanks to our Chairperson and my colleagues on the Board for their collective wisdom, guidance and continual support. My most sincere appreciation also to all our employees that make up "One Team - One AFC", whose focused approach, passion and commitment have been indispensable to overcoming a challenging year. I would also like to convey my sincere appreciation to the Central Bank of Sri Lanka for their valuable guidance and support provided to us throughout the year. I wish to extend my gratitude to our shareholders, customers and business partners and other stakeholders for their confidence in us, which continues to inspire us to constantly raise the bar for ourselves and reach greater heights as the third oldest finance company in the country.



Romani De Silva
Deputy Chairman/Managing Director

29th June 2020

Board of Directors

Throughout the past decade, our efforts have been focused on aligning our business with the national and global goals of Sustainability. At present we are contributing towards 12 of the 17 Sustainable Development Goals with our entire business geared towards sustainable value creation.

Mrs. R.N. Ponnambalam

Chairperson

Appointed to the Board in 2011 (Member of Remuneration Committee and Related Party Transactions Review Committee)

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) Limited, Director of Macbertan Holdings (Pvt) Ltd., Director of Pidilite Lanka (Pvt) Limited, Non-Executive Director/Audit Committee Member - Kingsbury PLC and Amaya Leisure PLC, Board Member/Jt. Secretary - Women's Chamber of Industry & Commerce.

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

Deputy Chairman/ Managing Director

Appointed to the Board on 9th March 1990 (Member of Integrated Risk Management Committee)

Skills and Experience

Mr. Romani de Silva currently serves as the Deputy Chairman/Managing Director of the Company. A Fellow of the Institute of Credit Management, Sri Lanka, Mr. Romani de Silva holds Directorates in many Companies and counts over 30 years of experience in the finance industry.

Other Appointments

He is a Life member of the Sri Lanka Institute of Directors and a Member of the Chamber of Young Lankan Entrepreneurs.

He is a Council Member of The Finance Houses Association of Sri Lanka (FHASL), the representative body of the Non-Bank Financial Sector of Sri Lanka and serves as the Hon. Treasurer of the Sri Lanka Institute of Credit Management (SLICM). He represents the FHASL on the Sub-Committee for Non-Bank Financial Institutions at the Ceylon Chamber of Commerce and also serves as a member in the FHASL sub-committee on Sustainability related matters. He also represents the industry Council on a Steering Committee initiated by the Central Bank of Sri Lanka to develop a Sustainable Finance Road map for Sri Lanka. Mr. Romani de Silva also represents the Non-Bank Financial Sector as a working committee member of the National Financial Inclusion Strategy Project initiated recently by the World Bank, IFC, European Organisation of Sustainable Development (EOSD) and the Central Bank of Sri Lanka.

He also represents the Company through its Foundation as a founder investor on the pioneering "Ath Pavura" reality TV Programme in Sri Lanka which aims to create a Social Enterprise and the impact investing culture in the country.

Awards and Accolades

He is the pioneer of Collaboration Financing a unique financing concept designed to provide finance for entrepreneurs to expand their businesses. He was awarded two Bronze Awards for this innovation at Provincial and National levels at the Sri Lanka Entrepreneur of the Year 2001 competition. In 2018 he won the Sustainability Leader of the Year Merit award, at the Karlsruhe Sustainability Conference organised by the European Organisation for Sustainable Development, for his unwavering commitment and contribution towards Sustainable Development.

Mr. J.M. Gunasekera

Executive Director-Sustainability

Appointed to the Board in June 2015 (Member of Integrated Risk Management 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.

Mr. W.P.K. Jayawardana

Executive Director- Finance & Operations

Appointed to the Board in April 2017 (Member of Integrated Risk Management Committee)

Skills and Experience

He brings over 20 years of experience in investment banking, corporate finance, credit and operations. He is 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 is 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.

Mr. Ravi Rambukwelle

Executive Director-Credit Operations and Marketing

Appointed to the Board on 06th September 2018. (Member of Integrated Risk Management Committee)

Skills and Experience

Mr. Ravi Rambukwelle's wealth of experience spans over 35 years in Management both in Sri Lanka and overseas and his expertise and extensive knowledge of the industry is his hallmark. His last position was Director Marketing and Operations in one of the largest Non - Bank Financial Institutions in the country, where he was employed for twenty-four years until his retirement in June 2018. He possesses a Bachelor's Degree in Economics and Political Science from the Peradeniya University, a Diploma in Marketing from the Chartered Institute of Marketing UK and a Diploma in Commerce from the Institute of Commerce UK.

Lt Col (Retd) A.R. Samarasinghe

Independent Non-Executive Senior Director

Appointed to the Board in 2011 (Chairman of Integrated Risk Management Committee and Board Audit Committee)

Skills and Experience

A retired Army Officer, having served for 20 years, functions as an academic in the field of information security and also as an Enterprise Information Security 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. Priyanthi de Silva

Independent Non-Executive Director

Appointed to the Board on 9th August 2018 (Chairperson of the Audit Committee and member of Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee)

Skills and Experience

Mrs Priyanthi de Silva is a Fellow of the Chartered Institute of Management Accountants (FCMA) and the Chartered Global Management Accountants (CGMA) of UK and a Fellow of Certified Practicing Accountants, (FCPA) of Australia. She is also an Associate member of the Association of Chartered Certified Accountants of UK (ACCA). She is currently working as the Head of Finance and MIS at Foundation of Goodness, a not for-profit Organisation registered in both Sri Lanka and USA.

She has over 30 years of experience in the FMCG, Leisure, Healthcare, Travel, and Financial Services sectors in Sri Lanka and Australia. The senior positions held by her

Board of Directors

in Sri Lanka include Manager Compliance at Sri Lankan Airlines and Manager Finance and Systems at Sri Lankan Catering, Financial Controller of Hemas Holdings PLC, Finance Manager at Arpico Finance PLC, Manager Finance and MIS at Eagle NDB Fund Management and in Australia as a Financial Specialist at Goston Avend Pty Ltd, and as an Accountant at GE Money and Coles Express.

Mr. L.J.H. de Silva

Independent Non-Executive

Appointed to the Board on 16th October 2019 (Member of Remuneration Committee and Related Party Transactions Review Committee)

Skills and Experience

Hiran de Silva attended Hauchler Studio College and Print Media Academy Heidelberg, Germany, is a fellow of the Sri Lanka Institute of Printing and has over 40 years of experience in the graphic arts industry. He is presently the Managing Director of Alliance Agencies Ltd., exclusive agents in Sri Lanka for Heidelberger Duckmachinen AG Germany and Drive One (Pvt) Ltd., sole distributor for Audi AG, Germany.

He has over 30 years of management experience. He has acquired significant experience in brand building strategic planning and key account management. Former president of the Association for Print and Design Professionals and is a Member of the Board of Governors of the institute of Printing in Sri Lanka.

The Management Team

Corporate Management Team

Name	Designation
E.C.S.R. Muttupulle	Chief Operating Officer
Michael Benedict	Chief Collections & Recovery Officer
Chamindra De Silva	Chief Financial Officer
Andrew Samuel	Chief Continuous Improvement Officer
Aruna Rodrigo	Chief Credit Officer
Suneth Sudasinghe	Chief Commercial Officer
Sujith Fernando	Assistant General Manager - Digital Transformation and Collaboration Finance
Champa Nakandala	Assistant General Manager - Deposits
Roshan Rathnayaka	Regional Head
Sujan Cooray	Regional Head
Thamara Rathnayake	Assistant General Manager - Risk Management and Compliance
Dimuthu Tillekeratne	Assistant General Manager - Finance
Sampath Wickramaarachchi	Assistant General Manager - Internal Audit
Udaya Suranjith	Regional Head
Wasantha Maldeniya	Regional Head
Mallika Jayathilaka	Regional Head
Selvarathnam Nishanthan	Regional Head
Saman Medagoda	Regional Head
Isanka Gayan	Regional Head

Senior Management Team

Name	Designation
S.S. Sathiyadaran	Consultant - Information Technology
Ganeshalingam Mathieswarann	Senior Manager - MIS
Achala Wanniarachchi	Senior Manager - Legal
Dillon Thajudeen	Senior Manager - Marketing & Deposits
Lakmal Maniksagara	Manager - QM & BCMS
Manoj Siriwardana	Senior Manager - Business Channel Development
Chanuka Dilhani	Manager - Strategic Planning & Sustainability
Sachinthani Meeriyagalla	Manager - Human Resources
Nadith Surendra Rodrigo	Deputy Head - Gold Loan
Asanka Atapattu	Manager – Treasury
Chatura Senarathne	Assistant Manager - Procurement
Anupa Jayasekara	Manager - Premises Management
Sampath Wijesuriya	Assistant Manager - Administration
Darshana de Silva	Senior Manager - Yard Management
Senani Kaluarachchi	Assistant Manager – CCRM

AFC Business Philosophy GRI 102-20 GRI 102-26

The business philosophy of AFC is to create a better world through value creation in all spheres of sustainability. Our purpose and goals have been formulated in line with this philosophy to drive the company to achieve the national and local sustainability priorities while achieving the desired performance goals of the company. During the past decade, the company has accelerated the efforts towards becoming a sustainable finance company by adopting best practices and aligning the business with the international level sustainability standards. We have a clearly defined way forward where sustainability will complement the profitability and growth of the company, enabling us to develop ourselves as a true sustainability contributor to make the world a better place.

Sustainability Embedded Corporate Strategy

Our corporate strategy was formulated encompassing the sustainability aspects that would enable the business to derive value at every level. During the financial year, the company formulated a set of high impact goals and the strategy was once again revised to align with the new high impact goals.

PURPOSE STATEMENT

MAKE THE WORLD A BETTER PLACE THROUGH SUSTAINABLE FINANCE

HIGH IMPACT GOALS

GOAL 1

Reduce the national carbon footprint of Sri Lanka by 118,000 CO2 Mt. by 2025

GOAL 2

Improve the living standards of 5% of the households in the Northern Province and other marginalised and rural areas through inclusive financial products and services.

GOAL 3

Develop 75,000 MSME entrepreneurs and self-employment opportunities by 2023

AFC VALUE CREATION STRATEGY

People

Planet

Profit

AFC BUSINESS STRATEGY

SUSTAINABILITY PRINCIPLES EMBEDED BUSINESS STRATEGY

The Approach to Sustainable Development

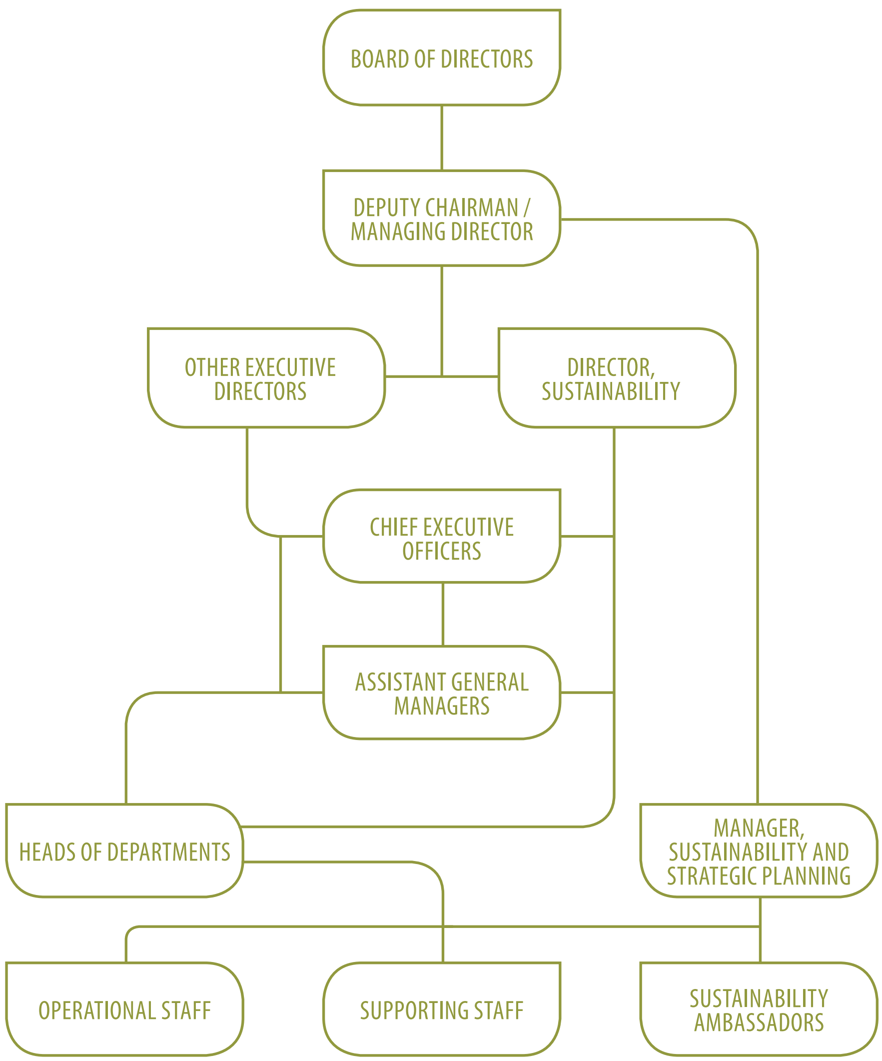
AFC's business philosophy is driven by the Triple Bottom Line approach for many years and we have now expanded our approach to a 5P approach of sustainability by adding peace and partnerships also to Triple Bottom Line. The 5P approach of sustainability development is derived from the Sustainable Development Goals. Accordingly, the current approach encompasses People, Planet, Prosperity (Profit) as well as Peace and Partnerships, as depicted below.

AFC Business Philosophy

Sustainability Governance and Accountability

Embedding sustainability aspects in to the Corporate Plan, has enabled us to integrate it into all business functions, including the roles of the departments, sub departments and employees. Thus, sustainability is no longer a singular function assigned to a particular department or a team in AFC, but a collective responsibility of each and every employee of the company. The sustainability standard we have adopted during the financial year, has further enabled us to mainstream the aspects of sustainability into the business, ensuring the responsibility and accountability of the AFC team to achieve our purpose and high impact goals.

Sustainability Governance Structure and Responsibilities



In line with the fiduciary duty to supervise the company strategy, capital allocation and risk management, AFC's Board of Directors has been fully engaged to promote and drive sustainability at AFC. They have been actively involved in redefining the way forward of the company, by way of revising corporate strategy, risk management aspects, as well as policies and procedures. Following are the main responsibilities assumed by the Board of Directors of AFC, to ensure the company's resilience, competitiveness and sustainable value creation in both short and longer terms.

1. Setting overall strategic direction
2. Monitoring sustainability performance of AFC
3. Engage and advise on decision making
4. Advocate on stakeholder management and value creation
5. Provide feedback for rectifying ESG issues
6. Provide advisory support for the company

The Managing Director of the Company provides the overall leadership to the AFC team to drive our sustainability mandate, to achieve the desired high impact goals. He is supported by Director Sustainability and the other Executive Directors, while Strategic Planning Unit headed by Manager Sustainability and Strategic Planning provides the overall coordination, implementation and monitoring support to manage the sustainability programs of Company. There is also a team of Sustainability Ambassadors, a cross-functional team of 32 staff members who provides volunteer support to carry out the sustainability initiatives.

The revision of the strategic plan and the goals resulted in revising the company policies and procedures to align with sustainability principles. The Heads of the Department are responsible to perform their roles, tasks and drive their teams as per the policies and procedures accordingly.

The Commitment Re-defined

During the year under review we have prepared our company to adopt Sustainability Standard and Certification Initiative (SSCI); the first global standard developed for value-creating financial institutions, promoted by the European Organisation for Sustainable Development (EOSD) and supported by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) as well as the Association of African Development Finance Institutions (AADFI).

There have been several key improvements and activities undertaken to further integrate the principles of sustainability through SSCI into AFC business, along with required revisions and introducing new policies/practices where necessary. This exercise has ensured that each and every function, policy, procedure and individual role of the employees are well aligned with the company's purpose and high impact goals that will ultimately lead to desired sustainable value creation.

AREA OF IMPROVEMENT	ACTIVITIES UNDERTAKEN
CORPORATE PLAN	• Re-defined the corporate strategy with a new purpose, high impact goals and strategic actions • Cascaded the corporate plan across the organisation, assigning responsibilities to departments and staff members • Revised the business model of the Company
SUSTAINABILITY PERFORMANCE	• Assessed and revised policies/ procedures/processes and tasks to align them with the high impact goals • Introduced initiatives to obtain the employee contribution for sustainability and promote sense of ownership across the company • Identified key financial and non-financial matrices vital to the company's sustainability performance and established measures for periodic monitoring
RISK MANAGEMENT	• Expanded the risk management scope to accommodate FINTECH, disruptive trends and other arising external risks
PRODUCTS AND BUSINESS OPERATIONS	• Optimized and streamlined the processes to better support the operational performance • Revised the organisation structure to align with the high impact goals • Developed a product portfolio Management System and an audit to periodically assess and improve the company product portfolio
INNOVATION AND DIGITISATION	• Commenced new activities for accelerating internal digitisation • Formulated an innovation roadmap to further promote the innovation performance of the company
HR AND OTHER STAKEHOLDERS	• Improved the monitoring process of Stakeholder Management • Undertaken activities in HR processes to; - Create an environment to induce innovation - Align job roles, appraisals and compensations to facilitate better contribution towards the high impact goals - Improve the training pool to enable continuous learning and promote cross training programs - Improve both physical and mental wellbeing of employees

AFC Business Philosophy

Sustainable value creation – investments in sustainability initiatives

AFC has a separate budget for sustainability initiatives with a 3% annual profit allocation. During the year under review we have invested Rs. 12.1 mn (4% of 2018/19 profit) on diverse range of initiatives, creating value in all, environmental, social and economic spheres of sustainability.

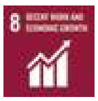
Sustainability Initiative	2019/20 (Rs.)	2018/19 (Rs.)
Environmental sustainability	4,670,053	14,019,045
Social sustainability initiative	4,774,815	6,574,943
Religious and cultural activities	103,220	240,250
Donations for charities	831,385	2,427,264
Partnerships and networks	1,716,462	2,939,468
Total	**12,095,934**	**26,200,970**

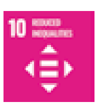
Sustainability Value Creation - COVID-19 and Contribution to SDGs

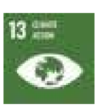
COVID-19 outbreak has brought about the biggest challenge world has ever faced since the end of world war. With many thousands dead and millions of people infected and affected, the pandemic caused the whole world come to a grinding halt. Many countries have locked down fully or partially, leading to massive slowdown of economies. It has evinced the vulnerability of the human race to such sudden calamities despite many advances we have made. COVID – 19 has also emphasised the vitality of sustainability more than ever, by giving us a taste of magnitude and the devastating nature of a global catastrophe.

As the whole world is getting adjusted to the "New Normal", many entities debate about the tradeoff between sustainability and business performance. However, thanks to the sustainability integrated business of AFC, where performance is about sustainable value creation, we continue to march ahead with our priorities and actions focused on achieving our original high impact goals. As a result, we were able to uphold our commitment by continued efforts to maintain sustainable business practices, with a contribution to the SDGs during the pandemic period.

Sustainable Development Goal	The impact of COVID-19	Our responses during COVID-19 period
	The nature of the pandemic disease is high infection rate. Preventing and timely treatment is crucial, since eradication of the disease is not in the horizon until a vaccine is found.	• Provided all the required sanitisation needs including equipment and advise for the staff members • Health policy cover was revised to include COVID-19 for all employees • Best health practices such as temperature monitoring, hand washing/ sanitising before entering the premises, chemical foot bath and social distancing were implemented

Sustainable Development Goal	The impact of COVID-19	Our responses during COVID-19 period
	Country lock down and the other impacts of COVID-19 led to a severe economic slowdown. Many people lost their jobs and income sources as the industries/companies getting affected worse. Companies were forced to lay off employees to balance the cost structures and maintain the stability.	• Work from home arrangements for all possible cadre • Provided health standard complied transport service and working environment for essential staff working in the office • Minimal compensation reductions • Use digital technologies to maintain the required interactions and business functions • Other facilitations such as convenient working hours and flexible dress code policy that supports ensure of work

	The negative impact of COVID-19 on the lifestyle of the people was significant. This also had a greater impact on the varying level of inequalities present in the system, leading to aggravate it by many folds.
	
	Those who could not engage in the economic activities could hardly cover their basic needs and had to forego the other commitments like repayments.
		• Supported the affected MSME and self-employed customers by;
		  • Providing debt moratoriums
		  • Waiver of penal interest
		  • Rescheduling the loans
		  • Offering concessionary rates

	Due to the global level lock down and slow down of the human activities, COVID-19 has presented positive impact on the environment. However, this will be short lived as people will resume their activities.
	Digradable/non degradable waste accumulation and water usage has heavily increased due to COVID-19 prevention measures.
	
	Thus, the dangers of the climate change will not cease the exist. It will continue to pose a threat to the human kind. COVID-19 has shown us the magnitude of the impact of a global catastrophe. We should at all costs should prevent any such from occurring, due to climate change.
		• Continued the activities that reduces the carbon foot print of the company
		  • Energy/water/fuel saving efforts continued
		  • Tree planting initiatives were scaled down but not completely stopped. We will continue our efforts to achieve the 1mn trees target in 2023.
		  • Proper waste management activities implemented.

 	COVID-19 is classified as a Zoonotic disease which means, a disease transmitted from animals. This is not the first such disease nor will be the last. Thus, our relationship with the animals needs to be re-analyzed. Bad animal practices have to be stopped and animal welfare through protecting them and their habitats should be promoted. We should work towards establishing healthy and balanced ecosystems to live in harmony with our fellow creatures.	• Continued our activities on biodiversity conservation and eco system restoration.

AFC Business Philosophy

Sustainable Value creation – contribution to SDGs

DGs contributed by the High impact goals (Insert the goal descriptions)

We have pledged our commitment to achieve Sustainable Development Goals (SDGs) in 2017, by signing the Karlsruhe Resolution, at the Sustainable Finance Conference in Karlsruhe, Germany. During the three years since passed, our Purpose, High Impact Goals, Strategies, business functions and roles of employees have been aligned with relevant SDGs in a way that will enable us to fulfil our pledge.

Our High Impact Goals, which were formulated during the year under review will provide us the way forward to derive direct and significant contribution towards the respective SDGs. The 5P approach of sustainable development has been instrumental for us to plan, implement and assess our contribution.

GOAL 1

Reduce the national carbon footprint of Sri Lanka by 118,000 CO2 MT. by 2025

GOAL 2

Improve the living standards of 5% of the households in the Northern Province and other marginalised and rural areas through inclusive financial products and services.

GOAL 3

Develop 75,000 MSME entrepreneurs and self-employment opportunities by 2023

GOAL 1

PEOPLE

- Portfolio in income generation activities - 80%
- Total lending portfolio - Rs. 28 Bn
- Portfolio in rural and marginalised areas – 32%
- Portfolio in the Agri Sector - 26%
- Average training hours/employee - 15 hrs
- Training cost - Rs. 5.12 Mn
- Female employee base – 29%
- Female customers – 48%
- Lending to women customers – 27%

PROSPERITY

- Gas converted low emission three wheelers - 25 Nos
- Hybrid and Electric vehicle portfolio – 12%
- Reduction in energy intensity – (29)%
- Value created for employees - Rs. 822 Mn
- External and internal trainings - 125 Nos
- Employees promoted – 5%
- Branches outside Western Province - 72%
- Branches in rural and marginalised areas – 35%
- Portfolio outside Western Province – 63%
- Leases given during the year – 21,320 Nos
- Customer touch points – 88 Nos
- District presence – 100%
- Taxes paid – Rs. 772 Mn
- CSR expenses – Rs. 1.71 Mn

GOAL 2

GOAL 3

PLANET

- Trees planted - 217,499
- Target achieved - 22%
- The conservation corridor extent – 18 km^2
- Mammal species encountered - 22 Nos
- No of leopards identified - 28
- Carbon footprint - 2,900,000 CO_2 kg
- GHG emission intensity (Employees) - 2,626 CO2 Kg/employee
- Reduction of GHG emissions (CO_2) - 6%
- Investment in E&S risk mitigation – Rs. 1,510,630

PARTNERSHIP

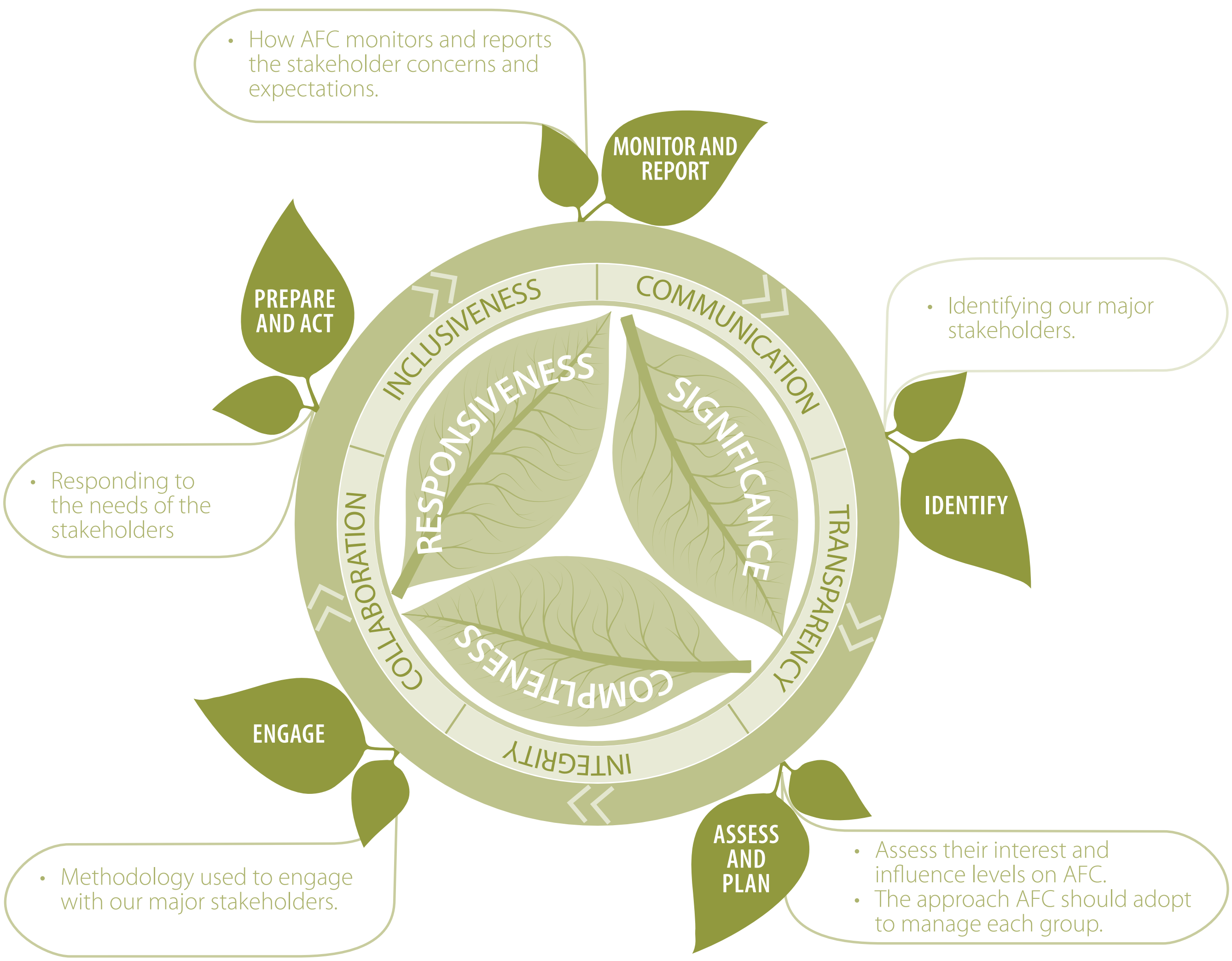
- Our network partners FHA, EOSD
- Memberships in associations ADFIAP, BSL, CSR Sri Lanka
- Impact investing Funding partners- Triodos, Symbiotic, DWM, IFC, FMO

PEACE

- 1Mn trees for unity project which promotes ethnic and cultural harmony
- Portfolio in Northern and Eastern provinces 14%
- Portfolio of female customers 27%

Stakeholder Management GRI 102-40 GRI 102-42 GRI 102-43 GRI -102-44

Stakeholders are an integral part of any business. The internal stakeholders are the driving force of the business, whereas the external stakeholders are the key reason for the business existence. Thus, stakeholder value creation becomes one of the prime objectives of any business entity. AFC has a diverse group of stakeholders and we also have well developed processes and procedures devised for managing our stakeholders. AFC Stakeholder Management process is based on three strategic principles; Significance, Completeness and, Responsiveness – on which the operational aspects and the stages of the operations are built upon.



Our major stakeholders	Their interest - influence levels and required management approach **		Engagement methods	Areas of interest/ expectations 2019/20	Our responses 2019/20
	Interest	Influence			
Shareholders	↑	↑	• 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	• Revised strategic way forward with sustainability integrated corporate plan and high impact goals • Revised targets aimed at Triple Bottom Line value creation • Corrective actions to further improve Credit, Recovery and Risk Management aspects of AFC
	Manage closely				
Customers	↑	↑	• Customer satisfaction survey (Annually) • Customer relationship management function (continuous) • Customer exit surveys in Microfinance (annual) • Customer hotline (continuous) • Customer education programs (continuous) • Online and social media platforms (continuous)	• Value for money • Convenience and accessibility • Innovative product offerings • Security of deposits and favorable returns • Ease of transacting • Sustainable business growth and stability • High quality of service • Corporate reputation and brand • Access to transparent and credible information	• Revised strategic way forward with sustainability integrated corporate plan and high impact goals • Attractive terms and rates in accordance with the state policies and regulations • Range of products and services that ensures responsible and inclusive financing • Highest level of service quality and customer concern • Island wide network of 88 fully fledged branches to provide all products and services under one roof
	Manage closely				

**Based on the Interest-Power Matrix

Stakeholder Management

Our major stakeholders	Their interest - influence levels and required management approach **			Engagement methods	Areas of interest/ expectations 2019/20	Our responses 2019/20
	Interest	Influence	Management approach			
Employees	↑	↑	Manage closely	• 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	• Attractive compensation package and benefits • Conducive environment to learn and grow • Opportunities to advance the career • Programs that promote health and well being • Opportunities to volunteer to engage in social and environmental value creation activities • Performance based remuneration structure • Training and development opportunity
Regulators	↑	↑	Manage closely	• 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	• Adhere to all provided compliance requirements • Provision of timely and accurate information/ reports • Facilitate on-sit/off-site audits • Sustainability embedded corporate plan
Funding and Network Partners	↑	↓	Keep informed	• Annual Report (annually) • Interim financial statements (quarterly) • Monitoring reports (Periodically) • Progress presentations (Periodically) • Corporate website (continuous basis)	• Favorable business performance • Submission of timely and credible progress information • Transparency • Sustainability performance	• Revised strategic way forward with sustainability integrated corporate plan and high impact goals • Revised targets aimed at Triple Bottom Line value creation • Corrective actions to further improve Credit, Recovery and Risk Management aspects of AFC

**Based on the Interest-Power Matrix

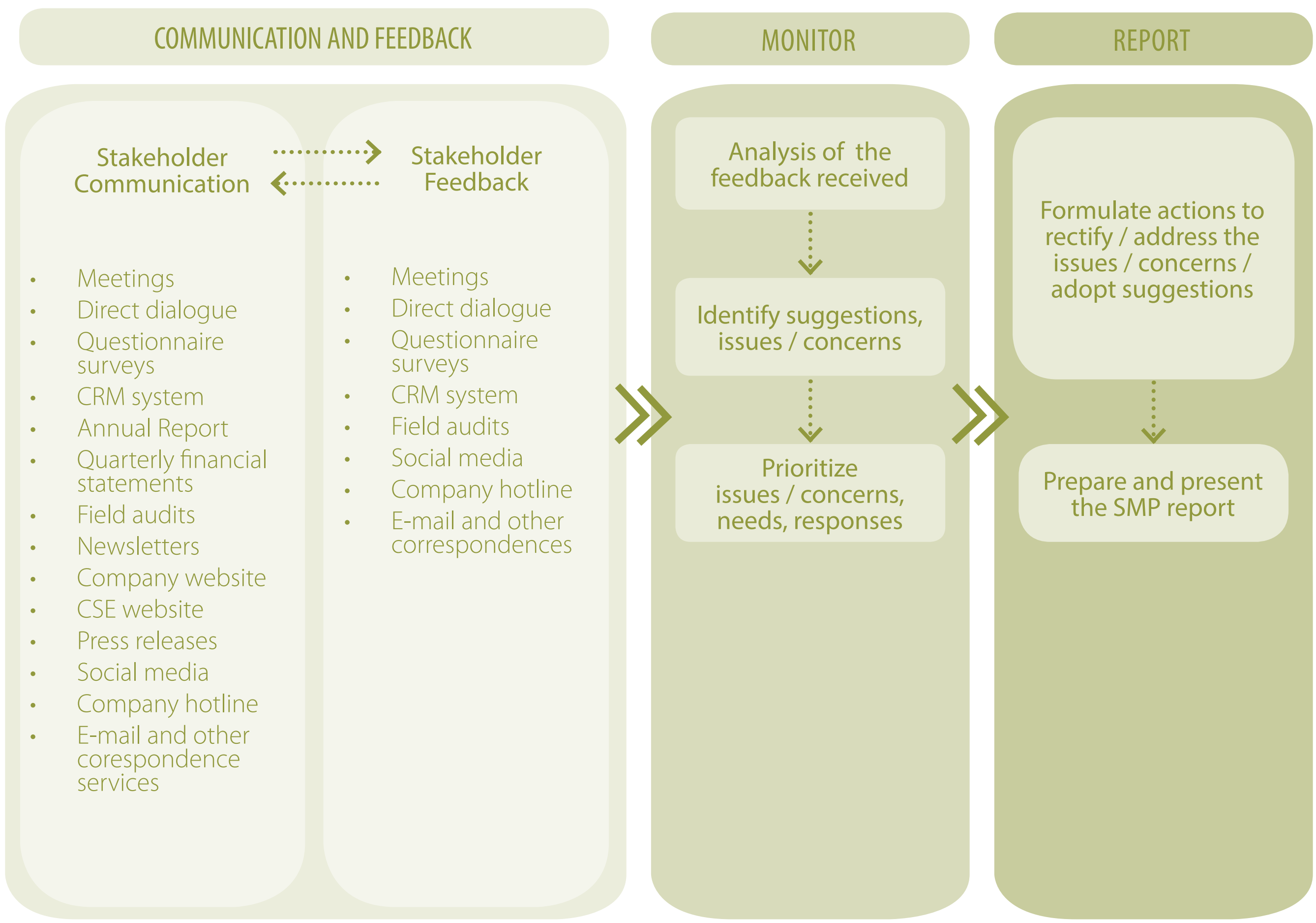
Our major stakeholders	Their interest - influence levels and required management approach ** Interest	Influence	Engagement methods	Areas of interest/ expectations 2019/20	Our responses 2019/20
Business Partners and Suppliers	↓ Keep satisfied	↑	• Direct dialogue (continuous) • Service quality survey (annual) • Stakeholder feedback survey (annual)	• Ease of transactions • Business expansion • Capacity building and financial support • Equitable and on-time payments	• Maintain long term partnerships based on mutual trust and understanding • Engage likeminded partners in line with our sustainable business agenda • Ensure timely payments and required support • Dedicated team to engage with, to exchange an effective service
General public Well wishers Professional bodies Media	↓ Minimal Effort	↓	• CSR initiatives (periodic) • Press releases and publications (continuous) • Relevant engagements when required (continuous)	• Employment generation • Livelihood and community development • Sustainability performance • Brand visibility and reputation	• Maintain mutually respectful and cordial relationships • CSR and social sustainability initiatives to engage and generate positive outcomes • Generate opportunities engage with the business as customers, employees or beneficiaries

**Based on the Interest-Power Matrix

Stakeholder Management

Monitor and Report

AFC has introduced a separate SMP (Stakeholder Management Plan) report to monitor the engagements and review the feedback received. Our customer care unit is responsible to perform the monitoring and produce a report annually, based on the Board approved SMP report format.

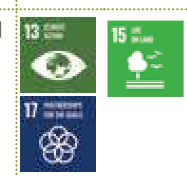


Materiality Assessment GRI 102-47 GRI 103-01 GRI 103-02

Materiality Assessment is about identifying the most important and significant economic, social and environmental aspects that impact the company and our stakeholders, and the magnitude of impact each of them has on the business. The Material Topics identified through this process goes on to inform our business strategy and redirect our resources in order to deliver on our economic, environmental and social value goals that are linked to SDGs.

	Material Topic	Related GRI topic	Boundary		Related SDGs	Implementation (Page No.)
			Reasons - material Internally	Reasons - material Externally		
1	Sustainable development	GRI 201: Economic performance	Economic performance is the key evidence to the triple bottom line value creation ability of the company. It is also a key performance indicator that reflect the operational success, efficiency and productivity of the company.	Economic performance defines the direct economic benefits generated and distributed to the external stakeholders such as the government, community and the environment.	1, 8, 13, 15, 17	9
2	Energy efficiency	GRI 302: Energy	AFC gives a high priority for the energy saving initiatives to reduce the carbon foot print as well as to reduce the energy related costs of the company.	Reducing the carbon foot print benefits the country as a whole and also it helps efficient utilization of non-renewable resources, which are not only used for vehicles but also used for electricity generation in the country.	7, 13, 17, 15	100
3	Sustainable business practices	GRI 302: Energy GRI 308: Supplier environmental assessment GRI 414: Supplier Assessment for Labor Practices	The company strives to follow sustainable business practices internally, in our operations and when engaging the stakeholders, to be in line with the sustainability mandate and the company purpose to make the world a better place through sustainable finance.	The results of the sustainable business practices have a trickledown effect on the external stakeholders of the company. By helping to create a better world, while achieving its purpose, AFC ensures that the value creation for the external environment and all the stakeholders therein.	13, 15, 17	93,94 & 100
4	Innovation and digitisation	GRI 302: Energy GRI 305: Emissions GRI 308: Supplier environmental assessment GRI 102- 2, 417-3: Marketing communications	Innovation is a core value of AFC, thus an integral part of the business. Innovation and digitisation are the forefront drivers of the business success today. In a backdrop of intense competition, these will help the companies to come up with new strategies to keep their competitive edge and pursue lucrative opportunities. Thus, Innovation Digitisation are two vital strategic focuses of AFC.	No direct relevance	7, 9, 13, 15, 17	74, 75, 77, 90, 93, 94, 100 & 101

Materiality Assessment

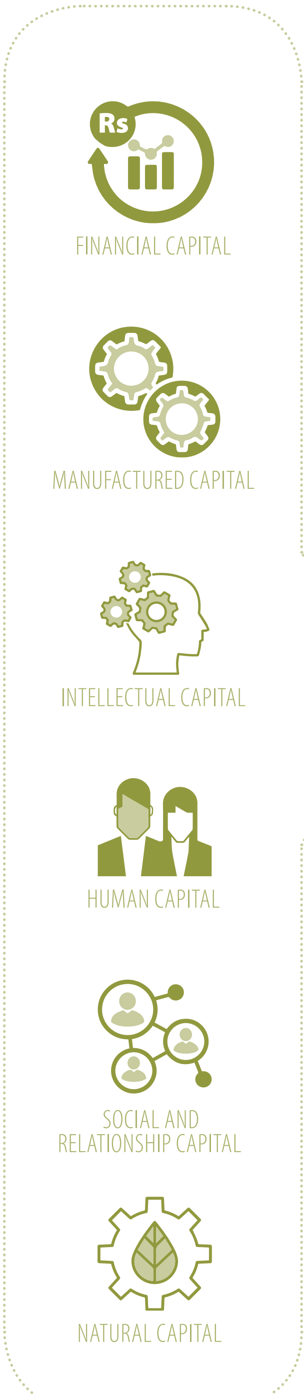
	Material Topic	Related GRI topic	Boundary		Related SDGs	Implementation (Page No.)
			Reasons - material Internally	Reasons - material Externally		
5	Battling the climate change and environmental protection	GRI 304: Biodiversity GRI 302: Energy GRI 305: Emissions GRI 102-2, 417-3: Marketing communications	Contributing to reduce the carbon foot print of the country is one of the high impact goals of AFC. The company undertakes many initiatives to introduce new products as well as projects with the focus of battling the climate change by reducing the carbon foot print. Environmental protection is one major part of it as well. Other than the projects and products, the company strive to align all other possible business functions to support this cause.	Climate action has an impact on all facets of sustainability and it is one of the most pressing issues the world is facing today, including Sri Lanka.		99-102
6	Business ethics	GRI 307: Environment related compliance GRI 206: Anti-competitive Behavior GRI 102-2, 417-3: Marketing communications GRI 418: Customer Privacy GRI 419: Compliance (Social and economic laws)	Ethics and integrity are among the core values of AFC. The company strives uphold the highest levels of ethical practices, throughout our business operations and all other activities we undertake. AFC at any time does not compromise on integrity.	The stakeholders of AFC expect the company to adhere to the best practices of ethics and integrity.		77, 91, 94, 96, 97 & 273
7	Supply chain development	GRI 308: Supplier environmental assessment GRI 414: Supplier Assessment for Labor Practices	The company prefers to engage like minded stakeholders, so that the entire business process from sourcing to delivery is well aligned with the sustainability mandate. Thus, we seek to develop our supply chain to support the same.	As a company that pledged to make the world a better place through sustainable finance, our stakeholders require us to deliver an entirely and truly sustainability aligned products and services wherever possible.		93-94
8	Talent attraction and retention	GRI 401: Employment GRI 404: Training and Education	Employees, current and prospective are one of our most important of resources. Thus, we believe in attracting and retaining the correct talent who can support the sustainability business philosophy of AFC, preserving the gender balance.	The desired value creation for the external environment is dependent on the workforce, to ensure the productivity as well as the efficiency. Thus, attracting and retaining correct talent is a vital requirement.		78-87

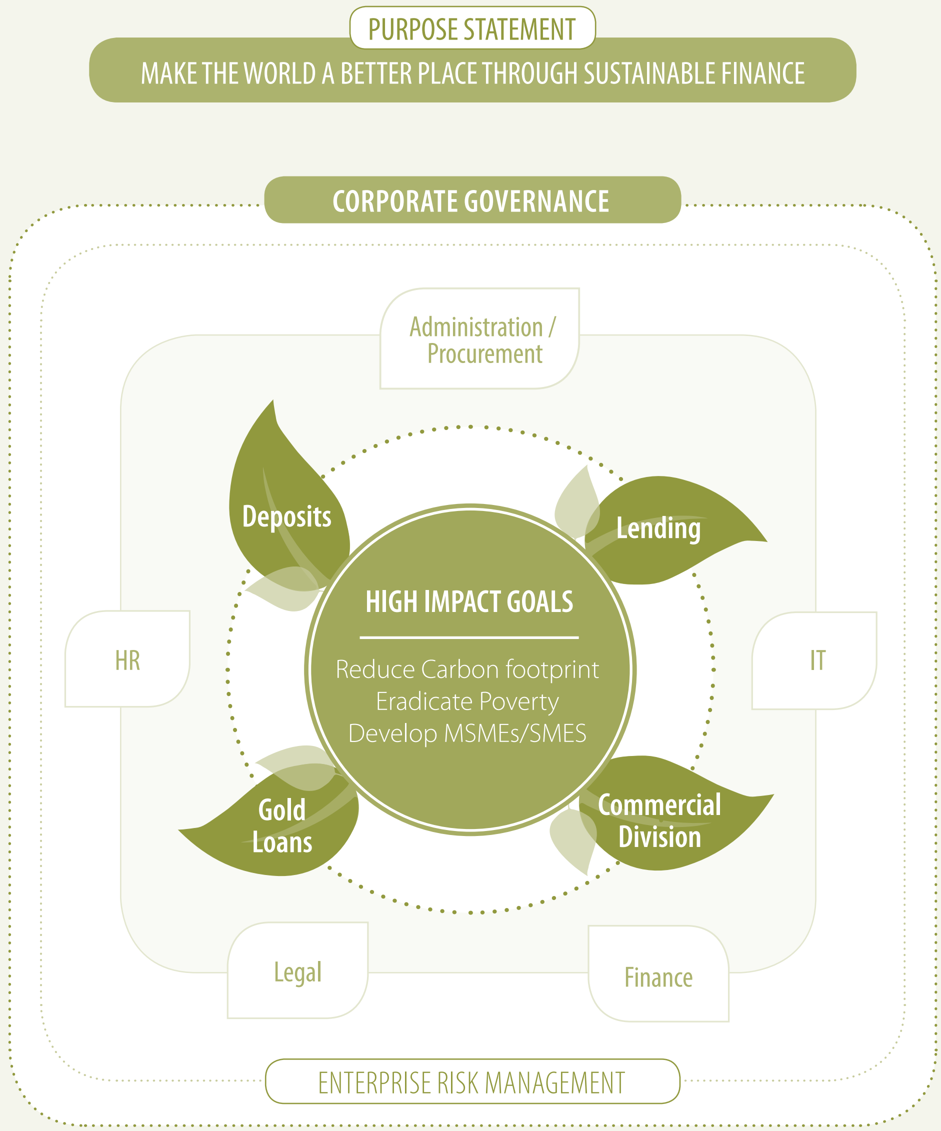
	Material Topic	Related GRI topic	Boundary		Related SDGs	Implementation (Page No.)
			Reasons - material Internally	Reasons - material Externally		
9	People development	GRI 404: Training and Education	Skillful workforce is vital for the business success. Thus, going by the "hire for attitude – train for skills" notion, we undertake necessary training and development programs regularly to develop a satisfied, highly skilled work force.	A skilled workforce is key to everything about the business, including provide timely and professional service, which our external stakeholders expect from us.	5, 8	82-84
10	Non discrimination	GRI 405: Diversity and Equal Opportunity GRI 406: Non-discrimination	AFC places a high value in equality, and strives to uphold the highest levels of best practices related to non-discrimination whilst preserving the gender balance of the company. We also practice the same in providing our solutions to the public, where women and rural/marginalised/underserved communities are given a special priority.	Our stakeholders believe in our sustainable business, where we will not discriminate our employees or our customers based on any grounds.	5, 8, 10	78-80, 84 & 86
11	Reputation and brand value	GRI 206: Anti-competitive Behavior	As the 3rd oldest finance company is Sri Lanka, AFC a 60+ years of a legacy as a reputed, triple bottom line company in the country, which we seek to preserve and promote. Thus, the company takes all measures to prevent tarnishing our reputation, avoiding unethical activities that would disrupt the industry and build a brand as the most sustainable finance company in Sri Lanka.	All our stakeholder sees us as a reputed and a responsible corporate citizen in Sri Lanka and they expect us to preserve our values while promoting sustainable and fair business conduct in Sri Lanka.	17	74
12	Customer attraction and retention	GRI 102-2, 417-3: Marketing communications GRI 418: Customer privacy	Customers are one of our top priority stakeholders. We appreciate the vitality of attracting the right customers and developing a loyal customer base to retain them. The company has many measures in place to ensure the same which are regularly being monitored and refined. Our aim is to help uplift the level of living of our customers through inclusive and responsible finance solutions.	Our external stakeholders comprise of our prospective customers. They expect the company to exercise the best practices including customer protections and service quality standards, to offer them a better service, that they can rely on to develop their lives.	1, 10, 11	89-91
13	Stakeholder satisfaction and transparency	GRI 102 – 40 to 44: Stakeholder Engagement	Stakeholders are one of the most valuable assets of AFC. We are aware that the company's performance, achievement of goals and the existence itself is highly defined by our stakeholders. Thus, the company exerts high efforts to manage them well and maintain positive relationships whilst creating maximum value for them. AFC has a well-established stakeholder management plan and a monitoring system to support it.	All our stakeholder expects us to manage the relationships well, in a timely and a transparent manner, while creating a justifiable value for each and every segment of them.	1, 5, 8, 10, 11, 13, 15, 17	36-40

AFC Value Creation Model

INPUTS

PROCESS





Our Strategic Priorities

Develop a business geared towards sustainable value creation
Generate long term stakeholder value
Well position AFC in the digitized economy
Best customer experience and convenience
Sustainable products and services

OUTPUTS	OUTCOMES	UN SDGs
FINANCIAL CAPITAL PAGES 68-70	• Value creation for employees • Value creation for the government • Interest expense	
MANUFACTURED CAPITAL PAGES 71-73	• Improved customer outreach • Improved service quality and delivery • Growth of market share	
INTELLECTUAL CAPITAL PAGES 74-77	• Enhanced organisational capabilities • Equipped to position the company in the digitised economy • Access to untapped markets	
HUMAN CAPITAL PAGES 78-87	• Employee talent and skill development • Employee safety and wellbeing • Improved employee trust and loyalty	
SOCIAL AND RELATIONSHIP CAPITAL PAGES 88-97	• Customer satisfaction and brand loyalty • Unity and social harmony • Community development and wellbeing	
NATURAL CAPITAL PAGES 98-102	• Sustainable business entity • Neutralising the Carbon footprint • Sustainable products and services	

Impact Assessment of Externalities GRI 102-15 GRI 201-02

POLITICAL

CONTEXT

The political backdrop of the country was fogged with number of uncertainties and challenges during the year, rendering the business environment less conducive and more challenging.

Main challenges/opportunities

- *Easter bomb attack*
- *Political uncertainty*
- *Frequent policy changes*
- *COVID-19 pandemic outbreak*

RESPONSE OF AFC

- Preserved the overall strategic direction while maintaining the Risk Appetite of the company
- Engaged with the regulator via the industry association to address the adverse impact on the industry

ECONOMIC

CONTEXT

Sri Lanka experienced sluggish economic conditions, further impacted by the April Easter Attacks, posing severe challenges to the Banking and Finance sector. The COVID-19 Pandemic further worsened the outlook.

Main challenges/opportunities

- *Interest rate volatility*
- *Rising industry NPLs*
- *Rising impairment cost*
- *Contracted demand for credit*

RESPONSE OF AFC

- Maintained the investment strategy of low risk and high yielding asset segments such as Two wheelers, Three wheelers, Small Cars and Gold Loans
- Placed a high emphasize on Gold Loan product line where, a new product was launched named as "AFC Ran Ayojana" in order to create a niche market
- Invested on a specialized recovery call centre and recovery software
- Carried out cost rationalisation initiatives to optimize the cost structure
- Undertook end-to-end credit re-engineering process
- Improved the credit risk management process
- Centralized of credit approvals

SOCIAL

CONTEXT

The stakeholder expectations of the Banking and Finance sector in Sri Lanka are rapidly changing and grown beyond the traditional expectations.

Main challenges/opportunities

- *Ever changing communities and societies*
- *Changing lifestyles, norms and behavior patterns*
- *Changed demands due to environmental concerns*
- *COVID-19 related lifestyle and demand changes*
- *Expectations of responsible lending practices*

RESPONSE OF AFC

- Adopted SSCI Standard that ensures high value creation for all stakeholders
- Continued responsible and inclusive financing with 71% of customer touch points outside Western Province
- Provided host of concessions and facilitation to the customers during the COVID-19 period
- Introduced real time payment settlements to the dealer network
- Reduced file processing time which facilitated efficient customer serving
- Continued the essential functions, working from home and limited staff at office to provide uninterrupted services to the customers

TECHNOLOGICAL

CONTEXT

The rapid evolution and swift changes in technology necessitates the businesses also to adopt and evolve at the equal pace

Main challenges/opportunities

- *Customer sophistication*
- *Demand for robust, convenient and faster services*
- *Digitised economy*
- *Launch of digital financial services*
- *Increased demand for digital services with social distancing measures*
- *Digitisation induced competition*

RESPONSE OF AFC

- Formed the Digital Transformation Unit, equipped with multi-disciplinary skills to execute digital transformation road map
- Invested in a new specialised recovery call centre and recovery software
- Preparations in place for upgrading the core banking system

ENVIRONMENTAL

CONTEXT

Sri Lanka has been among the top 10 worst affected countries in the world, whilst climate change has become the single most detrimental issue in the world at present posing many challenges in economic and social spheres.

Main challenges/opportunities

- *Negative impacts of adverse weather patterns on social and economic wellbeing*
- *Opening avenues for more sustainable, environment friendly products, services and businesses*
- *Increasing environment consciousness in communities*

RESPONSE OF AFC

- Launched "One Million Trees for Unity" project
- Initiated "Diyanee" Gas Converted Tuk Tuk project
- Temporarily halted investing in assets related to the Agriculture Sector.
- Revised Credit Risk Policy and Credit Delegation of Authority
- Deployed resources and followed effective collection and recovery processes.

LEGAL

CONTEXT

CBSL has imposed several regulations which posed more challenges as well as few opportunities to the Banking and Finance sector during the financial year.

Main challenges/opportunities

- *Interest rate ceiling on Deposits and Debt instruments*
- *Revision of LTV ratios*
- *Default interest management and facility rescheduling for leasing solutions*
- *Relief measures to COVID-19 affected enterprises and individuals*

RESPONSE OF AFC

- Complied with all stipulated regulations and directions of CBSL
- Adjusted the product mix to offset the volume changes arising from LTV changes
- Conducted stress testing and effective liquidity management
- Undertook Cost and Staff Rationalisation plans to ensure business continuity

AFC Strategy Implementation

Our sustainability embedded corporate strategy is centred around our purpose to "Make the world a better place through sustainable finance". This strategy is aimed at delivering the High Impact Goals of the company which expands the impact of our business activities well beyond the boundaries of the business, encompassing the social and environmental spheres of Sustainability.

The volatile and ever-changing operating environment presents us with various challenges as well as opportunities. Political and regulatory changes, technological advancements, evolving expectations and behaviour patterns of our stakeholders and unpredictable economic and environmental conditions give rise to these opportunities and challenges. A viable, practical and workable strategy is essential to tackle the challenges and seize the opportunities effectively. As a company committed to contributing towards the SDGs through the high impact goals and the purpose, integrating sustainability to the corporate plan is also vital to integrate the principles of sustainability across the company to obtain the company wide contribution at all levels.

Thus in 2019, we have revised our strategy by adopting the new purpose statement while integrating the principles of sustainability into the business through a meticulous process. This four year plan was revised again during the financial year under review by defining a new set of "High Impact Goals" which enabled us to further mainstream the principles of sustainability across the business at all levels. Along with this assignment, we have also redefined our business model, to better enable us to create sustainable value to all our stakeholders.

Our strategy defines the resource allocation needs of the company, that entails budgeting and planned capital management with proper oversight, to ensure that the capital flow is appropriately directed towards the vital business lines, which will guarantee the anticipated value creation.

AFC TRIPLE BOTTOM LINE STRATEGY

People

- People development
- Best practices of social sustainability
- Corporate stewardship

Planet

- Reduce carbon footprint
- Bio-diversity conservationand eco-system restoration
- Best practices of environmental sustainability
- Corporate stewardship

Profit

- Increase operational efficiency
- Improve the scalability of the business
- Maintain a healthy portfolio quality
- Improve employee productivity
- Manage core capital efficiency

HIGH IMPACT GOALS

GOAL 1

Reduce the national carbon footprint of Sri Lanka by 118,000 CO2 Mt. by 2025

GOAL 2

Improve the living standards of 5% of the households in the Northern Province and other marginalised and rural areas through inclusive financial products and services.

GOAL 3

Develop 75,000 MSME entrepreneurs and self-employment opportunities by 2023

PURPOSE STATEMENT

MAKE THE WORLD A BETTER PLACE THROUGH SUSTAINABLE FINANCE

Strategic action highlights and progress made

Progress of the 2018/19 actions

Business strategy	Strategic action highlights	Progress
• Amalgamate RFS and DF branches under the "One Team - One AFC" campaign to create fully fledged branches that offer all products under one roof. • Increase Customer outreach	• 42 fully fledged branches	
• Enhance Customer Convenience	• Investment in the Core financial solution • Investment in a end-to-end ERP solution for the Commercial Division	
• Strengthen Brand Visibility	• Revamping of branding material and branch branding	
• Funding and technical capability acquisition	• Received Technical Assistance from IFC for credit reengineering and business process revamping	
• Corporate Stewardship	• Launch of "Thuru Mithuru" tree planting campaign to plant one million trees by 2023 • Assisted 08 new social entrepreneurs through the "Ath Pavura" programme with a investment commitment of Rs. 5.4 Mn	
• Social and Environmental best practices	• Roll out of a new Environmental and Social Management system (ESMS) which marks phase 1 of the Sustainability Performance Management System (SPMS)	
• Increase investment in technology	• Investment in the core financial solution	

Strategic Actions of 2019/20

Business Strategy	Target	Key achievements	Progress	Capital element
Scale up the business for improved profitability	Further Gold Loan division	Opened 8 new Gold Loan centres and introduced Ran Ayojana gold investment product		Manufactured Capital
	Revise the organisational structure for better oversight and increased accountability	Revised the Organisational structure and delegation levels to strengthen the operations and maintain portfolio quality		Operational review
	Strengthen the credit screening/appraisal and credit administration process	Introduced 15 fact sheets of ESMS to screen the customers for E&S risks Invested in a specialized Delinquency management software to aid tele collections and recovery operations Restructured the management level of tele collections and recovery		Operational review

AFC Strategy Implementation

Business Strategy	Target	Key achievements	Progress	Capital element
Facilitate business growth through digitisation	Prepare the company for adopting state of the art technology	Formed a Digital Centre with a cross functional team to oversee and implement all digitisation initiatives of the company		Intellectual Capital
	Develop digital solutions to increase internal efficiency and customer convenience	Evaluations are ongoing to obtain a new core financial system		Intellectual Capital
Improve employee productivity	Enrich the training and development agenda of the company	Formulated an annual training plan based on the training needs assessment. Established the AFC Trainer Pool comprised of internal external resource persons		Human Capital
	Facilitate cross functional team engagement to execute business functions	Formulated AFC Sustainability Ambassadors team who will drive the implementation of sustainability initiatives of AFC		Human Capital/ Sustainability review
Funding and technical capability acquisition	Partnering with international funding agencies for who provides Technical Assistance Programs to improve and develop the business	Received Technical Assistance from Blue Orchard to undertake a market research on Electric Vehicle and battery swapping systems.		Financial Capital
Improve brand visibility	Establish a brand identity as one of the most sustainable and the first finance company to Certified for sustainable business conduct in Sri Lanka	Revamp branding, promotions and materials to reflect the sustainable business conduct of the company Launched "Dalu" sustainability program to further promote the sustainability agenda of the company through social and digital media		Intellectual Capital
Social and environmental best practices	Integration of sustainability principles across the business	Adopt SSCI sustainability standard that facilitated the integration of sustainability principles across the business		Sustainability review / Social and relationship capital

Business Strategy	Target	Key achievements	Progress	Capital element
	Create organisation wide accountability and contribution towards sustainable value creation	Realigned policies, procedures, departments, sub department and individual roles with the high impact goals enabling the contribution of the entire company to drive AFC sustainability agenda		Sustainability review / Social and relationship capital
Corporate stewardship	Reduce Carbon footprint	Launched "One million trees for unity" project to plant one million trees across Sri Lanka by 2023		Natural Capital
	Biodiversity conservation and eco system restoration	Continued to our support the Biodiversity conservation and eco system restoration efforts		Natural Capital
	Social Development	Continued to support the social sustainability initiatives with the investment of Rs. 4.77 Mn		Social and relationship capital

Completed

Ongoing

AFC Strategy Implementation

The Interim Strategy of AFC for COVID-19 Challenges

Challenges	Our Strategic Responses
1. COVID-19 Containing measures	• Provided personal protective equipment for staff • Working from home arrangements were put in place by 20th March 2020 to ensure interrupted service of all critical functions • Rostering and shift based work arrangements to minimise the risk of spread of COVID-19
2. Management of healthy liquidity position	• Maintaining a liquidity buffer of Rs. 2 Bn • Negotiating fresh funding facilities from both foreign and local lenders • Negotiated payment deferments on existing loan facilities • Completed a securitisation for Rs. 1 Bn
3. Supporting customers who were impacted by lockdown	• Customers were given the concessions such as moratorium as directed by CBSL, waiver of penal interest for delayed payments, rescheduling of facilities with affordable repayment structures etc
4. New investments	• High yielding and high demand products during this period
5. Cost reduction	• Staff rationalisation • Benefit rationalisation of staff • Deferment of capital expenditure of all non-essential items • Negotiating better terms with suppliers
6. Expedite Digitisation efforts	• Fast track implementation of the core banking system to achieve internal efficiencies

Operating Environment

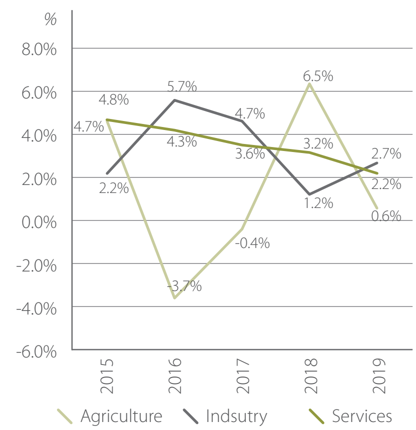
Sri Lankan Economy

Overview

Continuing on from 2018, during which the country experienced one of the most prolonged periods of economic stagnation, Sri Lanka's GDP growth decelerated to 2.3% in 2019, compared with 3.3% in 2018. All major sectors of the economy recorded positive, but modest growth rates. The Agriculture sector recorded a marginal growth of just 0.6% in 2019 compared to a growth of 6.5% in 2018, due to extreme weather conditions which caused tea and rubber cultivation, marine fishing, marine aqua culture, forestry and logging sub sectors to contract during the year. Following the impact of the Easter Sunday attacks on Tourism and related activities, the growth of the Services sector decelerated significantly to 2.3 % in 2019, compared with 4.6% in 2018.

GDP and GDP Growth

Growth in Sectoral GDP



The performance of the Industry sector improved over the previous year, to grow by 2.7% compared with 1.7% in 2018, mainly supported by the Construction, Mining and Quarrying sub sectors.

Sri Lanka's financial system remained stable and resilient amidst challenging domestic and global market conditions in 2019. The financial sector expansion and performance decelerated during the year 2019 compared to the previous year, mainly due to subdued economic activity following the Easter Sunday attacks and the political instability which prevailed during the year. Credit quality of the deposit-taking financial institutions, as reflected by the Non-Performing Loans (NPL) ratio deteriorated in 2019. However, Banks and other deposit-taking financial institutions, which constitutes a major segment of the Financial Sector, exhibited resilience amidst challenging business environments in both global and domestic contexts, by maintaining capital and liquidity well above the regulatory minimum requirements.

The year saw a milestone as Sri Lanka graduated to the upper middle income country status as per the World Bank classification of countries published in July 2019. The World Bank classifies countries based on per capita Gross National Income (GNI) into income categories of low income, lower middle income, upper middle income and high income.

Interest Rate

In an environment of muted demand driven inflationary pressures and well anchored inflationary expectations, the Central Bank (CBSL) adopted an accommodative monetary policy stance in 2019 to support the revival of economic activity and address the sluggish growth in credit extended to the private sector. The Statutory Reserve Ratio (SRR) applicable on all Rupee deposit liabilities of Listed Commercial Banks (LCB's) was hence reduced by a total of 2.50 percentage points in November 2018 and March 2019, thereby addressing the persistent liquidity deficit in the domestic money market. Consequently, market liquidity turned to surplus levels from mid April 2019. However, despite improved liquidity, market interest rates continued to move downwards. The CBSL also imposed interest rate ceilings on deposit products of licensed banks and non bank financial institutions in April 2019. It also reduced policy interest rates further, by a total of 100 basis points, in May and August 2019, with the aim of lowering market lending rates and boosting credit flows to the private sector. Responding to these measures, deposit interest rates moved notably downwards, while the adjustment of market lending rates remained grossly inadequate. Consequently, the CBSL imposed ceilings on market lending rates in September 2019, while withdrawing the deposit rate ceilings imposed on licensed banks. This resulted in a continued downward adjustment in market lending rates during the remainder of the year.

Operating Environment

However, considering the need for a faster reduction in market lending rates to support the slow growth in economic activity, CBSL reduced policy interest rates by a further 50 basis points in January 2020. Subsequently the threat of the COVID-19 pandemic in the country and its potential impact on domestic economic activity and financial markets, necessitated emergency responses and the CBSL reduced policy rates, in March and April 2020, by a total of 50 basis points, and SRR by 1.00 percentage point to 4% in March 2020. Accordingly, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) remained at 6% and 7% respectively on April 3rd 2020. The 2019 year end Average Deposit Rate stood at 8.2% in December compared with 8.81% at end 2018 whilst the Average Lending rate stood at 13.59% in comparison to 14.40% at end 2018.

Inflation

In contrast to the previous year, Sri Lanka's inflation was on an increasing trend during 2019. Accordingly the inflation as measured by the National Consumer Price Index (NCPI, 2013=100) at year end stood at 6.2% compared with 0.4% as at end 2018, whilst inflation measured by the Colombo Consumer Price Index (CCPI, 2013=100) was 4.8% compared with 2.8% at end 2018.

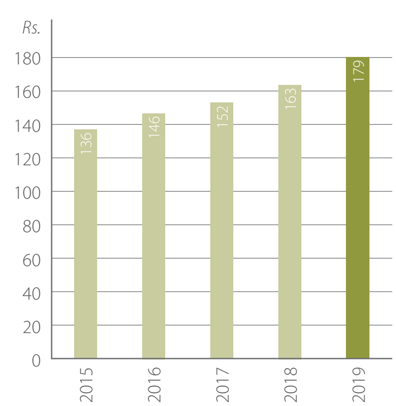
Inflationary preassure mainly came from significant increases in food prices, especially towards the latter part of the year due to supply shortages caused by adverse weather conditions. However, the reduction of the VAT rate and telecommunication levy, and removal of NBT in December 2019 had a favourable impact on the general price level. Reflecting these movements, headline inflation, as measured in terms of the year-on-year change in NCPI mostly remained in low single digit levels, while the year-on-year change in the CCPI, mostly remained within the range of 4.0-6.0% in 2019. Both NCPI and CCPI based year-on-year core inflation, which reflect the underlying inflation in the economy, remained broadly in mid-single digit levels in 2019.

As per CBSL projections, Inflation is expected to be maintained within the 4-6 % range over the medium term with well anchored inflation expectations supported by proactive monetary policy measures taken by the CBSL under a flexible inflation targeting framework. Furthermore, the fallout of the spread of COVID-19 could adversely affect aggregate demand in the near term, thereby exerting downward pressure on inflation.

Exchange Rate

The Sri Lanka Rupee remained broadly stable during 2019, with a marginal appreciation against the US dollar as at year end. The year end exchange rate thus appreciated by 0.6% compared with 2018, to Rs. 181.63 per US Dollar; whilst the Annual Average exchange rate depreciated by 9.08 % to Rs. 178.78 per US Dollar.

Exchange Rate (Annual Avg.) Rs: US$



The exchange rate strengthened during the first four months of 2019 supported by a significant contraction in the trade deficit and an increase in financial flows, resulting in an appreciation of 4.6% prior to the Easter Sunday attacks. Favourable liquidity conditions in the domestic foreign exchange market that prevailed during this period also enabled the Central Bank to absorb foreign exchange from the market, on a net basis. However, the exchange rate experienced some pressure in the immediate aftermath of the Easter Sunday attacks and again in the latter part of August 2019, reflecting the impact of heightened uncertainties in global markets, which resulted in some unwinding of foreign investment from the government securities market.

External Sector

Sri Lanka's external sector remained resilient in 2019 despite heightened domestic vulnerabilities. A substantial contraction in the trade deficit, from USD 10,343 Mn in 2018 to USD 7,997 Mn in 2019; along with healthy inflows to the services account resulted in a surplus in the external current account in the first quarter of 2019. The External Account thus had a surplus of USD 377 Mn in 2019, in comparison to a deficit of USD 1,103 Mn in 2018. However, the current account was adversely affected by the developments following the Easter Sunday attacks, which impacted the tourism sector, in particular. With the gradual widening of the trade deficit especially towards the end of the year, and the decline in earnings from tourism and workers' remittances, the current account turned to deficit levels from the second quarter of 2019. However, the annual deficit remained significantly below the deficit in 2018.

The external sector is likely to be under significant pressure in 2020 due to the cessation of almost all domestic economic activity from the latter part of March to May 2020, due to the spread of the COVID-19 pandemic, including export oriented manufacturing, a complete standstill of the tourism industry with restrictions on global travel, lockdowns in many countries impacting resulting in an overall modest growth in export earnings in 2019. According to the CBSL, a significant decline in Merchandise exports is likely, particularly of those to Sri Lanka's key export destinations of Europe and the United States. In particular, exports of textiles and garments, other industrial products and commodities including tea and rubber, are likely to experience a decline in the near term.

However, the medium term outlook for the external sector is expected to improve, despite the near term impact on the Balance of Payments from the COVID-19 outbreak. A reduced expenditure on crude oil imports, a reduction in investment goods imports, a reduction in export related raw material imports, and the reduction in the imports of motor vehicles and other non essential consumer goods due to the policy measures in place, a significant reduction in expenditure on imports is also expected. These developments are expected to result in a decline in the trade gap in 2020, before expanding thereafter with the normalisation of economic activity.

Outlook

While Sri Lanka has thus far been successful in preventing a spread of the COVID-19 outbreak in the country, the interconnected nature of the global economy would mean that the country would experience spillover effects of the pandemic.

Just as domestic economic activity began to respond to the policy measures taken to revive the economy and to improving business sentiments at the beginning of 2020; the unexpected outbreak of the COVID-19 pandemic, the containment measures adopted by all countries including Sri Lanka, and the resultant projected contraction in the global economy, has triggered an unprecedented level of uncertainty regarding the country's economic performance in 2020. In the near term, the economy is likely to be impacted severely in terms of its growth, fiscal, external, and financial sector performance, causing hardships to all stakeholders of the economy.

The CBSL expects growth of credit to the private sector to remain low in the near term due to significant disruptions to economic activity. However, as the country recovers from the COVID-19 outbreak, the growth of credit to the private sector is projected to accelerate, supported by low market lending rates, the expected expansion in economic activity buttressed by fiscal and monetary stimulus, the debt moratorium and special credit support schemes offered for businesses, especially small and medium enterprises (SMEs). Meanwhile, the Financial sector is expected to remain resilient in the medium term, in spite of the near term challenges.

Based on the assumptions described above, annual real economic growth is projected to decelerate further in 2020, before rebounding thereafter towards the envisaged higher growth path. The IMF (as per its forecasts in May 2020) forecasts GDP growth rate to be -0.5% for 2020 while the World Bank forecast growth to be at between -3.0% and -0.5% for Sri Lanka.

The Non Bank Financial Institutions (NBFI) Sector

The NBFI Sector consists of Licensed Finance Companies and Specialised Leasing Companies. The performance of this sector deteriorated during the year, mainly due to subdued economic activities, prevailing political uncertainty, lack of investor confidence and security concerns created by the Easter Sunday attacks.

Assets: Total asset base of the sector expanded marginally by 0.1% to (Rs. 1.3 Bn) Rs. 1,432.7 Bn, during the year (compared to 5.6% growth reported in 2018. The asset base of the sector mainly consisted of loans and advances which accounted for 77% of the total assets. Finance leases accounted for the major part, representing 52.9% of the gross loans and advances, followed by other secured loans, representing 37% .

Lending Activities: of the sector showed signs of slowing down during 2019. This has been in response to macro prudential policy measures to curtail importation of motor vehicles and lending towards vehicles such as the directions of LTV ratios for credit facilities granted in respect of motor vehicles, prevailed higher market interest rates on lending, sluggish economic and commercial activities due to loss of business confidence which resulted from political instability in the run up to the presidential election and negative sentiments caused by the Easter Sunday attacks. Credit provided by the LFC and SLC sectors declined by 3% (Rs. 34.3 Bn) to Rs.1,102.7 Bn, compared to the growth of 7.6 % in the corresponding period of 2018.

The investment portfolio of LFCs and SLCs comprise of investments in equities, capital market debt instruments, government securities and investment properties. The investment portfolio recorded a sharp increase of 20.5 % (Rs. 22.5 Bn) in 2019, compared to a negative growth of 7.1 % in 2018.

This is mainly due to increased investment in government securities maturing in less than 12 months (Rs. 9.0 Bn), investment in shares, units and debt securities held

Operating Environment

for trading (Rs. 8.0 Bn) and investment properties (Rs. 7.1 Bn). Other assets were mainly maintained in the form of cash, balances with banks and financial institutions, trading stocks, and fixed assets, which increased by 7.1 % (Rs. 13.2 Bn) in 2019, largely due to increased placements in banks and financial institutions.

Profitability

Net interest income of the sector grew by 7.9% during the year to Rs. 117.4 Bn. This was due to the combined effects of increased interest income by 7.6 % (Rs. 18.3 Bn) and increased interest expenses by 7.4 % (Rs. 9.8 Bn). Net interest margin of the sector (net interest income as a percentage of average assets) increased to 7.7 % in 2019 from 7.4 % in 2018, due to the combined effects of increased net interest income (7.9 %) and increased (gross) average assets (4.3 %).

Non-interest income increased by 3.4 % (Rs. 1.3 Bn) mainly due to increase in default charges and other service charges, while noninterest expenses increased by 15.5 % (Rs. 12.6 Bn) affecting sector profitability in an adverse manner. Non-interest expenses increased mainly due to increased administrative expenses (Rs. 4.1 Bn), loss on valuation/ disposal of repossessed items (Rs. 2.7 Bn), staff costs (Rs. 2.5 Bn) and other expenses (Rs. 1.3 Bn). The loan loss provisions made against NPAs during the year was Rs. 30.2 Bn, which increased by 16.2 % (Rs. 4.2 Bn), when compared to the provision made in 2018.

Capital

The sector remained resilient with capital maintained at healthy levels during the year. The total regulatory capital levels improved by Rs. 22.3 Bn in 2019, compared to the figures reported in 2018, mainly due to the enhancement of the minimum capital requirement by the Central Bank, to Rs. 2.0 Bn by 01 January 2020, and Rs. 2.5 Bn by 01 January 2021. The equity capital of the sector increased by 10.6 % (Rs. 19.5 Bn) and stood at Rs. 203.2 Bn by end-2019, mainly on account of the increase in capital due to the steps taken by LFCs to enhance the minimum core capital to meet the above requirement. The sector's core capital and total Risk Weighted Capital Adequacy Ratio (RWCAR) increased by 1.3 % and 1.4 % over 2018, to stand at 11.1 % and 12.5 % respectively, in 2019,

Source : Central Bank of Sri Lanka

Operational Review GRI 102-2 GRI 103-2 GRI 103-3

LENDING

60% GOLD LOAN PORTFOLIO GROWTH

Rs. 28 Bn LENDING PORTFOLIO

96,717 Nos CUSTOMERS

Core products

AFC "Ran Ayojana" was the newest addition to the product basket, during the financial year. It was developed to offer customers the opportunity to invest in gold by paying in installments to minimize the pressure on their cashflow.

In addition to to the above core products, AFC also offers Pledge loans and Equipment leasing, under a stringent screening process to selected existing customers.

Operating Context and Strategic Responses

The effects of a sluggish economy and the political uncertainties prevailed in the country in 2018/19, continued into the financial year under review, dampening the prospects of growth in the Finance Industry. Threats to social security followed by political uncertainty in the end and the effects of the economic slow down had a negative effect on the prospects of growth in 2019/2020.

Low credit demand coupled with increased credit risks due to the depressed economic conditions hampered many companies, including AFC, to achieve the expected key performance levels.
However, AFC was able to formulate and implement timely plans to face the challenges, and mitigate the negative impact on performance.

Challenges	Our responses
Further increasing the profitability in a sustainable manner	• Promoted the high margin products • Adopted cost minimizing strategies and practices in operations • Expanded the gold loan operation by increasing the number of gold loan centres
Maintaining a competitive portfolio mix	• Continuous monitoring and undertaking timely adjustment in response to the opportunities and threats • Educating the field staff to be vigilant on the changes and adjust marketing activities accordingly

Operational Review

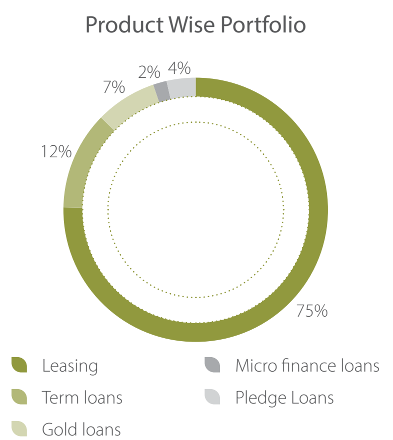
Challenges	Our responses
Improving the portfolio quality	• Undertook structural changes for better monitoring and management of credit and recoveries • Centralised credit approvals to a greater extent • Introduced a risk-based product mix monitoring • Improved the tele collection centre structure and operations • Invested in a new specialised tele collections call centre and recovery software • Adopted new MIS methods to proactively monitor and manage recoveries • Field level monitoring was strengthened with focused KPIs • Strengthened the KPI based monitoring of the recoveries • Set up a yard disposal unit
Strengthening the dealer network	• Strengthened the dealer management initiatives • Expanded the pool of dealers by adding new dealers from across the island
Contending in a highly competitive market space	• Provide faster customer service • Introduced new policy measures for maintaining the competitive edge • Updated/revised existing policies • Revised the terms and conditions from time to time, to suit the market demand while preserving anti-competitive values of the company
Customer attraction and retention in the intensively competitive market	• Facilitate better and easy access by branch relocation • Conducted focused BTL campaigns
Developing and maintaining employee motivation under the "One team – one AFC" theme	• Provided training to improve the work skills, confidence to undertake the challenges and adopt to the changes resulting from amalgamation • Continued to offer rewards and recognition for best performers • Offer opportunities (Eg: fellowship events) to build trust and bond with the other team members under the theme culture

Special activities undertaken during the financial year

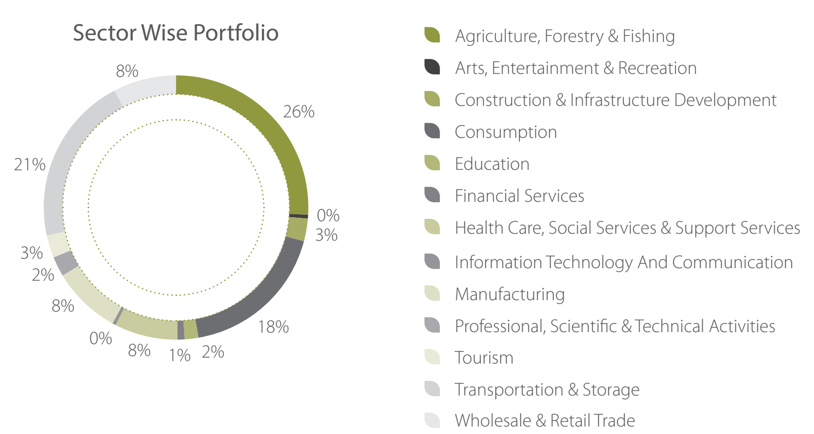
- Introduced high margin/low risk "Ran Ayojana" product
- Introduced a mobile based system for fast credit approvals
- Introduced Mobile based mechanism to obtain vehicle valuations
- Undertook structural changes in the Credit department to provide fast and a better service to the customers

Performance

- The total portfolio of AFC reached Rs. 28 Bn at the end of the 2019/20 financial year compared to Rs. 27 Bn in the previous year.
- It was an achievement of a marginal growth of 6% (growth in 2018/19 was 1%), mainly due to the non-conductive industry environment.



- 75% of AFC's product portfolio was comprised of Leasing with a portfolio of Rs. 21 Bn, which was an increase of 9% compared to the previous year's portfolio of Rs. 19 Bn.
- Gold loan portfolio reached Rs. 2 Bn mark at the end of the financial year with a 60% growth from 1.3 Bn in 2018/19.
- Gold loan accounts for 7% in the total portfolio.
- Term loans and other product composition came down from 22% to 18% at the end of 2019/20 with a 16% negative growth.



- The highest percentage of our portfolio (26%) was in the Agriculture, Forestry and Fishing sector whilst second highest exposure was in the Storage and transport sector (21%).
- Consumption, Health care, Manufacturing, Wholesale and Retail sectors had 18%, 8%, 8% and 8% portfolio respectively in those sectors, whilst our exposure towards the rest of the sectors was 11%

Operational Review

Progress of the 2018/2019 Planned Activities

Planned activities	The progress
Amalgamate the RFS and DF under IFC recommendations "One team – One AFC"	Successfully completed the amalgamation with necessary structural changes, HR allocations and branch consolidation, resulting in a smooth operation.
Grow the advances portfolio while preserving the credit quality (phase out from non-asset backed loans, strong focus on recovery)	Achieved a substantial improvement with 6% growth in the advances portfolio. Phasing out non-asset backed loans was initiated.
Adopt sound credit evaluation practices	Successfully implemented.
Implement the new core IT system	Identified the vendors and the evaluations are ongoing. Implementation is planned to commence in 2020.
Roll out the ESMS system	Full scale rollout will be pending until the new core system is implemented, since ESMS needs to be integrated to it.

Way forward

The COVID-19 outbreak in the last quarter of the financial year has brought about numerous uncertainties and challenges for the entire economy of the country. It has hampered the prospects of the financial sector in particular due to the government policy changes, new credit related regulations, debt moratorium and reduced demand due to the economic slowdown.

The transport sector was severely affected due to the month-long lockdown that leads to reduce demand for credit and adversely affected repayment capacity of customers. The finance companies in particular struggled to achieve their annual plans and most fell short of their performance target.

Therefore, as a cause correction measure AFC had to revise their targets to adjust to market conditions. Since leasing and gold loans account for 82%, of the lending operations of AFC, the slowdown had a significant impact on the overall company performance. Taking this into consideration, the future plans and efforts will be mainly to consolidate business through the following measures in the short term.

1. Minimise the adverse impact of the economic slowdown due to COVID-19 by ensuring high portfolio quality whilst maintaining a healthy liquidity position
2. Help out adversely impacted MSME and self-employed customers by providing debt moratorium, waiver of penal interest, rescheduling and rate concessions
3. Implement customer retention measures
4. Maintaining the demand for the products at an acceptable level.
5. Reduce operational cost via automation and digitisation of processes
6. Keep employees focused and motivated
7. Preserve the sustainability value creation of the company
8. Develop new products in line with sustainable financing principles

In the long term, the company will strive to achieve the high impact goals, through sustainable finance as planned. The aim is to develop Gold Loan products as well as leasing to cater to a wider range of customers in, different sectors (E.g.: SME and MSME) and regions, ensuring the triple bottom line value creation. In addition, launch new sustainable products (E.g.: Gas three wheelers) which has the potential to reach out to the like-minded sustainability-oriented customers and other prospective stakeholders.

Highlights on Process Revamping Initiatives

The financial year 2019/20 was a decisive year where AFC has undergone several crucial strategic changes with the Technical Assistance program offered by International Finance Corporation (IFC). The program mainly focused on improving the Credit, Recovery and Risk processes, to improve the overall performance as well as sustainable value creation of the company. The program included a comprehensive gap analysis, recommendations for remedial action and implementation support encompassing the crucial aspects of Credit, Recovery and Risk functions. The key outcomes of this program are illustrated below.

Activities Undertaken	Expected Outcomes	Resultant Outcomes
Rationalisation of the Branch network • "One Team – One AFC" concept was introduced by amalgamating the Regional Finance and Development Finance branch networks. • Resultant network reduced the presence of 91, to 88 strategically relocated customer touch points • 42 branches were converted to fully fledged branches which offer the entire range of AFC's financial solutions	• Streamline the Operations • 42 fully fledged customer touch points to offer the full range of AFC products • Staff rationalisation • Rs. 75 - 100 Mn cost saving in 2019/20 and 2020/21 financial years.	• Successfully consolidate the branch network to remain at 88 in strategic locations. • Reduced staff base to 1,282 from 1,400 (-8%) through staff rationalisation • Cost saving for the 2019/20 financial year – 55 Mn
Revision of Marketing and Recovery Structures • Initial structure was revised by dividing marketing and recovery structures into 8 regions	• Allocate manageable number of branches, to ensure effective supervision	• The portfolio per RH has reduced by 26% as a result of the new restructure.
Centralised Credit Approval • Established a centralised credit approval system • Revised delegation for high risk products • Customised delegation to branch level based on their credit risk management track record • Strengthen the centralised credit unit with experienced credit officers	• Reduce the credit risk arising due to delegation of powers to BMs. • Reduce leasing on high risk vehicle through stringent evaluation.	• Significant reduction in processing time. • Exposure reduced from Rs. 32% to 12% from March 2017 – March 2020 • Without the high-risk assets, the NPL level of AFC stood well below the industry levels as of end February 2020
Revamping the Yard Sales Management • Converted the vehicle yards to vehicle selling points with the setting up of infrastructure to repair and recondition the vehicle offerd for sale.	• Reduce Disposal Losses of Repossessed Vehicles • Quicker sale due to the vehicle being in better condition	• Sold 911 vehicles as of today which accounts for 59% of the total yard disposals • New approach increased the selling prices by about 10% more compared to auctioned prices and ensured faster disposal

Operational Review

Activities Undertaken	Expected Outcomes	Resultant Outcomes
Service Level Agreement (SLA) for the Credit Unit Assigned SLAs to credit unit staff to ensure efficient work flow to achieve competitive turnaround time	• Reduce turnaround time • Increase staff efficiency	• Planned to be implemented with the new system launch
Restructuring the Management of Collections and Recovery Operations • Invested in a new specialised tele collections call centre and recovery software • Restructuring of the management level of Collections and Recovery • Automation of Performance Monitoring • Introduction of effective performance driven KPIs	• Improve early delinquent buckets of up to 60 days • Improve the delinquency monitoring and performance of the tele collection centre	• Collection improvement of 5%* by the end of the financial year.
Restructuring the Credit Risk Management • Re-structuring the Credit Risk Management Division • Revision of Credit Risk Policies of the Company as per the Strategic Decisions • Introducing new performance monitoring tools for evaluations • Revising the risk related guidelines to promote proactive decision making	• Proactive risk management of the company • Maintaining the Pre and Post Sanctioning Risks of the company • Assisting Management for Business Decision making	• Average no of files sanctioned per month stood well above the monthly average (2-3%) • Increase in no of files due to Limit (Amount) changes which qualify for sanctioning • Credit quality of early buckets of recent investments

*We have taken the February 2020 figure as March 2020 is considered as out-lier

Technical Assistance program by International Finance Corporation (IFC)

Followed by a systematic analysis, with the objective of improving the Credit Quality, Portfolio Management, Collections and Recoveries, the Management of AFC has decided to accept the Technical Assistance program offered by International Finance Corporation (IFC), along with the funding facility of USD 5 Mn. The 12 month long, a comprehensive programme was conducted, with the assistance of the IFC Subject Matter Experts.

The main objective of the programme was to facilitate addressing the root causes of rising non-performing advances and facilitate sustainable portfolio growth of the company. The corrective actions were carried out by improving the internal infrastructure, processes and capabilities to strengthen the credit environment.

COMMERCIAL DIVISION

26 Mn
TRADING INCOME

35 Nos
HIRING VEHICLE FLEET

Core products

AUTOSURE

EZY DRIVE

CASE IH AGRICULTURE

Automotive repair Centre

The commercial division of AFC comprises of three main sub divisions; Autosure, Automotive repair centre and CASE tractor division. Autosure division offers 3 main services which include vehicle sourcing, vehicle sales and part exchange. Ezy drive service operates under the vehicle repair division, which provides vehicle hiring services to individuals and corporates. CASE tractor division manages the importation, sales and after sales services of the CASE tractors island wide.

Operating Context and Strategic Responses

Having been revamped in 2018, the Commercial division is still in its initial growth phase. The economic conditions that were stagnant, coupled with volatile vehicle prices and the depreciating Rupee were not conducive for the expected growth of the division, due to intense competition and securing market share had been challenging. In addition, the unfavorable climate disrupted the Agriculture sector in particular had further reduced the business prospects of tractors.

AFC has implemented several strategies to face the challenges and promote the future growth prospects of the division.

Challenges	Our responses
Rupee depreciation Unstable vehicle prices	• Changed the targeted vehicle that contributes to maintain the desired performance levels at a reduced risk
Intense competition	• Offered attractive pricing to offset competition • Ensured the vehicles are fully conditioned to offer quality vehicles to the customers • Provided comprehensive and exceptional after sales services.

Operational Review

Progress of the 2018/19 Planned Activities

Planned activities	The progress
Developing the Commercial division with the flagship "Autosure" proposition likely to be the catalyst in expanding the end-to end vehicle solution business	The growth has been slowed down due to the market conditions. However, efforts continue to pursue the limited opportunities and drive development of the division.
Additional investments to upgrade both the Automotive servicing and the Ezy Drive businesses	Due to the negative prospects after the Easter bombing, a significant level of new investments could not be done in these businesses.
Promote CASE Tractor segment	The company is looking at different strategies to promote the CASE tractors, and is considering a joint venture with an industry expert.

Way Forward

COVID-19 has changed the dynamics of many industries in an unexpected manner, including that of the transport industry. Whilst the economic activities have slowed down affecting the corporates and individuals alike, the prospects for vehicle sales seem unlikely to improve in the short term. However, when the transport patterns normalise with the "New Normal", this could give many opportunities to the hiring sector. It is expected that the demand will shift towards hiring rather than purchasing vehicles, which is a phenomenon during the recessions. Therefore, it is expected that operating leases and vehicle renting models will have more demand in the short term.

Considering the prevailing industry conditions, the company will undertake the following measures, to exploit the available opportunities.

1. Promote renting/hiring vehicles through Ezy drive
2. Develop attractive hiring packages and reach out to new corporate and individual customers
3. Undertake aggressive marketing campaigns to promote the products and services
4. Focus on low to mid value cars for trade-in business

Preliminary work has already begun to commence a state of the art vehicle showroom at Rajagiriya, next to the AFC Super Branch, particularly to promote high end vehicles. Another vehicle sales centre opened in Malabe, which will primarily sell, refurbished repossessed vehicles. These initiatives are planned to be implemented in Financial Year 2020/21.

In line with the Sustainability ethos of the company, the long-term objective of AFC is to develop the flagship "Autosure" proposition and Ezy drive hiring service as a sustainable transport solution to prospective customers.

DEPOSITS

Rs. 12.3 Bn
DEPOSIT BASE

170,795 Nos
DEPOSIT INVESTORS

87%
RENEWAL RATE

Core products

AFC Fixed Deposits

afc Hapannu

afc SPEED Cash

AFC Savings

Deposits are one of the key investment financial solutions of the company which has gained the trust of four generations of customers during its sixty-four years of existence. Currently we provide three main products under this SBU. Namely, Fixed Deposits, Children's Savings and Speed Cash loans.

Operating context and Strategic responses

The overall deposit growth of the industry has declined in the financial year under review compared to the previous year. AFC has also experienced a 1.2% dip in deposit mobilisation during the financial year mainly due to the deposit ceiling rates that were introduced by CBSL in April, bringing both Bank and LFC rates to almost similar level. This resulted in customers moving towards banks which were perceived as more secure for deposits. The main reason for this perception was lack of depositor confidence on LFCs due, to some LFCs failing to honor depositors in the past. Thus, the reputational damage it caused, impacted all the LFCs during the first quarter. Towards the last quarter, the outbreak of COVID-19 deteriorated the situation even further resulting in a increased rate of withdrawals primarily due to market uncertainty.

Although AFC suffered during the earlier quarters as a result of the policy changes, the pandemic impact was not as severe on the industry as a whole. Despite these drawbacks, AFC was able to keep the renewal ratios well above 80% from March onwards. This is as a result of the very high customer service provided by the company, even during the difficult periods which ensured the unwavering loyalty of our deposit customers.

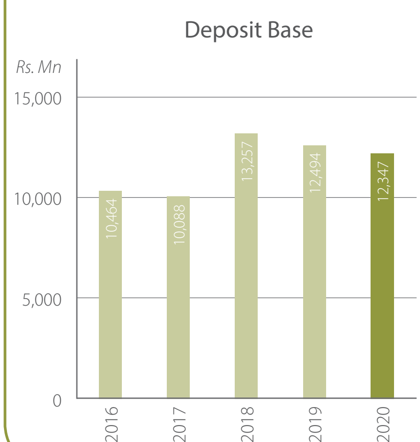
The main challenges faced during the financial year 2019/20 and our strategic responses to those challenges are detailed in the table below.

Challenges	Our responses
Fierce marketing competition with close competitors and their aggressive marketing tactics	• Conducted focused ATL/BTL promotional activities • Created a competitive edge by providing superior service to our deposit holders
Reputational damage created by one LFC failing to honor its depositors, triggering public reaction, losing confidence over deposit taking LFCs	• Educated customers on the stability of the company • Provided assurance with the engagement of top management on the safety and security of the deposits in AFC

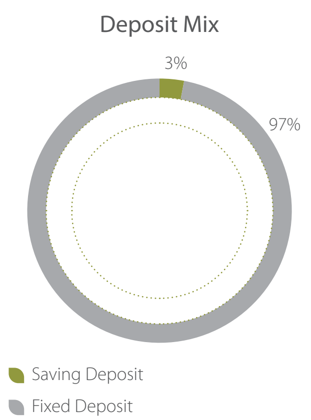
Operational Review

Challenges	Our responses
Continuous reduction in interest rates and CBSL decision to cap FD interest rates for the NBFI sector	• Offered the maximum FD ceiling interest rates and comply with CBSL regulations. • Provided excellent customer service which AFC is proud of, to four generations of loyal customers
Digital financial platforms and new technological innovations implemented by other competitors.	• Company is in the process of evaluating the possibility of developing a fully integrated computer system.

Performance



- The deposit base reached 12,347 Mn during the year under review which was 12,494 Mn in the previous year.
- It was a marginal reduction of 1% in line with the natural withdrawal rate.



- Fixed deposits accounted for 97% of the Deposit mix whilst savings only accounted for 3%.
- Savings and Deposit base together stood at 12.3 Bn mark at the end of the financial year under review.

Significant Achievements During the Financial Year

- Maintained a healthy renewal ratio amidst difficult situations with severe challenges posed by the COVID-19 outbreak
- Was able to uphold the strong customer confidence of six decades
- Maintained the prompt and personalised interest payments method of the Company for almost over 5 decades.
- Helped the company ease the liquidity shocks

Progress of the 2018/19 Planned Actions

Planned activities	The progress
Mobilized deposits efficiently through the island-wide branch network	Arrangements were made and targets have been set during the previous year. However, the branch level deposit mobilisation is still at low levels. Since the liquidity position was well supported by the foreign borrowings, branch level mobilisation of deposits was not actively promoted during the year under review.
Tailor-made KPI's were implemented in the branches	

Way Forward

Many LFCs in Sri Lanka have faced moderate deposit outflows, during the beginning of COVID-19. However, AFC with the support of our loyal and trusted customers along with the exceptional customer service provided, was able to contain the impact at acceptable levels. The "New Normal" is expected to bring more challenges, with the aspect of economic, social and political stability being severely challenged by the pandemic outbreak. The negative impact of the deterioration of these critical areas will continue for a considerable period as forecasted by analysts. In these circumstances, the challenge would be to maintain the base at least at current levels. In order to achieve this, the main priority of AFC in terms of our deposit portfolio will be to maintain a healthy renewal ratio.

COVID – 19 has been an eye opener for many companies in Sri Lanka, to embrace digitisation in a faster and a comprehensive manner. Thus, the new strategy of AFC will be to transform ourselves to stay resilient by strategically positioning ourselves in the digitised economy.

In order to achieve this, in the longer term, plans have been made to introduce Digital vaults with the implementation of the new core banking system. AFC hopes to provide better customer experience and convenience through this. Along with this, the company has also planned to launch ATM connectivity, in order to further promote savings and deposits.

Capital Management Review

FINANCIAL CAPITAL

The Financial Performance of the year under review can be considered as a reflection of the challenging business environment under which the Company operated. Having started the year with devastating Easter Sunday Attack in April 2019 which directly and indirectly impacted the business community in Sri Lanka, loss of investor confidence caused by political uncertainties surrounding the presidential election, low credit growth, pressures on lending rates and deteriorating credit quality had a significant stress on the operations of the Company. Corona Virus pandemic during the latter part of the year further aggravated the situation causing recovery pressures and credit quality issues.

Net Interest Income (NII)

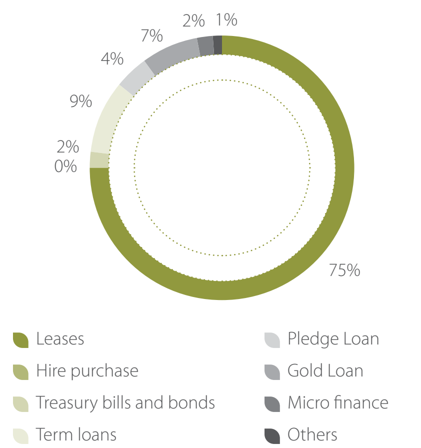
Amidst the tough market conditions, AFC's NII increased during the year from Rs. 3,589 Mn to Rs. 3,891 Mn. 8% growth in NII is commensurate to the 6% increase in the Interest Income and relatively low increase in Interest Expense caused by low interest rate environment prevailed during the year.

75% of the Company's Interest Income consists of Interest Income from Leases, 23% consists of the Interest Income on Loans. During the year, Interest Income from leases increased by 18% compared to the previous year in line with the Increase in Lease Portfolio.

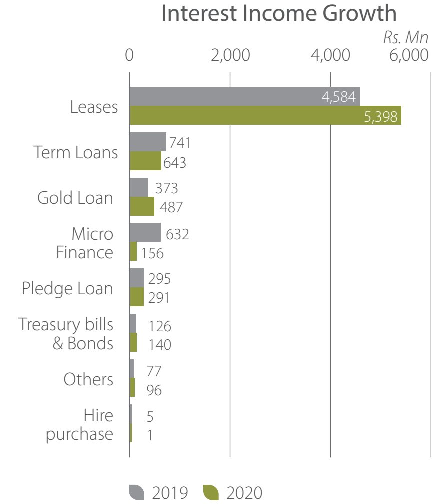
Interest Income on Loans in 2019/20 decreased by 21% compared to the previous year. The reduction in Income is in line with Company's voluntarily step back in the Investment in Microfinance and non-asset backed lending segments. Continuing the growth momentum, the Interest Income on Gold Loan Portfolio increased by 31%.

Net Interest Income

Income Composition 2020



Interest Income Growth



Non-Interest Income

Non-Interest Income of the Company increased from Rs. 411 Mn in the previous year to Rs. 467 Mn during the year under review. Main contributory factors for the increase include the Increase in Net Fee and Commission Income resulting from reduction in fee and commission expenses. With effect from 01st January 2020, the Company reclassified its Equity Portfolio under Fair Value Through Other Comprehensive Income as allowed by the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak by CA Sri Lanka. Accordingly share trading loss of Rs. 61 Mn for the period from January to March 2020 has been reclassified under Other Comprehensive Income to better reflect the performance of the core lending business.

Impairment

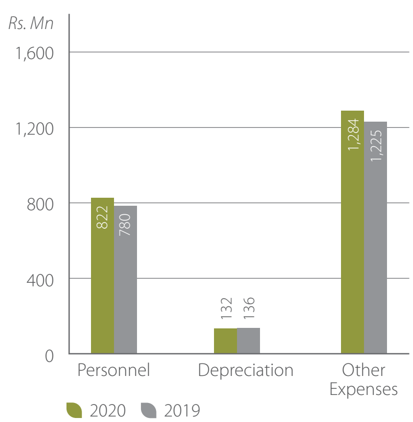
Impairment Charges during the year increased by Rs. 299 Mn, an increase of 37% over the previous year. Significant increase in Impairment charges is a sign of stressed economic activity causing pressures on credit quality during the year followed by Easter Sunday Attacks, Political Instability and adverse outlook on the macroeconomic variables of the country. This also caused Gross Non-Performing Loan ratio to increase to 11.1% against 7.7% in the previous year.

As a means of managing and reducing NPLs, the Company invested in Delinquent Management System Software during the year under review while strengthening the credit approval process.

Cost Management

The Company's operating expenses increased by 4.5% compared to the previous year. This increase in Company's operating expenses is in line with the increase in business activity during the year. It is noteworthy to mention that the Company's Cost to Income Ratio for the year under review was reduced by 3% compared to the previous year. Cost to Income Ratio for the year recorded at 54% as against 57% in the previous year. The Company considers effectively managing its cost was the key to success. The Company formed its digitisation program during the year with the broad objectives of cost management, increase efficiencies and enhanced customer service. It is expected significant cost savings through this activity would translate into the Company's bottom line in the years ahead.

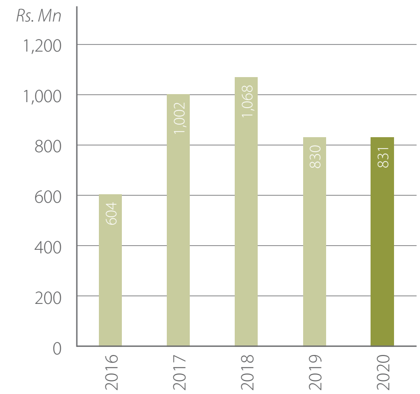
Operating Expenses



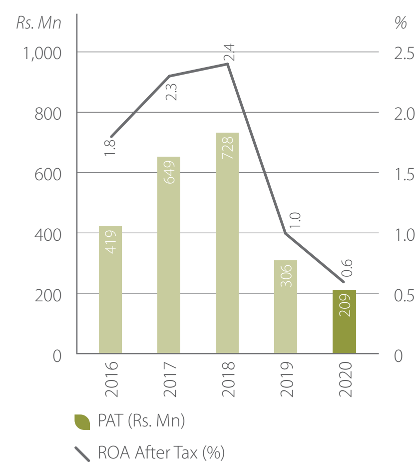
Profitability

Despite the significant increase in impairment costs, the Company was able to maintain its Operating profits before taxes on Financial Services in line with the previous year. Taxes on Financial Services, however, was increased by 34% during the year under review caused largely by the impact on the Introduction of Debt Repayment levy w.e.f October 2018. As a result, the Company's Pre-Tax Profit reduced by 11% compared with the previous year. Owing to the higher Income Tax Expenses, the Company's Profit After Tax reduced by 32% as against the previous year.

Operating Profit Before Value Added Tax on Financial Services



Profitability



Shareholder Value

Due to the decrease in profitability, Earnings per Share (EPS) declined from Rs. 9.09 in 2018/19 to Rs. 6.19 in 2019/20. The Company did not declare Dividends for the year under review. On the backdrop of non-availability of the active stock market due to COVID-19 pandemic, the share prices as of the year end are not available. As of the last trading date during the month of March, AFC's share price recorded at Rs. 34.40.

Financial Position

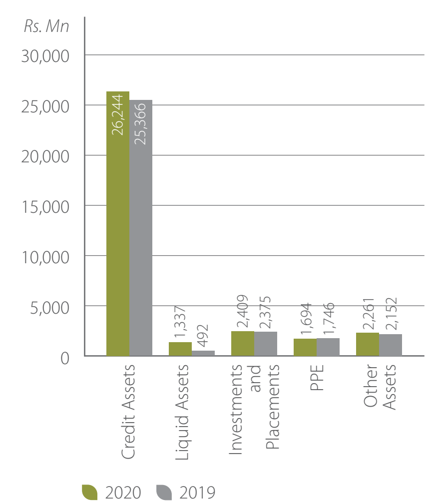
Total Assets

Total Assets base of the Company increased by 6% compared to the previous year mainly resulting from the increase in Lease Portfolio.

Company considered liquidity to be the most critical factor that determines the Company's ability to operate smoothly and successfully during a pandemic. Significant increase in Company's liquid assets showcases the proactive measures Company has taken to remain liquid. The Company maintains strong liquidity ratio of 24.65% well above the statutory minimum ratio as of the year end.

In line with SLFRS 16, which is applicable for the reporting periods starting 01st January 2019, the Company recognised Right to Use Asset of Rs. 259 Mn on account of Operating Lease Assets previously classified under LKAS 17 – Leases.

Asset Composition

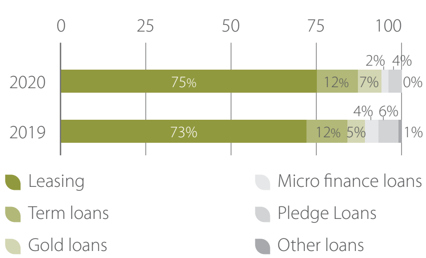


Capital Management Review

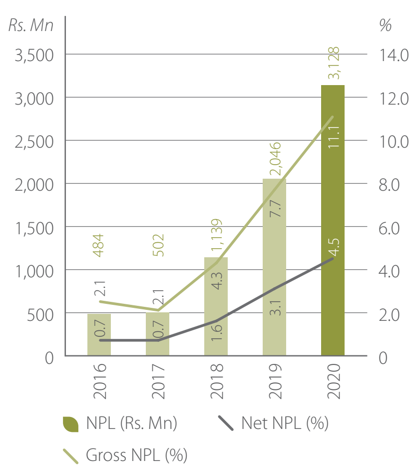
Portfolio Growth and Assets Quality

Amidst the highly competitive and tough market conditions with low credit demand, the Company could maintain the growth momentum of its lending portfolio. With the strategic decision to move away from Non-Asset back lending, Company's primary focus continued to be on its core product of Leasing. During the year under review Company's Leasing Portfolio increased by 9% compared to the previous year. Company's Gold Loan Portfolio showed a significant increase of 60% during the year while Micro Finance Loans reflected a gradual decrease.

Portfolio Composition



Gross & Net NPLs



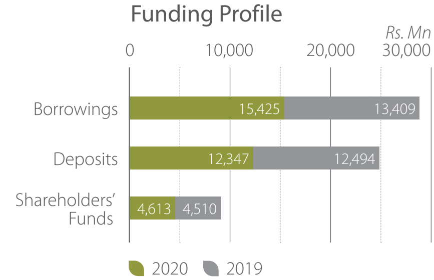
The scale back on Non-Asset backed lending portfolio, adverse economic conditions impacting deteriorating credit quality resulted in a sharp increase in the Company's Gross NPL. Company foresee continuing pressures on credit quality post COVID-19 pandemic and is strengthening its credit parameters and recovery efforts to arrest the situation.

Liability

Company's business activities are funded through diversified mix of local, foreign funding and deposit liabilities. This has enabled the Company to gradually decrease its reliance on the Deposit Liabilities. With the a Diversified Lending Mix, Company has been able to successfully reduce its maturity mismatch which is inherent in the industry.

Nonetheless, the Company maintains a strong deposit renewal ratio of 87% for Time Deposits.

Funding Profile



Capital Position

The Company remained capitalized with the Tier 1 and overall risk weighted capital adequacy ratios well within the regulatory limits, at 9.86% and 12.97% respectively as at 31st March 2020.

MANUFACTURED CAPITAL

INPUTS

- Geographical Precence
- Support Facilities

KEY VALUE DRIVERS

- Banch Network
- DR Site
- Vehicle Service Centre
- Vehicle Yard

OUTPUTS FOR AFC

- Grow market share and venture into untapped markets.
- Strengthen the Company's competitive position in the NBFI sector.
- Enhance Goodwill

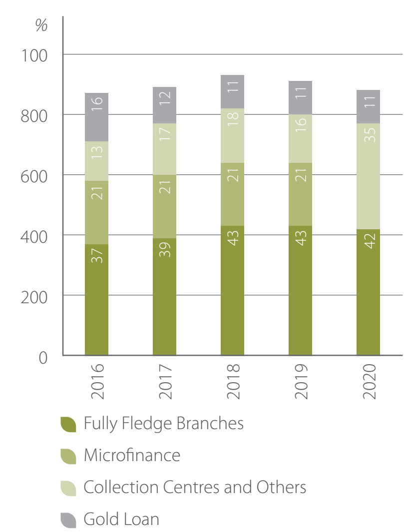
VALUE ADDITION TO STAKEHOLDERS

- Accessibility & convenience
- Ability to benefit from the Company's expertise in offering customised solutions that best fits their needs.
- Stability in continuity of service from Company in case of interruptions to operations.

Type	No.
Fully Fledged branches	42
Gold Loan Centres	11
Collection Centres	35
Total	88

Whilst we will continue to expand our physical footprint we will also look at introducing digital channels to align ourselves with the customer of the future and as a Triple Bottom Line initiative which will enhance customer convenience, resource efficiency and reduce our carbon footprint.

Geographical Outreach



Points of Presence

AFC's island wide points of presence is a key factor in its value creation process. The wide geographic spread of our customer touchpoints has been the conduit for creating financial empowerment for the hitherto marginalised over the past few decades and to strengthening our brand value across diver demographics.

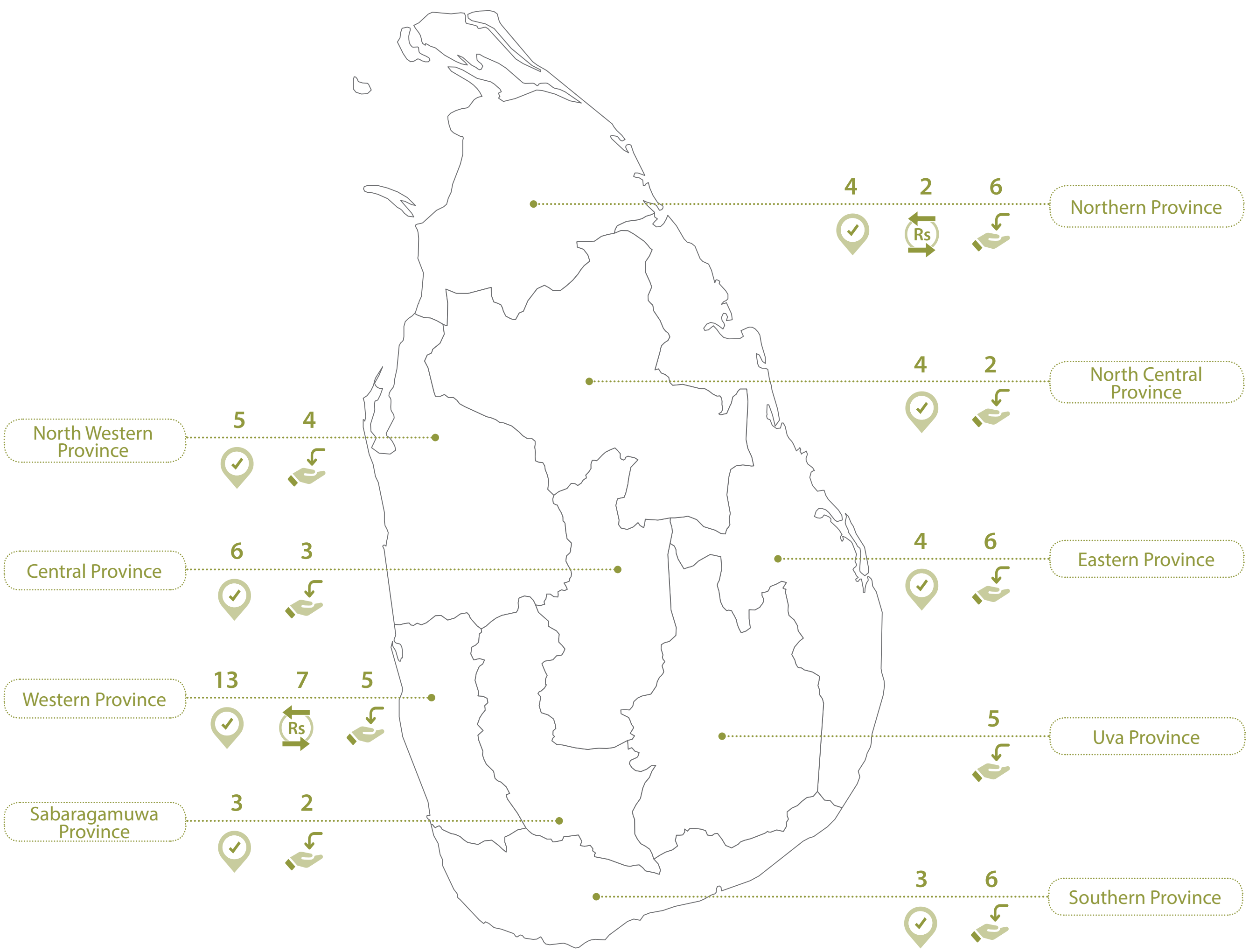
The year under review saw AFC restructure its branch network from a product based one, under which the Company maintained three independent branch networks, to an amalgamated one with fully fledged branches offering multiple products under a "One Team One AFC" theme. The process of amalgamation which commenced in March 2019 was completed during the year, thus reducing our points of presence count from 91 to 88 as 31st March 2020. This amalgamation will result in greater efficiency and enable branches to align their product mix with the demand in each locality. Accordingly, Gold loan centres and Development Finance centres would be set up in branches that have a demand for these solutions and some would be fully fledged branches which offer the entirety of solutions. 17 branches were also relocated during the year to facilitate easier access and customer convenience.

Capital Management Review

42
FULLY FLEDGED BRANCHES

11
GOLD LOAN CENTRES

35
COLLECTION CENTRES



Please visit https://www.alliancefinance.lk/contact/branches for contact information and more details of our customer touch points.

Disaster Recovery (DR) Site

Our Disaster Recovery site, is the nexus of our Business Continuity Plan. Located at our Super Branch building in Rajagiriya, it houses AFC's most critical data and systems in order to ensure the continuity of our daily operations in the event of a disaster or an interruption to the operations at Head Office. The site ensures seamless connectivity to minimize mission critical operations and is a sine qua non of the BCP certification obtained by AFC.

Vehicle Service Centre

AFC's Vehicle Centre is a key facilitator of its "Auto Sure" product proposition. Located on a spacious plot in Rajagiriya, the Vehicle Service Centre consists of a repair garage, a paint booth and a detailing centre for a wide range of vehicles including the 3 Wheeler category.

Vehicle Yards

The Company owns and maintains five vehicle yards with a collective yarding capacity of 1,300; used primarily for the purpose of repossessed vehicles for sale or disposal through Auctions. AFC's vehicle yards are located in Rajagiriya, Seeduwa, Anuradhapura, Malabe and in Kohuwela.

Progress of Plans and Way Forward

Medium Term	Long Term	Progress of the long-term initiatives
Open up a new, modern vehicle showroom at Rajagiriya Super Branch premises	Scope out new locations to set up new fully-fledged branches to expand AFC's footprint	Completed
	Explore the possibility of Introducing digital channels to broaden the customer reach	Digital centre formed to plan and implement the initiatives
	Invest in developing the facilities at AFC's Vehicle Service Centre	In progress

Capital Management Review

INTELLECTUAL CAPITAL 102-16

Higher the value an organisation seeks to create, increasing in importance is the value of its Intellectual Capital. AFC considers three of its key intangibles as significant to its value creation process. The diagram below depicts the three main intangibles and the reciprocal impact they have on each other in creating value.

INPUTS

- Goodwill and trust
- Institutional Capacity
- Sustainability Commitment

KEY VALUE DRIVERS

- Brand equity
- Digital infrastructure
- BCMS
- Regulatory Compliance
- Environmental and Social Risk Management
- Data protection and Governance

OUTPUTS FOR AFC

- Drive sustainability mandate of AFC to become the first certified Finance Company in Sri Lanka
- Become a role model in Sustainable Finance and redefine the business orientation of the industry

VALUE ADDITION TO STAKEHOLDERS

- Convenience and better customer experience
- Customised solutions to suit the requirements
- Be a part of sustainable value creation to the society, environment and the economy

Brand Equity:

As Sri Lanka's third oldest Finance Company, with a brand heritage that spans over six decades, AFC today enjoys a unique brand reputation of trust, stability and strength. It is one of the few institutions in the country that has served four generations of Sri Lankans. Our support to uplift individual lives and businesses to startup and thrive across the country has enabled us to earn peoples' trust and loyalty. One of AFC's unique brand attributes is its positioning as a brand for "all Sri Lankans" - across communities, social and economic strata and regions of the country, and this has been an underpinning factor in its brand value as well as sustaining performance.

During the year:

- Our brand was valued at Rs. 1,014 Mn. by the LMD, Brands Annual, 2020
- Credit rating was reaffirmed as ICRA BBB –

AFC's brand equity is further enhanced by its commitment and initiatives to become the "First Certified Sustainable Finance Company in Sri Lanka.". Whilst our brand, since inception has been associated with a strong commitment to corporate stewardship, our sustainability focus has become more explicitly and intrinsically woven into the AFC brand over the past few years. The Company's new purpose statement adopted in 2018 to "Make the World a Better Place Through Sustainable Financing" articulates our broader objectives and Triple Bottom Line approach which is also visually illustrated in the Company logo - by three colours representing People Profit & Planet.

Our brand equity and the sustainability focus were contributory factors in our engagement with many foreign Impact Investors which enabled us to receive several Technical Assistance programs to improve business processes and systems. And more recently, to receive funding support during the crisis period of COVID-19 which helped us meet the liquidity shocks, becoming one amongst a few in the industry who were privileged enough to benefit.

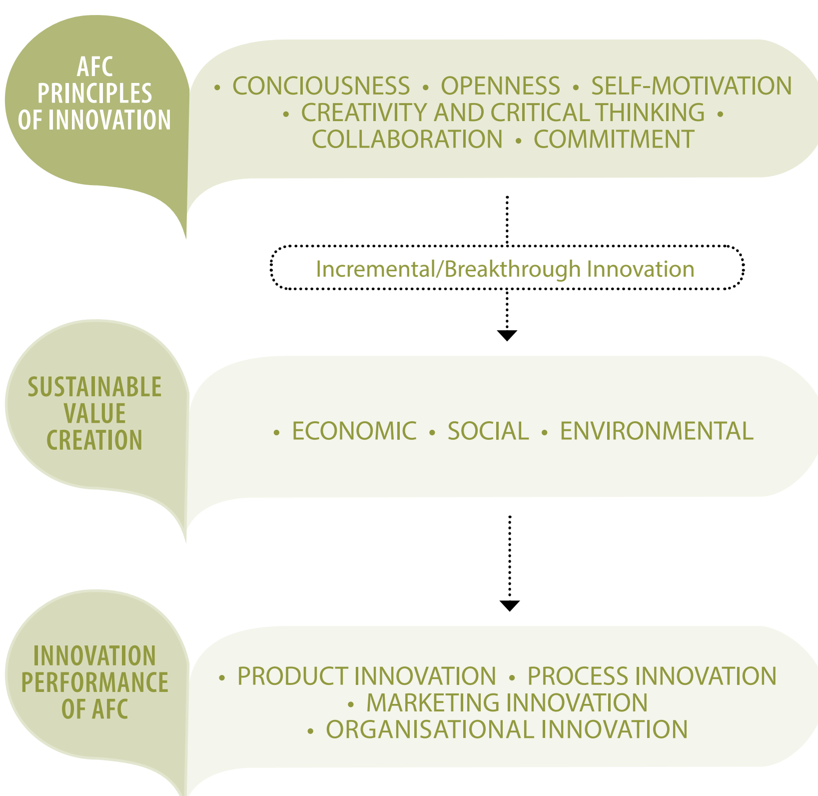
Enhancing the value of our Intellectual Capital

Recognizing the need for constant innovation, in how and what we do, to remain ahead in today's fast changing business environs, the year under review saw the Company launch a focused strategy to nurture and enhance a culture of innovation across AFC. The process began with the development of an Innovation Roadmap and the appointment of an Innovation Committee spearheaded by the MD and Executive Directors. In order to ensure more effective monitoring and implementation, the Committee was separated into two teams, an Advisory team and an implementation team.

Amongst the measures towards building a culture of innovation was the launch of a competition which sought to encourage innovation in the following areas:

- Sustainability and Triple Bottom Line Value creation.
- New Products and Value added services.
- Cost reductions and profitability improvements.
- Creation of Customer delight and Customer loyalty.
- Uplifting employee morale and job satisfaction.
- Increase in productivity.
- Process improvements.
- Risk Management.
- Digital advancements.
- Diversification (related or non-related).

The thrust areas and road map for building a culture of innovation are illustrated in summary below:



Integrating sustainability across the value chain as per international standards:

During the year under review, we also sought help from the SSCI (Sustainability Standards and Certification Initiative) to further integrate the principles of sustainability across our value chain (more details in page 31). The SSCI is an international standard for Finance institutions which is a joint undertaking between the European Organisation for Sustainable Development (EOSD), the Association of Development Financing Institution in Asia and the Pacific (ADFIAP), the Association of African Development Finance Institutions (AADFI) and the city of Karlsruhe. Following the completion of the requirements for this standard during the year, AFC is expected to be awarded the certification in the year ahead. Thus obtaining formal endorsement of the sustainability of our business across the board will enhance AFC's brand equity, its ability to create sustainable value, attract investments and appeal to the younger and socially and environmentally conscious customers, suppliers and other stakeholders in the future.

Integration of sustainable objectives was also supported by the adoption of an Environmental and Social Management System (ESMS) in 2017; to screen our clients for the social and environmental impacts of their activity.

This was implemented under the expertise of an independent consultancy firm named Steward Redqueen, a specialised agency in ESMS implementation from the Netherlands.

The process entails to the screening of our prospective clients for environmental and social risks using 32 structured Fact Sheets of which we use 15 at the moment.

Capital Management Review

The areas of business we currently screen include Agriculture, Mining, Manufacture of Chemicals, Textiles and Laundry services amongst others, for which we have introduced these fifteen Fact Sheets for the client appraisal process, under this initiative. The Fact Sheets help us rate customers on risks such as climate change resulting from deforestation, air pollution, water pollution and soil depletion amongst others. The screening process also entails verification of the validity of permits, licenses and approvals which allow clients and prospective clients to engage in environmentally and socially sensitive businesses.

Our Institutional Capacity

One of the key factors of our success has been the rigour of our systems and processes in delivering value to customers. The speed of decision making and the speed at which we can offer solutions, the flow of information and flexibility have all been facilitated by the systems and processes we have in place. These range from the MIS to the Business Continuity Management System (BCMS), a new ERP system and a cloud based platform to manage internal communication.

The BCMS is a comprehensive process that meets international standards, to ensure the continuity of all critical business processes in the event of an incident or scenario that is likely to disrupt business operations of an entity. AFC is perhaps the only NBFI in the country to be both ISO 22301:2012 and BSI 25999 accredited. These standards ensure the continuity of operations and the delivery of services at predefined levels, the protection of brands and value creating activity and the safeguarding of reputations and interests of key stakeholders in the event of any major disruptive incidents. The value of complying with this standard was well exemplified by our ability to be proactive and minimise the impact of the recent COVID-19 crisis on customers and employees during the last quarter of the financial year.

Our BCM plan was instrumental in preparing the business to meet any upcoming challenges as early as at the start of the crisis; thus enabling us to manage the critical functions of the Company when the pandemic's impact was at its peak; whilst letting our employees work from their homes. It has also helped us plan ahead for any possible scenarios that might occur due to the impacts of the lock down and an inactive economy, and an economy that is yet to function at full capacity. It helped us predict and prepare to keep the liquidity shocks low, while ensuring that adequate resources were available to continue the key business operations. We also continued to serve our deposit customers during the entire crisis period, providing a timely service to withdraw money at a time it was most needed. Our preparations also us ahead in the ability to serve our customers effectively, when the lockdown was gradually lifted.

Understanding the importance of ensuring that they remain the most suitable, up to date and effective, we also continue to review, renew and make significant investments to strengthen our institutional capacity. The investments during the year are summarized below.

Initiative	Approximate Cost (Rs.)	Status as at 31st March 2020	Key Benefits
Core Financial Solution to facilitate lending, leasing and savings models, carryout customer on-boarding etc.	50 Mn	In Progress	• Improved customer service • Significant cost reduction of due to the manual processing being automated • Ability to facilitate unlimited product add-ons
Delinquency management system	35 Mn	Completed	• Significantly improve the delinquency monitoring process • Facilitate delinquency related assessments and evaluations • Facilitate the call centre agents to manage the delinquent customer base effectively in a timely manner

Accolades & Accreditations

The accolades that the Group has been recognised with over the years, and the accreditations it has obtained and continue to seek, bear testimony to the Group's commitment to quality and excellence, the strength of our knowledge base and the quality of our systems and processes.

Accolades in 2019:

1. Certificate of Merit for Outstanding Sustainability achievement for Integrating Sustainability into the Corporate Strategy, at the Karlsruehe Sustainable Finance awards 2020, Germany
2. ACCA Sustainable Reporting awards 2019 - Category Winner, Insurance & Finance
3. Certificate of Merit at CMA Excellence in Integrated Reporting Awards 2019
4. Certificate for being placed a finalist at Asia Sustainability Reporting Awards, Singapore

Accreditations

These accreditations go hand in glove with the rigour of our processes, for they endorse the commitment to excellence on the one hand whilst their stringent requirements also prompt us to continuously improve our systems and processes on the other hand. AFC became the first Finance company in Sri Lanka to be awarded ISO 9001:1994 in the year 2000. In addition, reflecting our social and environmental sustainability agenda the Company has volunteered to adhere to and commit to, several international accords and standards listed below. These are in addition to the mandatory compliance with regulations, statutory codes and best practices applicable to our business, for which we have an unblemished compliance record.

The Accreditations, Codes & Best Practices we voluntarily comply with:

- The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.
- ISO 22301 -2012 (Quality Management Systems)
- ISO 9001-1994 (Quality Management Systems)
- BCMS 9001-2015 Business Continuity Management System (BCMS)
- The Paris Climate Accord
- The United Nations Sustainable Development Goals
- GRI Standards and Integrated Reporting framework.

Progress of plans and the way forward:

Medium Term	Long Term	Progress of the long-term initiatives
Complete the roll out of the Core Solution with the full SPMS Integration	Integrate the CRM with the Core Banking solution	The new system evaluation is ongoing. These will be completed once the system is implemented.
Position the Company's brand as the "First sustainable Finance Company in Sri Lanka"	Leverage on the advanced functionality of the core Banking solution to expand the product suite	
Establish a fully functional Digital Centre, to support the Company digitisation	Strengthen data protection and governance protocols to accommodate the requirements of the new core Banking solution	

Capital Management Review

HUMAN CAPITAL GRI 401-1 GRI 401-2 GRI 401-03 GRI 404-01 GRI 404-02 GRI 404-03 GRI 406-01 GRI 405-01 GRI 405-02 GRI 408-01 GRI 409-01 GRI 102-17

We know that the assertion "Our People are our most valuable asset" is today almost a cliché, but we feel we will not be doing justice to our approach if we don't say so. The talent, passion and commitment of our people have been a key to creating and sustaining value for over six decades.

INPUTS

- Human Resource Policy Framework
- Corporate Culture and Core Values
- Compliance
- Voluntary Benchmarking of Best Practices

KEY VALUE DRIVERS

- Recruitment & Selection (Compensation & Benefits, Performance Management, Training & Development, Grievance Handling, Disciplinary Procedure)
- Leadership Development (Ethics & Integrity, Rewards, Recognition)
- Equal Opportunity, Non-discriminatory Employment (Health & Safety)
- Employee Wellbeing

OUTPUTS FOR AFC

- Drive AFC's ambition to be Sri Lanka's first certified sustainable financial Institution Redefine corporate environmental standards in the NBFI sector

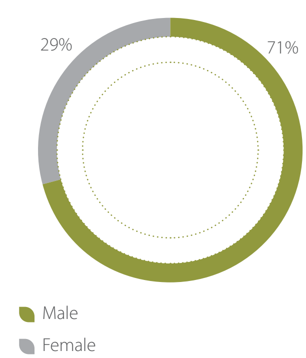
VALUE ADDITION TO STAKEHOLDERS

- Ability to benefit from the Company's expertise in providing customised solutions best suited to their needs

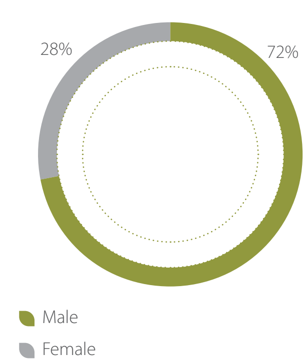
Our Diverse Workforce

The team that makes up "One Team- One AFC" comprises a total of 1,282 individuals as at 31st March 2020 in comparison to 1,400 the previous year. The decline in our head count occurred due to the amalgamation of our Regional Financial Services (RFS) and Development Finance (DF) divisions and a streamlining of operations. The percentage of female employees rose slightly by 1% to 29% during the year.

Employee Composition by Gender 2019-20

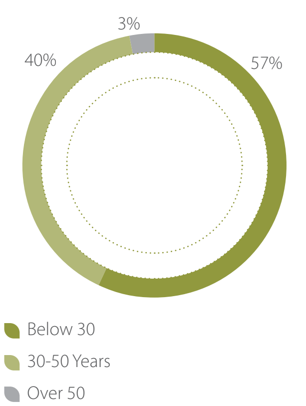


Employee Composition by Gender 2018-19

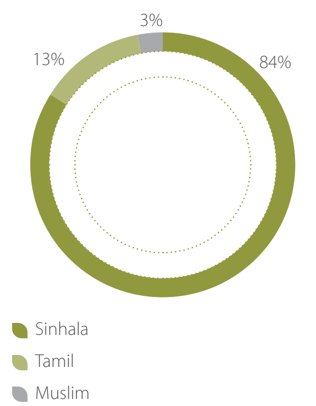


As indicated in charts below ours is a diverse workforce and AFC promotes workplace diversity from the point of recruitment. And diversity encompasses ethnic to religious, age, gender, physical, cultural and talents, as we believe that diversity brings richness in perspective, skills and experience, thus enriching a talent pool and the resources for constant innovation and growth of the Company. We also leverage this diversity by providing equal opportunities to serve an equally diverse client base.

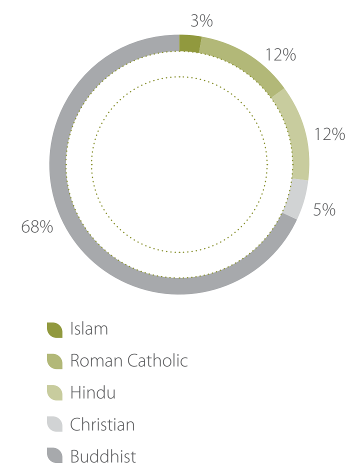
Employee Composition by Age



Employee Composition by Ethnicity



Employee Composition by Religion



Diversity of Governance Bodies and Employees

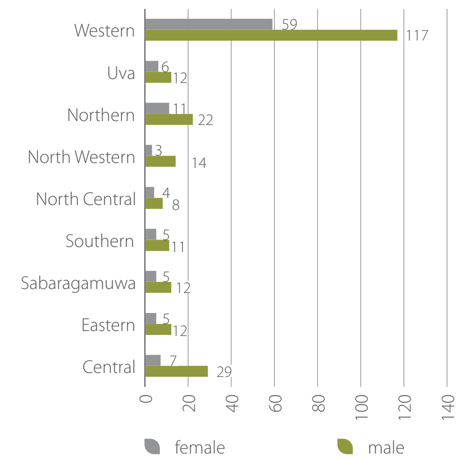
Grade	2019/20					
	Total Count	By Gender		By Age		
		Male	Female	Below 30 years	30-50 years	Over 50 years
Directors	4	4	-	-	1	3
CXO	6	6	-	-	4	2
Assistant General Manager	7	4	3	-	6	1
Senior Manager	12	11	1	-	10	2
Manager	76	69	7	-	71	5
Assistant Manager	99	83	16	11	85	3
Senior Executive	136	112	24	50	79	7
Executive	336	242	94	158	170	8
Junior Executive	594	367	227	513	76	5
Minor	12	12	-	3	5	4
Grand Total	1,282	910	372	735	507	40

Capital Management Review

GRI 405-1 Diversity of Governance Bodies & Employees

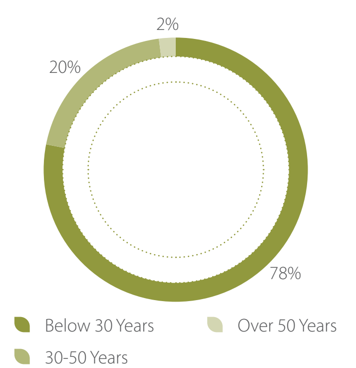
- 98% of total employees are in categories of Manager, Executives, Junior Executives and below are reflecting the vibrancy of the Company culture and its innovative approach in business.
- The composition of the Governance bodies reflects expertise and experience, with a majority over the age of 50 compared to this category accounting for only 3% of other employees over 50 years.
- Female representation in the Governance body stood at 25%. The Chairperson and another female Director represent the Board of Directors in Non-Executive Director capacity.
- 735 employees are below 30 years of age which represents the majority of 57%.

Recruitment Composition - Region and Gender



AFC's Recruitment policy has been designed to attract the best in the market. In keeping with our philosophy of "Develop from Within" all openings are first publicized internally and only those that cannot be filled internally are then advertised in the public domain. We also consider walk-in interviews to meet entry level requirements in the branch network. In keeping with our policy of Equal Opportunity all internal and external applications are given equal consideration, without any preferential treatment, evaluated as per stipulated criteria, and recruited on merit. Furthermore, our vacancy advertisements ensure that there is no specification of age, gender, religion or ethnicity.

Recruitment Composition- Age Group



In keeping with our Triple Bottom Line focus, we give preference to hiring from the localities. In addition to our macro objectives of bridging the geographic disparities in the country, it is also win-win as the employee benefits from the convenience of commuting from home and are hence also more motivated.

All new recruits to AFC are subject to probation for a period of six months during which his or her suitability and progress are regularly monitored by the relevant supervisor with unsatisfactory performance resulting in an extension of the probationary period or discontinuation.

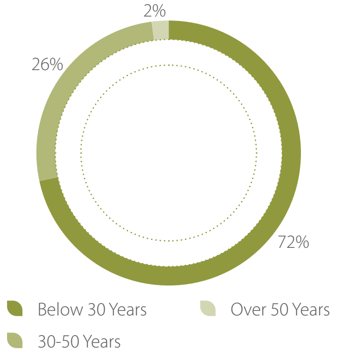
GRI 401-1 Employee Recruitment

- AFC recruited 342 new members to its team during the year, and 267 of them were below the age of 30.
- Whilst our recruits represented all provinces of the country, 51% of them were from the Western province.
- The team of new recruits comprised 237 males and 105 females.

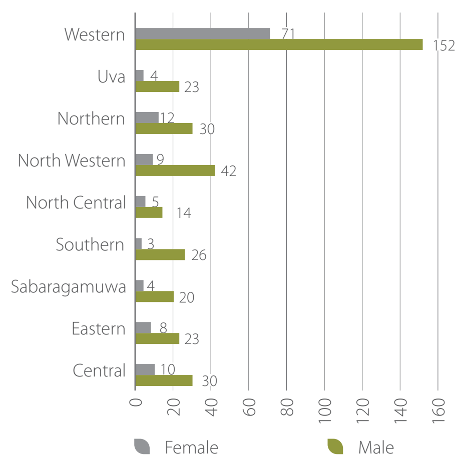
GRI 401-1 Employee Turnover

- Employee turnover of the company has been increased by 3% mainly due to the staff rationalisation that took place during the year with branch amalgamation.
- Highest number of resigned employees (72%) were in the age category of Below 30, similar to previous year which was 74%.
- Most number of resignations were recorded from Western Province whereas least number of resignations were recorded from North Central province.

Turnover Composition-Age Group



Turnover Composition - Region and Gender

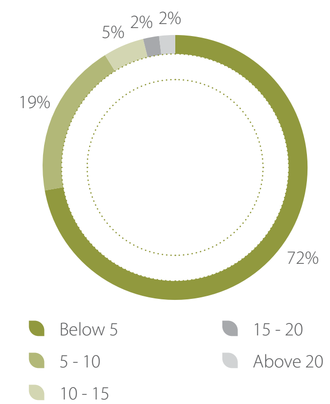


AFC is also committed to the 10 Principles of the United Nations' Global Compact and accordingly, the principles 1 to 6 and 10 (GRI 408-1 and GRI 409-1) applicable to this Capital Report are reported on in this section.

Respect for human rights is a value intrinsic to our ethos and AFC remains fully compliant with all relevant labour laws and directives applicable to a financial services institution. We also respect the individual's right to be part of an association or group as long as such membership does not violate the fundamentals rights of any other individual.

One of the key HR challenges that we face, as was mentioned in last year's report, is talent retention; due to the competitiveness in our industry's labour market. Amongst the measures we took to address this challenge during the year under review was Succession Planning for the top tier of executives. Making employees aware of a clear path of career progression at AFC would help retain top talent in the Company. In addition, was the introduction of a performance based incentive scheme which rewards the high performers whilst encouraging the others to enhance their performance.

Service Period Analysis



Our Socially Sustainable Business Model: More than 60% of AFC's workforce live and work outside Colombo -thus contributing to employment generation outside the Western Province and in rural areas – in keeping with our vision to contribute to the nation's economy by reducing the geographic disparity in Sri Lanka's income distribution.

The fact that 28% of our employees have been with the Company for more than 5 years reflects loyalty as well as the tacit knowledge and industry experience of our team.

Capital Management Review

Best Practices

An employee who joins AFC enjoys universally accepted HR practices and these include processes that manage the life cycle of an employee effectively, from Recruitment to Selection, Induction, Performance Appraisal, Performance Management, and if the need arises, Disciplinary Procedures, Grievance Handling, Resignation, Termination, and welfare.

Training & Development

The talent, passion and commitment of our people will continue to be a cornerstone of our value creation model and AFC will continue to invest significantly on honing and mining the talent and enhancing the potential of the individual. Training at AFC begins with the new recruit who is made to feel welcome and participates in a well-planned orientation and induction programme at Head Office. The induction also includes an orientation into AFC's values and culture and a perspective of the strategic and operational realm of the Company. Orientation is then followed by job specific training at identified branches. Since recently, we have also begun to provide cross functional training for employees to gain insights into multiple aspects of the business thus increasing their capacity for value addition in their current roles whilst also enhancing their opportunities for career prospects.

Training and Development initiatives are designed and carried out in a structured manner starting with recruitment and continuous training thereafter, based on the identification of training needs. The Training programmes during a year are as per the Training Plan prepared by the HR team, based on input from the needs identified and input received from Business Heads, departments and branches.

The training plan is accompanied by a training budget in which the largest allocation is usually for competency training that focuses on business and operational areas with onboarding and soft skills training also constituting a significant share. Further development support through internal faculty or external programs is ongoing, depending on requirements or gaps in competency and changing trends in the industry.

During the year we have conducted 125 trainings with an investment of Rs. 5.1 Mn. The detailed table is in the GRI table at page number 272.

GRI 404-1 Training and Development

- 70% of male employees and 30% of female employees received training during the year in comparison to 76% and 24% respectively in the previous year.
- Total training hours during the year amounted to 19,132 hours.
- Total training hours increased by 8% in 2019/20 over the previous year.
- Average training hours per year, per employee was 14.9 hours.
- The highest participation was from the Junior Executive Category, accounting for over 54% of the total training hours during the year.

Average hours of Training per employee by Gender	Training Hours					
	2018/19			2019/20		
Employee type	Male	Female	Total	Male	Female	Total
Executive Director	12	0	12	5	0	5
CXO	30	0	30	14	0	14
Assistant General Manager	87	26	113	112	135	247
Senior Manager	196	0	196	232	0	232
Manager	1,337	15	1,352	1,240	70	1,310
Assistant Manager	1,029	201	1,230	1,230	260	1,490
Senior Executive	1,660	266	1,926	1,192	197	1,389
Executive	2,705	492	3,197	2,946	1,210	4,156
Junior Executive	7,850	1,852	9,702	6,223	4,041	10,264
Minor	28	0	28	25	0	25
Grand Total	14,934	2,852	17,786	13,219	5,913	19,132
Avg Training hours per employee	14.8	7.3	12.7	14.5	15.9	14.9

No of employees who received trainings	2019/20		
Employment Type	Male	Female	Total
Director	1	0	1
CXO	3	0	3
Assistant General Manager	5	2	7
Senior Manager	12	0	12
Manager	70	7	77
Assistant Manager	85	12	97
Senior Executive	96	17	113
Executive	238	82	320
Junior Executive	384	264	648
Minor	3	0	3
Grand Total	897	384	1,281

Considering the nature of our business, being Financial Services, we are aware of the importance of soft skills in our ability to exceed customer expectations and gain a competitive advantage in an intensely competitive environment. The fact that AFC has been able to maintain a Deposit Renewal ratio of over 80%, despite the challenging times we have faced since March this year, (due to the COVID-19 crisis and its economic implications) has been a result of the efforts of our people and our reputation. This fact underscores the importance we give to developing the soft skills of our people.

GRI 404-2 Programs for upgrading employee skills and transition assistance programs

Once again the highest number of training hours was in Business and Operational training with 1,583 employees participating in 68 programs in 2019/20 compared with 1,406 participating in 58 programs in 2018/19.

Training programs conducted during 2019/20

Type of the Training	No of Training	No of Participants	%
Business continuity management training	8	35	1.52
Business Operations related trainings	68	1,583	68.74
Business strategy trainings	7	8	0.35
IT/Software training	17	59	2.56
Soft skills development training	4	229	9.94
Customer Care training	5	253	10.99
Other	12	102	4.43
Sustainability	4	34	1.47
Grand Total	125	2,303	

Investments into training was Rs. 5,123,779 which was decreased by 34% over last year's as AFC gained cost savings on outside venues as it now owns its own auditorium and training programs are held in house.

Further Enhancing Skills and Capacities:

We have identified that a Triple Bottom Line impact and reaching the Company's next tier of growth requires us to enhance the capacities of our Human Capital. The year under review saw further enhancements to our Human Capital under the Technical Assistance program offered by the International Finance Corporation (IFC). These specific measures which targeted improvements to Credit, Recovery and Risk processes included the following:

- Mapping the Career progression path for top tier executives to support talent retention
- Introducing a performance based incentives to the top tier Executives
- Finalising Job Descriptions of the unit personnel in Tele Collections and recoveries
- Finalising of KPIs and Incentive Schemes for all staff in Tele Collections and Recoveries
- Finalising of Capacity Planning for Staff Recruitment to Recoveries Department
- Finalising of the Credit KPI's for CCO and Credit Managers
- Finalising of the Sales KPI's and Allowance Deduction Scheme for Marketing Staff

Performance Management

Employee Performance Management includes an annual appraisal at which their performance is measured vis a vis the Goals (which were established at the beginning of the year) and the KPI's, in a

Capital Management Review

structured and transparent manner via the Performance Management System (PMS). The PMS enables objective measurement and appraisal of employee performance, and hence, recognition and reward of favourable performance and achievements whilst remedying under performance. Furthermore, the PMS

- Aligns AFC's goals with individual employee goals.
- Enables employees to realise their corporate targets and enhance corporate performance.
- Enables employees to obtain a comprehensive understanding of what is expected of them and their roles.
- Helps employees stay motivated.
- Is a catalyst for a more engaged and productive workforce.
- Provides a basis to guide and develop employees to meet evolving needs of theirs, the Company's and the industry's.
- Facilitates employee career planning.

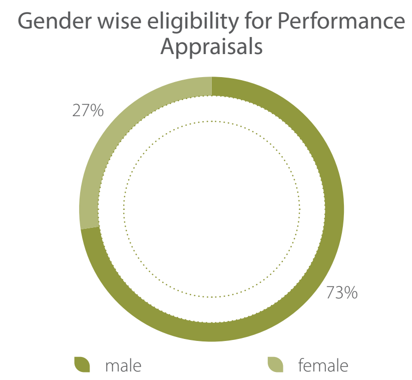
GRI 404-3 Eligibility for Performance Appraisal:

- The Executive category had the highest percentage (80%) of cadre eligible for Performance Appraisals
- Only the category of Assistant Managers saw an increase in the percentage appraised whilst all others saw slight declines in percentage appraised.

Eligibility for Performance Appraisals

Grade wise eligible carder	2019/20	
	No	%
Director	0	0.00%
CXO	3	0.21%
Assistant General Manager	6	0.43%
Senior Manager	13	0.93%
Manager	53	3.79%
Assistant Manager	83	5.93%
Senior Executive	106	7.58%
Executive	281	20.09%
Junior Executive	285	20.37%
Minor	5	0.36%
Grand Total	835	59.69%

Gender wise eligibility for Performance Appraisals



Grievance Handling

Employee grievance handling mechanisms is an essential element of how we live the promise to ensure that employee voices and opinions matter and offer a fair and supportive environment. In addition to an Open Door Policy which enables employees to reach their superiors or colleagues to air concerns or grievances, we also have a formal grievance handling process for any employees to bring up a grievance with the designated Non-Executive Director. These processes ensure transparency, consistency and fairness in handling any workplace complaints or conflicts.

Ethics & Integrity

Ethics and integrity are vital to a sustainable enterprise; and for an entity engaged in financial services we believe they are paramount. The year under review saw AFC introduce an Ethics & Integrity Policy. We ensure that the highest standards in ethics and integrity are maintained across Company, and its history of over six decades, serving four generations of customers, is a reflection of the trust earned through its commitment to ethical practices. The Company sets the tone at the top and expects all employees to comply with the highest standards in all their transaction with customers, suppliers and all other stakeholders. At the same time all employees are also held responsible for safeguarding the Company's intangible as well as well as tangible assets from misuse or misappropriation. The assets thus include tangible assets such as equipment and supplies to intangible assets such as business information and intellectual property. The Employee Code of Conduct, which is introduced to employees at induction and which they have to sign and commit to, serves as the primary guide to promote ethics and integrity amongst our employees. Anyone found to have violated the Code is subject to disciplinary action.

Anti-Bribery & Anti-Corruption

The Company has a zero tolerance approach to Bribery and Corruption and insist that all our employees act professionally, fairly and with integrity in all their business dealings and relationships maintained in official capacity. In addition, AFC conducts regular training for our employees and take strict disciplinary action to deal with reported cases of bribery or corruption.

Whistleblower Policy

Our whistleblower policy encourages employees to come forward and express any concerns or share knowledge they may have about suspected misconduct by any person or persons in the Company; without fear of reprisal or unfair treatment. It provides an avenue to monitor, prevent any violations of legal or regulatory requirements and misinterpretation of any financial statements and reports amongst others.

Employee Benefits

Remuneration

We maintain a robust salary structure on par with industry standards to ensure that all our employees are compensated fairly. In addition to their fixed salaries, they are entitled to all statutory benefits and leave entitlements. The Company also provides a host of other benefits to all confirmed AFC employees which include a Medical Insurance Scheme, Staff Lease, an enhanced gratuity scheme, Medical Leave entitlement of 14 days and Parental Leave.

GRI 401-3 Parental Leave

- During the year 22 employees took Maternity leave with 15 returning to work.
- The Return to Work ratio improved to 68% during the year compared with 50% in 2018/19.
- The Retention Ratio also improved to 75% from 60% the previous year as the number who remain employed for 12 months after return was 6

Return to Work and Retention of Employees after Parental Leave

	2018/19	2019/20
Total number entitled to maternity leave	378	369
Total number who took Maternity leave	16	22
Number who returned to work after maternity leave ended	8	15
Number who returned to work after maternity leave ended and remain employed for 12 months after return	3	6
Return to work rate (%)	50	68
Retention rate (%)	60	75

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Equal remuneration for men and women - Ratio of basic salary and remuneration of women to men

Employee Category	2019/20 Count	2019/20 Ratio - M :F	Salary Ratio
Director	4	4:00	1:1
CXO	6	6:00	1:1
Assistant General Manager	7	4:03	1:1
Senior Manager	12	11:01	1:1
Manager	76	69:07	1:1
Assistant Manager	99	83:16	1:1
Senior Executive	136	112:24	1:1
Executive	336	242:94	1:1
Junior Executive	594	367:227	1:1
Minor	12	12:0	1:1
Grand Total	1,282		

AFC constantly maintain equal remuneration for men and women employees at all levels of employee grades. Thus, the salary ratio is being kept at 1:1 at all times.

Health & Safety

Given the nature of our business, the occupational safety and health risks associated with work at AFC is minimal. However, we stay mindful that there is always a risk and are committed to safeguarding our employees. We accordingly ensure that all our premises comply with all national health and safety regulations and conduct safety drill and safety audits of our equipment and premises. A safety culture is nurtured with basic safety training conducted annually for all employees. During the year under review, we conducted one First Aid training program for 18 employees and 04 fire drills at Head Office.

Employee Wellbeing

AFC actively promotes employee wellbeing by encouraging work life balance in various ways. Since recently the Company provides a monetary incentive to utilise a minimum of seven consecutive days of annual leave.

In addition, the Company also facilitates an opportunity for employees to purchase organically produced fresh vegetables every week through AFC Organics project, of which the objective is to promote healthy eating habits among our staff. We have established a tie up with Mihimadala Organic Farm in Bandarawela and Maho to facilitate this initiative.

Employee Engagement

Town Hall Meetings

AFC also promotes employee engagement and camaraderie via many formal as well as informal channels. The formal channels include a "Breakfast with MD"- a "Town Hall" meeting held every Friday, which enables a group of ten to fifteen employees to meet the MD, or in his absence the Executive Directors; for breakfast. Employees are thus afforded an opportunity to express their ideas, air any concerns, ask questions, gather information and be motivated. This meeting was earlier held at an outside venue but is now hosted at Head Office.

Promoting Volunteerism

During the year under review. AFC also put together a team of "Sustainability Ambassadors, a cross functional team of representatives, which would drive the sustainability mandate of the Company. The 32member team represents their colleagues across the different regions and departments and would support and implement the integration of sustainability into the AFC business model and culture and continuously raise awareness and harness their contribution towards the sustainability agenda of the Company.

Competitions

Inhouse Competitions amongst staff is another channel of engagement via which AFC obtains employee ideas and opinions to improve how and what we do. During the previous year, the company announced the Innovation Competition, for employees to come up with innovative ideas for product development, process improvement and projects which would create value for the Company. However, it is unlikely to be completed this year due to the interruptions caused by the COVID-19 crisis and would be rescheduled for 2020/21.

Sports tournaments

Annual interdepartmental sports tournaments are a key item on the agenda which increases employee motivation and wellbeing whilst promoting camaraderie and team work. During the year we held a Cricket tournament for our employees based at all our locations.

Progress of plans and the way forward

Medium Term	Long Term	Progress of the long-term initiatives
Align of Job Descriptions and HR Decisions with the Organisational Purpose and High Impact Goals, to ensure employee contribution towards sustainability.	Expand rewards, recognition and engagement framework with a view to enhancing employee motivation.	• These enhancements were introduced for the operational team under the Technical Assistance program offered by the International Finance Corporation (IFC). • Engagement plans are already established and being monitored.
Further strengthen the measures in place to ensure the health and wellbeing of the employees	Link Innovation and Human Capital Management for Achieving High Impact Goals	• Initiated during the financial year.
Facilitate knowledge sharing to Achieve Organisational Purpose and High Impact Goals		

Capital Management Review

SOCIAL & RELATIONSHIP CAPITAL

Our Social Capital primarily comprises Customers, Suppliers and the Communities in the localities we are part of.

Customers

GRI 416-01 GRI 416-02 GRI 417-03 GRI 418-01

AFC is proud to have been able to serve four generations of customers during the past six decades. The relationships we have developed over time bolster our ability to sustain long term value and a competitive advantage. In return, the Company gives priority to its commitment to create sustainable value for these stakeholders. And today, we have a loyal customer base of over 105,000 spread across the country.

Customer Touch Points

At present we have 88 customer touch points (details in page 72) in all key cities and business hubs across Sri Lanka. Moreover, 72% of our customer touch points are located outside Western Province, and over 35% covers rural and economically disadvantaged areas of the country. Our branch network thus facilitates achieving our high impact goals by bridging the gap of economic disparities between provinces through responsible and inclusive finance.

INPUTS

- Fully Fledged Financial Services
- Superior Customer Experience
- Best Practices

KEY VALUE DRIVERS

- Product Portfolio
- Customer Communication & Engagement
- Customer Health & Safety
- Customer Touch-points
- Complaint Management
- Customer Privacy

OUTPUTS FOR AFC

- Increase Market Share in all customer segments
- Higher customer retention ratio
- Build a loyal customer base to support the long term sustainability of the business
- Ability to contribute towards building good business ethics

VALUE ADDITION TO STAKEHOLDERS

- Relevant and timely products to meet their financial goals
- Island-Wide access
- Personalised Service
- Quick resolution of complaints

35%

of our branch network is located in rural and marginalised areas of the country.

Strategic Changes for Value Creation for Customers

During the year, the Company revised its strategy by further integrating the sustainability principles into its business. Accordingly, a set of high impact goals were formulated, of which the second goal is directly related to financial inclusion and customer value creation.

Improve the living standards of 5% of the households in Northern Province and other rural and marginalized areas through inclusive financial products and services.

The Rationale:

Northern province is one of the nine provinces which was severely impacted by the 30 years of Civil war that prevailed in Sri Lanka. Although the war came to an end in 2009, the downtrodden economy for 30 years, has not been able to pick up the growth as fast as anticipated. Political ignorance coupled with various other social, environmental and economic issues have been the main reasons for this outcome. We are expecting to have a greater outreach in these areas by customizing existing products and launching new products.

Northern and Eastern provinces have been identified as key focal areas for development by the government as well, in their development manifesto. Thus, we consider that, by undertaking the activities to achieve this goal, the company will be able to contribute towards national development priorities, as well as several SDGs (more details in pages 34-35).

Our Product Portfolio

As a fully-fledged financial institution AFC offers a wide range of financial solutions designed to maximise wealth creation for our diverse customers.

Customer Profile	Product Type
Individuals	Gold Loans, Pledge Loans, Ezy Drive, Auto Sure , Case Tractors
Retail	Savings, Fixed Deposits, Leasing , Speed Cash, Personal Loans, Quick Cash, Auto Sure
SME/MSME	Savings, Fixed Deposits, Leasing, Speed Cash, Gold Loans, Personal Loans, Equipment Leasing, Quick Cash, Auto Sure. Ezy Drive, Case Tractor
Corporate	Savings, Fixed Deposits, Leasing, Speed Cash, Personal Loan, Quick Cash, Pledge Loans, Auto Sure, Ezy Drive, Case Tract

Further details of our product portfolio are illustrated in pages 8, 57, 63 and 65 and in our corporate website at https://www.alliancefinance.lk/.

Capital Management Review

Customer confidence and brand reputation helped cushion the liquidity shocks of the shut down

Despite the challenges this year, we continued to make prompt interest payments, as we have done for almost 5 decades.

Provided a host of concessions and help ease the hardships faced by customers during the COVID-19 period. (Details on pages 32-33)

Customer Communication

Given the nature of our products-which is financial instruments associated with individuals, we ensure that our customers are approached as partners and afforded comprehensive product knowledge. In addition to complying with all regulatory frameworks applicable to the NBFI sector and providing all relevant information in a timely manner, we also ensure that the information is presented in all three languages with clarity and no ambiguity. The information includes information on interest rates displayed in our branches, promotional material and corporate website amongst others.

Customer surveys are an important tool through which customers communicate with us and which enables us to address gaps and constantly enhance our service standards. During the year the Company conducted a Customer Survey amongst its Ezy Drive, customers following the revamp of Ezy Drive.

Aligning ourselves with the trend of increasing preference for digital platforms amongst existing and potential customers, our communication efforts will continue to pursue higher penetration levels on social media.

Customer Outreach Activities and Campaigns

Below are some of the marketing initiatives which yielded a highly satisfactory customer engagement during the year.

- Branding and Marketing/campaigns to support the "One Team - One AFC" concept.
- In the aftermath of the Easter Attack, the Company curtailed mass marketing campaigns and held focused promotions in non-affected areas.
- Commercials at Cinema Halls and on TV and Radio for a special Gold loans promotion which offered a free Deo Bike every month
- Introduced Digital Campaigns on LED walls, Social Media platform.
- A "Leasing Mega month" using radio and digital campaigns.
- Mega Leasing campaigns coupled with Branch Openings
- "Autosure" tie-up with MG motors at selected locations for special campaigns
- New Yard brandings, vehicle Auction and Yard sales campaigns
- A change to dealers' signage
- A new appearance for Branch Signage
- New Yard brandings, vehicle Auction and Yard sales campaigns
- Launched "Dalu" social media platform to promote our sustainability programs and engagement with the like-minded community.

Customer Relationship Management

All customer care and communication activities of AFC is spearheaded and managed by our dedicated Customer Care unit at Head Office which comprises a team of customer care agents who are trilingual. A central unit plays an important role in helping us maintain consistency in our customer engagements and ensure equal treatment of all customers. The unit also assesses the effectiveness of the Company's customer engagement via Customer Satisfaction Surveys. The information from these surveys also provide market insights and feed the broader strategy to identify customer needs and determine AFC's brand positioning and promotional strategies across the country.

Managing Customer Complaints

We consider handling and responding to customer complaints a critical area that greatly impacts customer loyalty and eventually our brand equity. Accordingly, every branch has a Complaint Management officer who is tasked with the responsibility of resolving direct complaints lodged by customers. Every complaint is first recorded and then escalated to the relevant authorities for a speedy resolution and response. The General Complaints are routed through the intra-complaint management system which is under the purview of the Customer Care unit at Head Office where a Customer Care Agent (CAA) enters the complaint into the system. The system then generates a reference number which is communicated to the customer. An SMS, e mail or a written acknowledgement with a name and contact information of a designated employee is then shared with the customer should the need arises to contact.

The responsibility of the CAA also includes a root cause analysis, identification of service gaps if any, and presentation of the required corrective and preventive actions to the corporate management to eliminate a recurrence in the future.

During the year under review the unit received 34 number of complaints and all of them have been resolved to completion.

Customer Health & Safety

Given the nature of our business and products, there is no direct impact of our products on customer health and safety which we can assess. However, in keeping with our commitment to Customer Health and Safety and our broader sustainability goals, AFC has a product Development Framework which seeks to ensure that all our products conform to all applicable regulatory procedures, are suitable and relevant in the current market context and contain clear guidelines to inform customers of the nature and risks associated with their use.

We have also incorporated sustainability screening into our lending model through the use of Sustainability Fact sheets for assessing the social and environmental risks as criteria. In principle, our fact sheets are based on the IFC exclusion list which prevents lending to any cause that has potential negative impact on the society or the environment.

The main sectors which E&S risks are assessed

Main sectors	Assessed E&S risks
1. Agricultural crop production	Air pollution
2. Charcoal making	Deforestation
3. Chemicals manufacturing	Fish depletion
4. Forestry/wood production	Littering and disease and pest occurrence
5. Leather production/tanning	Soil depletion
6. Metalworking	Water pollution
7. Mining	Fire and explosion
8. Textile manufacturing	Infection of HIV/aids
9. Animal husbandry	Intoxication
10. Brick making	Occurrence of diseases
11. Ceramics/pottery	Occurrence of harmful bacteria and
12. Glass manufacturing	diseases
13. Café & restaurant	Personal injury
14. Food processing	Bad working environment
15. Health services	Harmful child labour
	Unfair labour conditions

During the year under review there were no reported incidents of non-compliance with regulations/voluntary codes concerning health and safety of products or services.

Our Future value proposition to customers:

COVID-19 has been an eye opener for many companies in Sri Lanka, to embrace digitisation faster and more comprehensively than they have been. Thus, the near term strategy of AFC will be to remain resilient by positioning itself strategically in the digitized economy; thus aligning itself with the customer of the future. Accordingly, the implementation of the new core banking system will be followed by the introduction of Digital vaults which will enable us to enhance customer experience and convenience. Along with this, the company has also planned to launch ATM connectivity, further promoting savings and deposit products.

Highlights of 2019/20

- Maintained a healthy Deposit renewal ratio despite the severe socioeconomic challenges
- Our Gold Loan portfolio grew by Rs. 788 Mn
- Achieved new business to the value of Rs. 19 Bn
- Recorded our highest number of 3 Wheeler sales at 13,646 Nos amounting to Rs. 5.3 Bn
- The 3 wheeler segment achieved a Turnover of Rs. 2.7 Bn, compared to Rs. 1.9 Bn in 2018/19

- A number of operational and structural changes under the Technical Assistance programme by the IFC saw an increase in efficiency and improvements to customer turnaround times during the year.
- To increase sales volumes of our Asset base by 34.61%
- To increase Gold Loan volume by 97.14%.
- To enhance our new business portfolio by 10% by 2021
- To establish and communicate our Triple Bottom Line commitment to engage our stakeholders in the same objectives and efforts.
- To enhance our brand image in the minds of our desired target groups.
- Increase localised campaigns across the branch network.
- To enhance customer service and increase customer retention levels.

Capital Management Review

Progress of plans and the way forward

Medium Term	Long Term	Progress of the long-term initiatives
Introduce sustainable financial solutions that suits the customer demand and enable the customers to be a part of sustainable value creation	Increase the investment in technology to provide customers with more convenient digital solutions	A delinquency management system has been implemented to Facilitate the call centre agents to manage the delinquent customer base effectively on a timely manner
Enhance customer convenience and experience through innovative and digitised engagement methods	Implement a routine customer engagement program to enable the development of need-based solutions that enhance the customer experience	Core Financial Solution implementation is in progress which will greatly facilitate customer convenience and experience.

Suppliers

GRI 102-09 GRI 308-01 GRI 414-01

Suppliers are a key stakeholder group who enable our value creation process and the sustainability of our enterprise.

INPUTS

- Best Practices

KEY VALUE DRIVERS

- Sustainable Procurement
- Supplier Registration

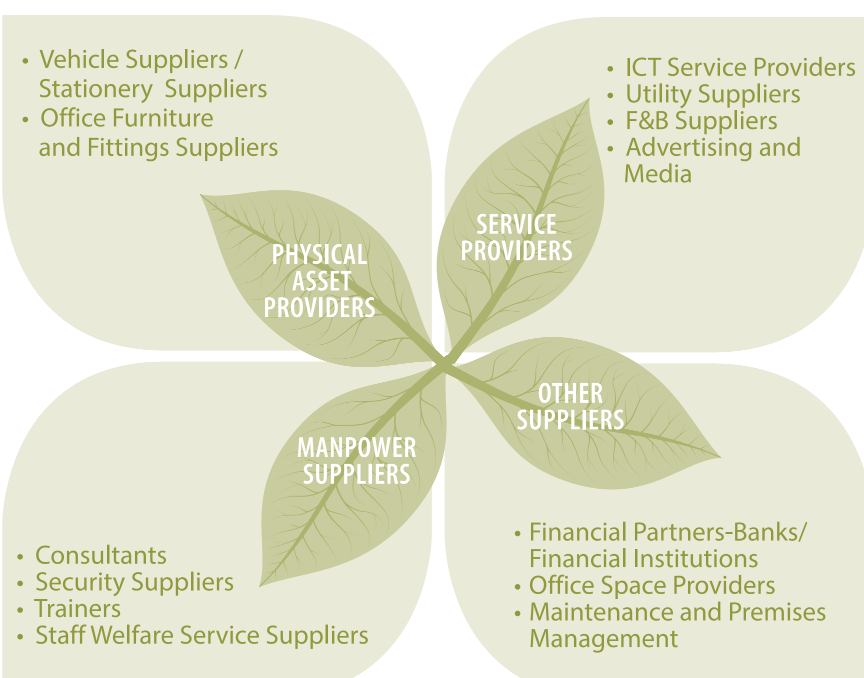
OUTPUTS FOR AFC

- Reliable supplier network to support continuity of the operations

VALUE ADDITION TO STAKEHOLDERS

- Ability to benefit from AFC's long term growth trajectory

AFC Supplier Value Creation Model



AFC Supply Chain

Sustainable Procurement

AFC 's procurement policy aims to meet dual objectives of cost effectiveness combined with quality standards. In keeping with our commitment to social sustainability, the Company also aims to support suppliers grow with the Company. A central procurement unit, under our centralized model, is responsible for managing the routine purchasing requirement of branches, departments and business units across the Company.

AFC's Procurement Committee is responsible for screening and selection of routine suppliers and service providers thus ensuring that the Company is able to identify and work with those who meet our criteria for sustainability and would have the greatest positive impact on our value chain. Contracts with service providers, such as for example telecommunication services and security services are reviewed prior to their expiration and renewed if they meet the criteria.

Supplier Registration

AFC maintains a registry of suppliers and service providers with a minimum of two potential suppliers per product or service. The Company updates the registry annually, through a press advertisement which calls for submissions of interest in specified categories. These processes and procurement guidelines ensure that all suppliers are treated fairly and equitably and that our supplier base is compatible with the sustainability agenda of the Company.

At time of registration we require all suppliers to sign a Consent form declaring their compliance with all environmental, social and labour laws and other standards applicable to their business or product such as steps taken to prevent child labour and the use of environmentally hazardous input.

Supplier Category	Location of origin	Number of Suppliers
Funding partners	Foreign /Local	20
Advertising and Media	Local	15
Manpower suppliers	Local	1
Impact investors	Foreign	5
Material/assets suppliers	Local	438
Utility & other service providers	Local	78

Progress of Plans and the Way Forward

Medium Term	Long Term	Progress of the long-term initiatives
Continue to give priority and engage the suppliers who are in line with the sustainability agenda of AFC.	Introduce a supplier feedback Channel	Current practices to obtain and evaluate feedback is ongoing, but establishing a dedicated channel is yet to be done.

Community

GRI 413-01 GRI 413-02 GRI 419-01

Our Triple Bottom Line focus means that we have taken on a win-win approach with society at large, believing that an enterprise is sustainable only when all its stakeholders benefit from the value we create. AFC's wide geographic spread enables it to reach and contribute to the socio-economic progress of a large population. 72% of our branch network is located outside the Western province and facilitates our outreach for financial inclusion.

INPUTS

- Financial Inclusion Strategy
- Social Responsibility
- Community Investment

KEY VALUE DRIVERS

- Financial Assistance to underserved communities
- Measuring Social Impacts
- Community Capacity Building
- Supporting Social Entrepreneurs

OUTPUTS FOR AFC

- Strengthens AFC's reputation and builds up goodwill

VALUE ADDITION TO STAKEHOLDERS

- Reduced Inequalities
- Development of the rural economy
- Contribute towards SDGs related to social sustainability

Our Focus

- Create an enabling environment for economic empowerment.
- Develop livelihoods for economic empowerment.
- Promote financial inclusion and responsible financing

Long term:

- Advocate sustainable production and consumption
- Contribute to achieving national and global social goals (SDG's).
- Engage the Community in sustainable value creation.

The financial solutions we offer are aimed to empower the economically disadvantaged and underserved rural communities across the country and support their efforts to create wealth. These range from SME and MSME to leasing of agricultural equipment and Three Wheelers to Cash Advances and Gold Loans and a range of deposit products. Our financial empowerment is based on a principle of responsible financing where all SME and MSME we provide is only for an income generation activity and not for consumption purposes, thus steering our clients to stay clear from falling into the trap of indebtedness.

Bridging the Income Gaps Through Local Hiring

AFC also gives preference to hiring from the localities of its branches to support income generation in some of the disadvantaged communities and thus help bridge the disparity gap between the Western province and the rest of the country. It is also a win win as employees have the convenience from commuting from their home towns. Moreover, the local expertise has been a vital factor in our ability to gain insights and feel the pulse of the Sri Lankan market enabling is to offer customised solutions to suit the Sri Lankan market. In addition, local communities and the country have reaped the benefits of local hiring.

Supporting Social Entrepreneurs

Our key initiative for supporting Social Enterprise development is partnering the "Ath Pavura" (Elephant Wall) project, which empowers many social enterprises., This pioneering initiative of Lanka Impact Investing Network (LINN) and Social Enterprise Lanka which takes the form of a reality TV show creates a platform for social enterprises that have the capacity to make a definite positive impact on society and the environment. Impact Investors

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who represent this forum who are known as "Tuskers" are some of Sri Lanka's successful entrepreneurs. And AFC as one of its founding investors and only corporate in the platform, is represented by its Managing Director Mr. Romani De Silva. Mission I and Mission II of Ath Pavura have now been completed and we eagerly await Mission III, to empower many more social entrepreneurs who would generate greater value to the country, its environment and society.

Success stories from Ath Pavura Mission I and Mission II

Social Enterprise	Progress achieved during 2019/20
Ecofeel Foods	Dryzy has been driving its consumer packs to Arpico and other places throughout. Discussions with Keells, Daraz and Spar supermarket were in progress to supply their products but since the COVID-19 breakout these discussions have been put on hold for the time being. Keells approval has been obtained to place the products at their outlets.
Thuru Viyana Tree Nursery	Thuru Viyana has a stock of 50,000 plants which was to fulfil an order given by Alliance Finance during March 2020. However, due to COVID-19 outbreak it has been halted. They also expanded their business into growing organic vegetables which they sell in small quantities to retail customers at present. They are looking at the prospects of expanding the Organic Vegetable business as well, to reach a wider retail market.
AAYU- Breakfast drive through	AAYU was operating from Angoda, Rajagiriya and Marine Drive before the COVID-19 outbreak providing breakfast drive through services from those locations. They were also able to obtain approval from the Municipal Council to place a truck at the World Trade Centre premises. They have also got approval to place a truck at Keells Outlets.
Mosquito Repellent 	SMP had a fair level of sales until the COVID-19 outbreak occurred. Now they have introduced a new sanitiser produced with essential oils other than the existing mosquito repellent products.

Measuring the Impacts of our Social Upliftment Initiatives

In addition to the positive impacts we strive to keep, we are also committed to ensure that our business activities are geared to prevent and minimise any negative implications and inadvertent contribution to negative impacts or illegal activities. These include adherence to the following principles.

We will not finance clients who are involved in activities which

i. Are regulated or prohibited under international agreements and by national laws
ii. May cause significant environmental or social problems
iii. Lead to significantly adverse public reactions
iv. are mentioned on the Exclusion list of AFC's international lenders

In addition, the Company's Environment and Social Management System (ESMS) helps to assesses the impact of its business activities in a formalised and structured manner through screening all its potential clients for E&S criteria. AFC has thus incorporated social criteria into the evaluation of customers and screen customers for their social risk profile. The information then informs our lending decisions. We have formulated a list of activities, based in the IFC Exclusion list, which will ensure that AFC's will not lend to any business with a purpose that would disrupt the social wellbeing as well as breach any related Laws (more details in page 91).

There were no reported incidents of non-compliance with regulations/voluntary codes concerning health and safety of products or services.

During the year under review, there were no significant actual and potential negative impacts on local communities due to our operations. Similarly, there were no fines or non-monetary sanctions imposed on the Company for non-compliance with socioeconomic laws and regulations.

Corporate Social Responsibility

In addition to AFC's business integrated social impacts, AFC also engages its communities through a multitude of CSR projects, which have been given sharper focus to by aligning with the UN Sustainable Development Goals (SDG's). These projects are summarised below. Our employees are trained on social and environmental sustainability at point of orientation, and thereafter encouraged to participate in projects throughout their careers. These initiatives are summarised below:

CSR Activity	Amount Spent on Project (Rs.)
Donations for charity associations and children/elders homes and Donations for foundations and societies	831,385
Religious/cultural activities	103,220
Sponsorships for rising sports stars	776,598
Total	1,711,203

Progress of Plans and the Way Forward

Medium Term	Long Term	Progress of the long-term initiatives
Promote financial inclusion and responsible finance	Advocate sustainable production and Consumption	AFC is in the process of developing the AFC organics project to the next level by extending the services to external parties (more details in pages 101-102)
Economic empowerment through focused lending and customised products	Contribute towards achieving national and global (SDGs) social goals	Our strategy is formulated in a way to contribute towards 12 SDGs including 6 goals specific to social value creation.
Creating an enabling environment for economic empowerment	Community engagement in sustainable value creation	"AFC One million Trees for Unity" project was launched to promote the consciousness of unity and social harmony while restoring trust and collaboration in the society.

Capital Management Review

NATURAL CAPITAL GRI 102-11 GRI 301-01 GRI 302-01 GRI 302- 03 GRI 302 -04 GRI 303-03 GRI 303-05 GRI 304-02 GRI 304 -03 GRI 304 - 04 GRI 307 -01

Given the nature of the business we are in - the financial services industry, the direct impact we have on the environment is minimal and limited to a relatively low consumption of natural resources such as energy and water and the Carbon footprint of business related travel. However, we are unable to avoid the impacts of climate change on our business; in fact, they have been the predominant factor in inhibiting the industry's performance in the past two years. Agriculture and related businesses were adversely affected by extreme weather conditions which impacted communities across many areas of the country in 2016, 2017 and 2018. Moreover, climate change or global warming is recognised as the world's biggest environmental challenge of the 21st century. A continuous effort to reduce our Carbon footprint is thus a key priority for us at AFC and we are driven by the fact that every little footstep counts and takes us closer towards our goals.

INPUTS

- Sustainable Finance
- Minimising our Carbon Footprint
- Proactive Environmental Initiatives

KEY VALUE DRIVERS

- Refraining from lending to environmetally high risk activities
- Promoting environmentally and socially uplifting business and solutions
- Energy Management
- Managing Water Consumption
- Sustainability Team
- Carbon Neutral Initiatives
- Bio diversity Conservation

OUTPUTS FOR AFC

- Drive our ambition to be Sri Lanka's first sustainable finance company
- Set new green benchmarks in the NBFI sector

VALUE ADDITION TO STAKEHOLDERS

- Making progress towards a better environment
- Expertise to offer customised solutions

Sustainable Financing

Whilst AFC has since long been committed to sustainable financing, we have over the past few years reaffirmed and expanded our sustainability agenda in line with global and national priorities and placed greater focus on a Triple Bottom Line value creation. Our initiatives are also geared towards enabling AFC to become Sri Lanka's first ever Sustainability Certified Financial Institution (More details are in page 31). We will also explore new business opportunities with which we can add sustained value to the environment and society at large over the long term.

Strategic changes for Environmental value creation

During the year, the Company revised its strategy by further integrating the sustainability principles into its business. Accordingly, a set of high impact goals were formulated, of which the first goal is directly related to environmental value creation.

Reduce the national carbon footprint of Sri Lanka by 118,000 CO_2Mt by 2025

The Rationale:

According to the Climate Risk Index 2018, Sri Lanka was identified as the second most affected country due to global climate change. Climate Change is a result of increasing CO_2 concentration in the atmosphere. The country has thus planned and is in the process of implementing many initiatives to mitigate this challenge. Tree planting initiatives are in the forefront of a host of other emission reduction initiatives aimed at ensuring environmental wellbeing.

Integrating environmental and social consciousness into our business

Managing E&S Risks

Our environmental conservation efforts also begin at the point of lending where we consider the possible environmental impact of the business activity and refrain from lending to any activity which has an environmentally detrimental impact. Towards this end, AFC adopted the application of an Environmental and Social Management System (ESMS) to screen its clients for the environmental impacts of their activity, in 2017, which will ensure that the Company will not be linked to any business or activity that has negative environmental impacts (more details in pages 75-76 and 91).

In addition to the above, AFC's Sustainability Team proactively monitors emerging issues, regulatory developments and best practices relating to social and environmental risk management to ensure that our systems and processes remain up to date.

Engaging Like-Minded Stakeholders

The year under review saw another significant initiative as AFC launched "Dalu", denoting "new beginnings"; a program to promote all our sustainability initiatives and engage like-minded stakeholders.

As a part of this program, a social media campaign was launched via Facebook to promote our sustainability work amongst communities and invite them to join us to support our projects. We also completed the preliminary work to launch "Dalu" website in order to engage both local and international stakeholders who would like to join hands in our journey of Sustainable Value creation.

Minimising our Carbon Footprint

AFC "Thuru Mithuru"

AFC "Thuru Mithuru" is an initiative we launched in 2015 to plant 50 trees for every motor vehicle facility granted, in order to counter the impact of the Carbon footprint created by the vehicles we lease.

Combining a social as well as an environmental objective, the Company also launched a project branded as "One million Trees for Unity" in November 2019; - a pledge to plant a million trees by 2023, with the support of the Tri Forces and all religious and ethnic communities across the country. In addition to its environmental impact, we also intend the project to harness the efforts of all ethnic communities across the different regions of the country and thus help build unity. The tree which gives shade to all living beings, without discriminating any, we considered would be aptly symbolic for our other objective of fostering unity and helping citizens think "as one nation'.

In line with this project, during the year we have ceremoniously planted over 1,500 trees, with the engagement of the leaders of all four religions and at places of significance to each of the four religions, on the same day in all nine provinces of the country. We were also honoured to be able to plant a tree in celebration of the birthday of the Archbishop of Sri Lanka, His Eminence Malcolm Cardinal Ranjith, at the Archbishop's House in Colombo in November 2019.

Under our "Thuru Mithuru" program a total of 217,499 trees have been planted across the island as at 31st March 2020. This program also encompasses the maintenance of trees planted on roadsides, with brand integrated signage displaying messages, to create environmental consciousness and awareness amongst the public and spur them to action.

Energy, Water and Materials Consumption

Electricity and water for running of offices, and fuel are the main natural resources consumed by AFC. The detailed consumption statistics for the head office in 2018/19 and 2019/20 financial years are reported in the GRI table of the report (page 269) and presented in a summary below.

Capital Management Review

Managing Energy Consumption

We have identified our most significant energy consumption to be;

- Electricity: to meet lighting and cooling requirements of our branches and for power to operate our IT infrastructure and systems
- Fuel: for our back-up generators and vehicles used by our staff for official duty and their daily commute to office

The growth in our business over the years has necessitated that the energy requirements and consumption would rise. And this fact reinforces our commitment to continuously enhance our energy management systems and renew our commitment to reduce our annual energy consumption as much as possible. The in-depth analysis of consumption and taking specific targeted action to achieve quantifiable reductions is hence ongoing. The detailed energy consumption statistics are presented in the GRI table on page 269 whilst a summary is shared below.

GRI 302-1; GRI 302-1; GRI 302-4: Energy

- Electricity consumption during the year decreased by 12 %
- Electricity intensity (units/employee) reduced by 29%
- Fuel Consumption of Head Office was 14,996 litres
- Fuel used was obtained entirely from non-renewable sources.

The decrease in our electricity consumption was primarily a result of the conversion of the AFC Super Branch to Solar Power in May 2019, enabling a reduction of electricity usage by about 12%. In addition, the usage of efficient electric appliances, such as inverter AC's, energy efficient printers and photocopy machines, LED bulbs, as well as focused energy-saving efforts of the employees, enabled to reduce the electricity consumption at the Head Office premises. During the year fuel consumption has increased mainly due to the increased number of Audit and follow up visits to outstations as a result of strengthened supervision and follow up practices. Other than that, the frequent travels to super branch for maintenance, goods delivery and other supervisions, court visits as well as yard visits have also had a bearing on the increased fuel usage. However, the efforts are in place to reduce the fuel usage by adopting measures that requires less travelling, mainly using technology and proactive planning.

Conserving Water

Our water consumption is primarily for daily utility by staff and all our requirements are met by the Colombo Municipality's water supply.

GRI 303-3; GRI 303-5: Water

- Water consumption during the year increased by 5%.
- Water intensity (per employee) decreased by 15% due to the increase of the number of employees in the head office.

Managing Material Consumption

Being in the financial services sector, the highest category of material use is paper for the daily operations. Of these daily operations a significant percentage is used for customer engagement processes such as onboarding, collections, routine communication whilst internal communication and manual backend processes account for the remainder. During the year our paper consumption has increased by 5% mainly due to the increased investments and resultant increase of files along with other service operations. However, digitisation initiatives and innovative methods of paper usage in place to reduce our paper consumption. Furthermore, significant investments made by the Company in 2018, such as in the G-suite, the internal communication platform; the cloud base HRIS and the ERP for the Commercial Division along with the new Core business system are expected to reduce the paper consumption significantly.

GRI 301-1: Paper usage

- The year under review saw us 5% increase in the paper consumption
- The unit intensity has reduced by 15%

Pioneering launch of a LPG powered Three Wheelers (Tuk Tuks)

The year under review saw the launch of LPG powered three-wheelers as an innovative transport solution and as an alternative to environmentally harmful modes of transport. As described in our last year's report; this initiative follows four years of R&D and trial runs. It encompasses all three facets of the Triple Bottom Line and is a perfect case in point of how business objectives can be integrated into benefitting people and the environment.

AFC, in partnership with Vialle (a global leader in alternate fuel solutions for transport with expertise in Autogas); has developed an efficient mechanism to convert the Petrol Tuk Tuks to run on LPG and has targeted to convert 200,000 (20% of the market) by 2025. It is estimated to be able to reduce over 96,000 metric tons (30%) of CO_2; and other hazardous gas emissions such as Carbon Monoxide (CO) by 30%, Nitrogen gases (NOx) by 41%; and Hydro Carbons by 30%. The project, in addition to empowering the economically disadvantaged individuals by providing three wheelers converted by us, will also provide a cost advantage to customers due to the lower cost of LPG. Moreover, those who patronise this service, in addition to helping the disadvantaged would also be contributing to saving the environment from harmful emissions. The project's initial phase targets 100 women owner drivers; thus combining another objective of promoting women entrepreneurs in an almost 100% male domain. Employment for females would also offer many households an opportunity to have a much needed dual income. AFC also hopes to introduce the lady driven three-wheelers to the tourism industry, which would fill a void in the industry whilst also increasing prospects for higher income generation for the Tuk Tuk drivers.

Contributing to National and Local Environmental Priorities

The AFC "Thuru Mithuru" program directly contributes to the first high impact goal, which is also in line with the "Bonn Challenge", a global effort to bring 150 million hectares of the world's deforested and degraded land into restoration by 2020, and 350 Mn hectares by 2030. For Sri Lanka the restoration target of 200,000 hectares of forest land which will enable the country to increase its forest cover from 29% to 32% by 2030. AFC, with its pledge to plant one million trees by 2023 will contribute to 5% of this national goal. Considering that Sri Lanka's Non-Bank Financial Sector accounts for only 7% of the Financial Services sector, AFC's single-handed commitment to the National Bonn challenge is significant.

Partnering to Conserve Sri Lanka's Bio Diversity

In 2018, AFC established a partnership with the Wilderness Conservation Trust (WWCT) to help foster the coexistence of people and Leopards in the central highlands of Sri Lanka and to protect the flora and fauna and other living species in an 18acre ridge which is a world heritage site (since 2010) in the central Highlands.

The project's progression this year has been most encouraging. The efforts saw the identification of 12 fishing cats whilst the number of individual Leopards that the WWCT has been able to identify grew from 19 in 2018 to 28. Furthermore, Nina the female Leopard that AFC had the honour of naming, was spotted with her cub this year and the WWCT has reason to believe that there are more cubs born during the year, which they are yet to see. In addition, the Trust also continues ongoing programmes to create awareness on how people who live in the vicinity could coexist with the Leopard and on the importance of conservation, for the people who share the space to meet their needs such as for firewood. The Trust has also identified areas to replant in order to replenish and expand forest cover and to create the proposed Peak Ridge wildlife corridor with trees that are needed for firewood.

The project also came up with a novel initiative to engage school children in the neighbouring peak wilderness area to become directly involved - as "Forest Guardians"; in saving the natural resources of their neighborhood. Twenty Children from Grades 6 to 11, from Dunkeld School, were selected with the approval of their parents and school to be "Forest Guardians". These students will participate in the Peak Ridge Corridor conservation initiative by creating and maintaining a new butterfly garden and a Forest Plant Nursery; clearing various areas of the Estate of plastic waste, participating in programs aimed at teaching ecology and conservation theory and methods, and eventually take on the responsibility of overseeing some of the permanent, remote camera stations located on Dunkeld Estate. They will also become involved in the care and delivery of forest plants to relevant habitats for re-planting. We will look to replicate this model to other estates along the Ridge thus achieving several short to long term environmental objectives such as conservation, equipping future generations with knowledge and awareness to prevent and solve ecological challenges and nurturing a passion in them to take ownership to preserve their natural habitats. In addition, the students will also benefit from a sense of leadership and enhanced self-esteem in taking on responsibility and in expanding their horizons to contribute to a broader cause and AFC feels privileged to be a part of this valuable initiative.

Promoting Environment and People Friendly Organic Farming

During the year under review, AFC also expanded its project of promoting organic vegetable cultivation and consumption launched in 2018. AFC continued to engage Mihimdala Organic Farms in Bandarawela and Maho to source up-country and low-country vegetables for AFC employees to purchase in Colombo. Whilst continuing to supply to our own

Capital Management Review

employees, we also extended the supply of these vegetables to employees of the World Bank's office in Sri Lanka. It is noteworthy that the delivery of vegetables to employees of AFC as well the World Bank office, who lived in Colombo and the suburbs continued throughout the COVID-19 lock down period.

AFC is also looking to encompass more organic vegetable suppliers and expand delivery of vegetables by partnering suitable stakeholders for delivery services. We also plan to utilise AFC's gas converted tuks as part of our delivery fleet in the near future and hope to expand r this unique project as a Triple Bottom Line venture in the long term.

Progress of Plans and the Way Forward

Medium Term	Long Term	Progress of the long-term initiatives
Complete the yearly targets of planned environmental sustainability initiatives	Invest in meaningful and high impact environmental projects that will neutralise the Company's carbon footprint and contribute towards greater environmental sustainability	We are continuing our high impact environmental projects as illustrated above in pages 99-102
Devise programs and campaigns to engage communities and other stakeholders in our environmental value creation initiatives		
Continue to engage with partners and networks on climate action initiatives		

Corporate Governance

GRI 120-16 GRI 102-18 GRI 102-22 GRI 102-23 GRI 102-24 GRI 102 -25 GRI 102 -26
GRI 102-27 GRI 102-28 GRI 102-29 GRI 102-30 GRI 102-31 GRI 102-32 GRI 102-35 GRI 102-36

Dear Stakeholder,

The Board of Directors of Alliance Finance Company PLC (AFC) acknowledges that adhering to the rules of good corporate governance is in the best interest of the Company and its shareholders.

The framework of Corporate Governance at AFC consists of well-defined structures, comprehensive policy framework and procedures which are embedded within the ethical principles of the Company. At AFC, the Board plays an important role in creating a culture which acknowledges good governance. Reviewing the corporate governance structure is considered as a vital task to certify that Alliance Finance is on par with the developments in the governance environment.

Board Commitment

AFC continues to be led by a strong and balanced Board, which is well qualified to challenge, motivate and support the business. The Board as a whole is responsible for the Company's overall strategy and has clearly defined structures in place for the allocation of responsibilities relating to various elements of the AFC's strategy.

The Board believes that good governance is an essential part of the way we undertake our business on a day-to-day basis, while maintaining effective risk management, control and accountability. Delivering on this commitment requires a sound understanding of current governance requirements and practices, as well as being attuned to emerging governance trends and changing stakeholder expectations. The Board is strongly committed towards ensuring that AFC maintains and continuously improves the structures and processes required to underpin the effective delivery of its growth strategy.

Culture

The Board of Directors of AFC recognizes that the correct value system stems from the top with the Directors leading by example to ensure that excellent standards of behaviour permeate throughout all levels of the Company. The way we live and breathe our culture can be seen by the way in which our values are becoming increasingly embedded in all our activities and lead to underpin our business model and drive our strategy to deliver shareholder value.

Declaration by the Board

The Board of Directors of AFC wishes to confirm that, to the best of its knowledge and belief, the Company has complied with the regulatory and statutory requirements by Finance Companies (Corporate Governance) Directions No. 3 of 2008, No. 4 of 2008 and 06 of 2013, Code of Best Practice on Corporate Governance 2017 (the Code) issued by The Institute of Chartered Accountants of Sri Lank (CA Sri Lanka), Corporate Governance Rules embedded in the Listing Rules of the Colombo Stock Exchange (CSE).

Ramani Ponnambalam (Mrs.)
Chairperson

29th June 2020

Corporate Governance

Governance Highlights – 2019/20

- Appointment of one Independent Non-Executive Director Mr. L.J.H de Silva.
- Resignation of one Non-Executive Director Dr. L.A.P. Medis
- Approved the redesigned functionally based Organisational Structure with clear roles and responsibilities.
- Approved the newly formulated High Impact Goals of the Company.
- Approved the revised Credit Committee Composition.
- Approved the adoption and implementation of Sustainability Standards and Certification Initiative (SSCI).
- Approved Internal Auditor's report on the alignment of all policies, procedures and processes with the Sustainability Standards.

Corporate Governance Framework

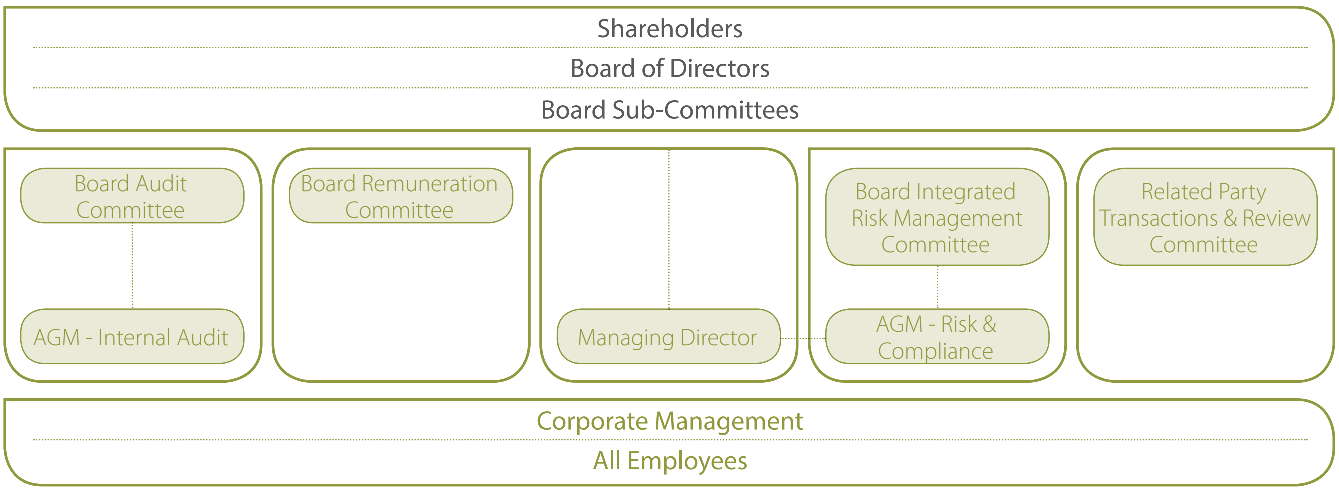
AFC's Corporate Governance Framework provides the basis to support the Company's growth strategy by influencing how the objectives are set and achieved, how risk is monitored and assessed, as well as how performance is optimised. The main purpose of AFC's Corporate Governance Framework is therefore to facilitate the creation of stakeholder value based on the good governance principles of fairness, accountability, responsibility and transparency.

AFC's Corporate Governance Framework reflects the Company's commitment to comply with all regulatory requirements and the corporate best practices which are embedded in the governance structure of AFC to ensure the effective practice of good governance.

Internal	External (Statutory)	External (Voluntary)
• Purpose Statement • Articles of Association • Risk Management Framework • Internal Control Framework • IT Security Policy • Code of Conduct issued by the Finance Houses Association • Whistle Blower Policy • Related Party Transactions Policy • Financial Reporting Framework • Ethics and Integrity policy	• Companies Act No. 7 of 2007 • Finance Leasing Act No.56 of 2000 • Anti Money Laundering Laws and Regulations and Financial Transactions Reporting Act No. 6 of 2006. • Finance Companies Direction No.3 of 2008 on Corporate Governance and amendments thereto. • Listing Rules of the Colombo Stock Exchange • Inland Revenue Act No. 24 of 2017 and amendments thereto • Shop & Office Employees Act No. 19 of 1954 and amendments thereto • Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRS s) and Lanka Accounting Standards (LKAS s) • Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued thereunder	• Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) • GRI Standards for Sustainability reporting issued by the Global Reporting Initiative • The United Nations Sustainable Development Goals (SDG's) • Code of Best Practice on Corporate Governance 2017 (the Code) issued by The Institute of Chartered Accountants of Sri Lank (CA Sri Lanka)

Corporate Governance Structure

Under the leadership of the Board, AFC has in place a comprehensive management structure in place which includes clearly defined policies, procedures and delegated authority lines.

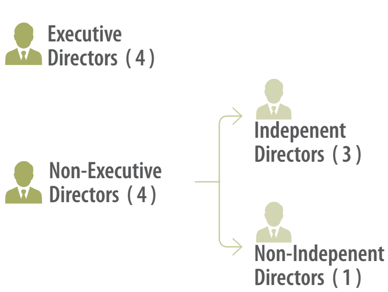


Roles and Responsibilities

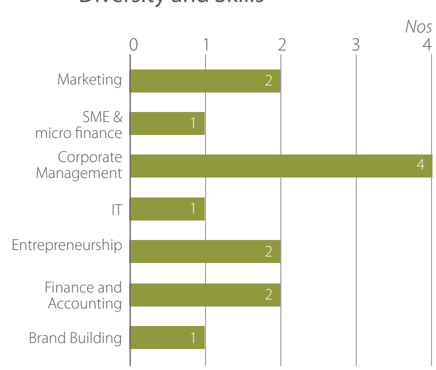
The Board

AFC's Board maintains the correct balance with individuals whose qualifications, experience and the capabilities are appropriate for the scale, complexity and strategic positioning of the business. The Board consists of an appropriate balance of Executive and Non-Executive Directors who collectively bring a strong and in-depth mix of business skills, experience and considerable knowledge to assist with Board decisions. Further details on the Board Profiles are available on pages 24 - 26.

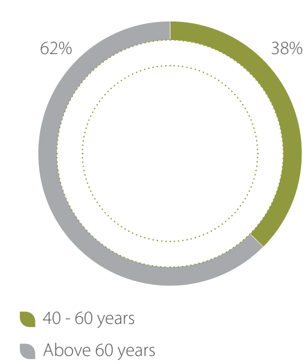
Board Composition



Diversity and Skills



Age Representation



Board Meetings

The Board meetings are held at least once every month with additional meetings held if and when required. The Board met 18 times during the year, with all Board Meetings characterised by high attendance, active participation, constructive and open discussions.

Corporate Governance

Attendance at Board and Sub Committee Meetings

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

Director	Board Meeting	Board Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Related Party Transactions Review Committee
Mrs. R.N Ponnambalam	18/18	-	2/2	-	4/4
Mr. R.K.E.P de Silva	18/18	-	-	4/4	-
Lt. Col (Retd) A.R. Samarasinghe	18/18	10/10	1/2	4/4	2/4
Mr. J.M Gunasekera	18/18	-	-	4/4	-
Mr. W.P.K Jayawardana	14/18	-	-	4/4	-
Mr. R.E Rambukwelle	15/18	-	-	4/4	-
Mrs. Priyanthi de Silva	18/18	10/10	2/2	4/4	4/4
Mr. L.J.H. De Silva Apptd. 16th October 2019	05/06		1/2		2/4

All the Directors are required to attend each Board meeting. Any instance of non-attendance at Board meetings was generally due to prior business or personal commitments or illness.

Only members of the Board are entitled to attend the Board meetings, with the Company Secretary attending to formally record each meeting. However, other members of the Senior Management team may, by invitation, attend meetings to address specific agenda items. In addition, members of the Corporate Management team and/or external experts are allowed to make presentations to the Board and Sub-Committees on a regular basis on matters pertaining to the Company's business and market outlook/performance/strategy.

Board meetings are scheduled well in advance, with a calendar being circulated for Board meetings and Sub Committee meetings in the first month of the calendar year to ensure attendance at all Board Meetings and Sub Committee meetings. In addition Directors are provided adequate notice. Prior to each Board or Committee Meeting, the Company Secretary ensures that the relevant papers including a specific Agenda with guidelines on content and a summary of management presentations are made available to 7 working days in advance of the meeting to all Directors. The Directors' who are unable to attend the meetings are updated through the documented Minutes, which are tabled at the next Meeting with the follow-up from matters arising from the Minutes.

Financials for the preceding month are prepared and circulated among Directors in advance before the Board Meeting of the following month along with key financial performance indicators of each division. Should the Board find that the information provided is insufficient or not clear, they are entitled to call for further clarity or additional information, with the relevant management personnel being called for the meetings when deemed necessary to provide further details.

If a Director is unable to attend a Board Meeting, he or she still receives all the papers and materials for discussion at the meeting. He or she is expected to review the Board papers and then advise the Chairman of his/her views and comments on the matters to be discussed so that they can be conveyed to others at the meeting.

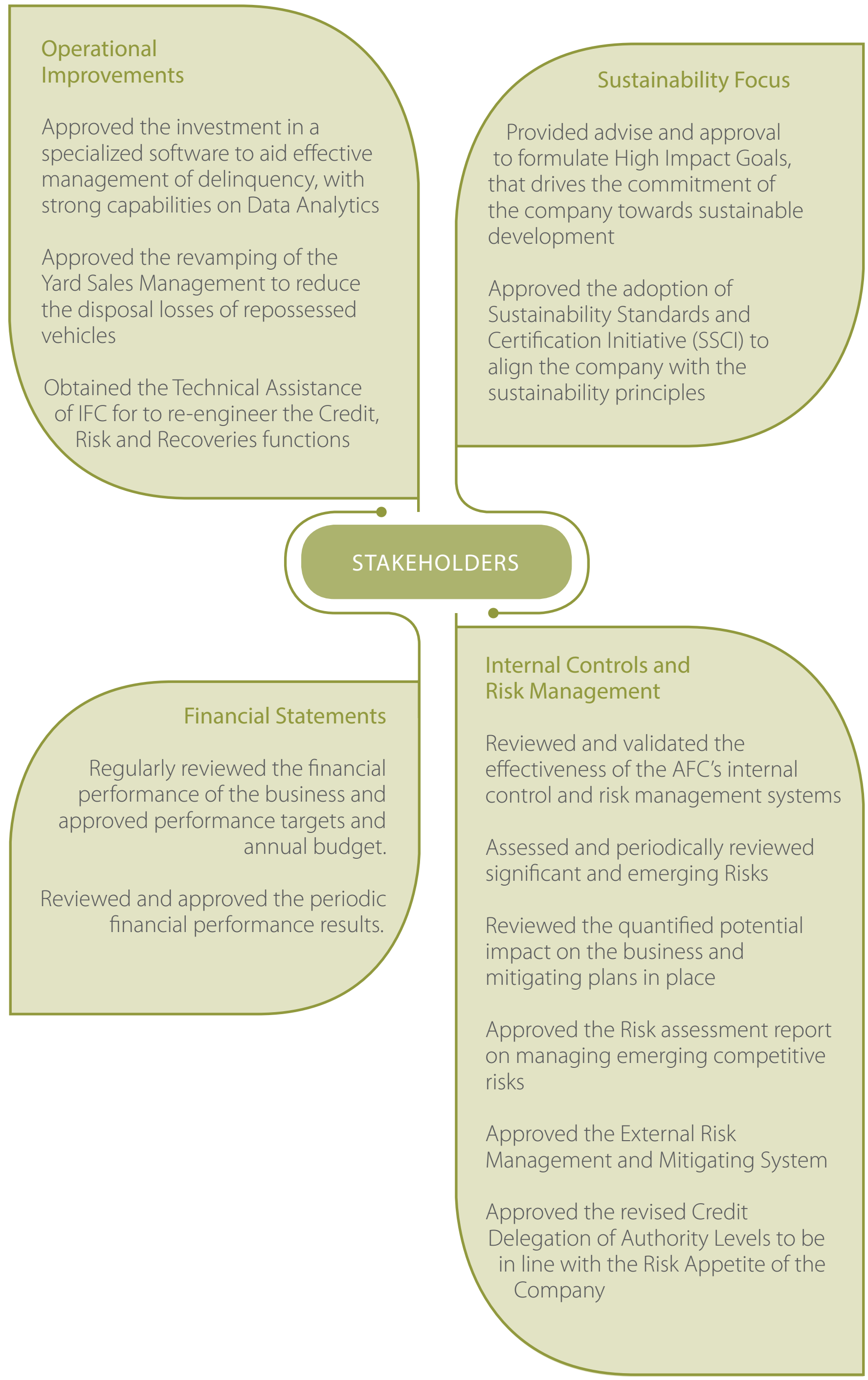
Role of the Board

The Board provides leadership to the Company and provides direction for the management. The Board is collectively responsible and accountable to AFC's shareholders for the long-term success of the Company and for ensuring the appropriate management and operational framework in place, in pursuit of its objectives. The Board is responsible for setting strategy, objectives, goals, values and standards and ensuring that the necessary controls and resources are in place to achieve these within the required timelines.

The Board discharges its responsibilities for the leadership and control of the Company by:

- Providing goals and objectives oriented strategic direction and support in a manner which maximises opportunities to develop the business' profitability, whilst assessing and managing associated risks.
- Being present at Board meetings and engaging in deliberations regarding the Company's financial and operating performance and external related matters material to the Company's prospects and directing and redirecting where necessary.
- Evaluating the performance against set objectives and goals both financial and non financial and seizing opportunities that provides itself by making business specific decisions that add value to the Company and/or which is in line with its sustainability mandate.
- Ensuring that the financial, management and other resources required to meet its objectives are in place.
- Ensuring that the right framework is in place and assessing it periodically to ensure that the deliverables could be optimised within the set regulatory and risk based parameters.

To help discharge its responsibilities, the Board has a formal schedule of matters specifically reserved for discussion and debate. This forms the core of the Board's agenda. The Chairman and the Company Secretary are responsible for ensuring that the Directors receive accurate, timely and clear information on all relevant matters so that they are adequately briefed in advance of meetings, and that the information is of sufficient quality to assist Directors in making informed contributions and decisions.



Corporate Governance

Quality and Competencies of the Board

The AFC Board is well balanced and comprises of members with sufficient financial acumen and knowledge. There are two Chartered Management Accountants who hold qualifications on other financial bodies to provide guidance on financial matters. In addition, other Directors of the Board have a wealth of experience that provides them with sufficient financial acumen. Having to maintain a healthy balance the Directors have qualifications, expertise and experience in other areas such as IT, Marketing etc. which are also essential for the fruitful decision making process.

Board of Directors consists of four Non-Executive Directors, of which three function in an independent capacity above the minimum stipulated requirements under the code of best practice for Corporate Governance jointly issued by the SEC and the Institute of Chartered Accountants of Sri Lanka.

Chairperson's Role

The Chairperson is responsible for ensuring that the Managing Director and the management effectively implement the strategies and policies agreed by the Board. The Chairperson also provides stewardship for the adoption of good governance practices and provides oversight to ensure effective communication with shareholders and other stakeholders.

The Chairperson is responsible not only for providing leadership but also for overseeing the functioning of the Board to safeguard the best interest of the Company and its shareholders. Accordingly, the Chairperson is responsible for;

- Ensuring Board meetings are planned and conducted effectively
- Setting the agenda for each Board meeting, taking cognizance of the matters proposed by other Directors, members of various sub-committees or the Board Secretary
- Ensuring the Board members receive accurate, timely and clear information
- Ensuring Minutes of Board Meetings are accurately recorded and circulated amongst the Directors.
- Provides leadership and governance of the Board so as to create the conditions to improve the Board's and individual Director's effectiveness, and ensures that all key and appropriate matters are discussed by the Board in a timely manner
- Promoting a culture of openness and encouraging constructive deliberations, between Non-Executive Directors regarding Board matters so as to fully contribute to the effective functioning of the Board.
- Ensuring that the Board as a whole plays a full and constructive part in the development and determination of AFC's strategies and policies, and that Board decisions taken are in the Company's best interests and fairly reflect Board's consensus.
- Providing leadership to the process for self-assessment to generate meaningful feedback to further improve the effectiveness of the Board.

Managing Director's Role

The roles of the Chairperson and the Managing Director are held separately and the division of responsibilities between these roles is clearly established. The Chairperson is responsible for leading the Board and ensuring its effectiveness, while the MD is responsible for the day to day running of the business and implementation of the strategy and policies adopted by the Board.

Role of the AFC's Chairperson	Chairing and managing the business of the Board Ensuring there is an effective contribution from the Non-Executive Directors and a constructive relationship between Executive and Non-Executive Directors
Role of the AFC's Managing Director	The development and implementation of management strategy The day-to-day management of the Company Managing the Senior and Executive management team in successfully fostering a relationship with key stakeholders

Company Secretary

All Directors have access to the Company Secretary. The Company Secretary is responsible to the Company for ensuring that agreed procedures and applicable rules and regulations are observed. In addition, the Company Secretary also serves as the Secretary for all Committees and maintains Minutes of all Board meetings and Committee meetings.

Other responsibilities of the Board Secretary include;

- Co-ordinating matters pertaining to the conduct of Board Meetings and Sub Committee meetings
- Facilitating adoption of best practice on Corporate Governance including assisting Directors in respect to their duties and responsibilities, in compliance with relevant legislation and best practices.
- Acting as the communication liaison between Non-Executive Directors and Management
- Ensure appropriate disclosures on related parties and related party transactions are in line with regulatory requirements

The Articles of Association of the Company specify that the appointment and removal of the Company Secretary shall be by resolution involving the Board.

Training for the Directors

All Directors are entitled to receive relevant training opportunities for continuous development, to ensure that their contribution to the Board Committees remains relevant. Ongoing training and updates are provided for Directors to regularly refresh their knowledge, skills and keep abreast of the latest trends and regulatory developments that can impact the business.

Accountability and Ethics

Internal Control Framework

The Board of Directors has the responsibility for establishing a comprehensive internal control system to exercise necessary control over all operational activities, with particular attention to areas considered potentially at risk.

The system is designed to give assurance, inter alia, safeguarding of assets, the maintenance of proper accounting records and the reliability of the financial information generated. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board reviews the reports arising from the internal and external audits and monitors the progress of the Company by evaluating the actual results against the budgets and industry standards.

Risk Management Framework

It is AFC's policy to achieve best practice in the management of all risks that threaten to adversely impact the Company, its operations, customers, people, physical and digital assets, functions, the community or the environment. Accordingly Risk Management forms part of strategic, operational and line management responsibilities and as such it is integrated into the strategic and business planning processes. The Board and the Integrated Risk Management Committee are the apex bodies in charge of Risk stewardship. Their duties include overview, of the communication policy, objectives, procedures and guidelines and to direct monitor and implementation, performance throughout the Company.

Every AFC employee is deemed to have a role in implementing the Company's Risk Management policy and engaging in proactive risk vigilance to ensure timely identification of potential threats.

Responsible Reporting

The Board remains committed to present a balanced and comprehensive assessment of the Company's financial position, performance and prospects. Accordingly the Board considers it a key priority to ensure the timely publication of annual and quarterly results with comprehensive details enabling the stakeholders to make informed decisions. All publications comply with the statutory requirements, procedures laid down by the Colombo Stock Exchange and the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka.

For the disclosure of sustainability information in the annual report, the Company has adopted the integrated reporting approach promulgated by the International Integrated Reporting Council (IIRC) and where possible, the GRI Standards last updated in 2017.

To further demonstrate the commitment to sustainability, AFC also reports on its contribution to the UN Sustainability Development Goals (SDG's)

Employee Code of Conduct

AFC's Employee Code of Conduct has been established to ensure that employees adhere to the highest standards of professional conduct. The Code clarifies

AFC's expectations for all employees by establishing clear and reasonable standards of conduct required of all employees and provides guidance in the actual determination of appropriate conduct in the workplace. Each employee has the obligation to ensure compliance with the Code as a condition of their employment contract with the Company. All employees are expected to display behaviour that is above reproach, and that can withstand public scrutiny. In this context, the Code is intended to prevent employees from placing the Company at risk.

Whistleblower Policy

The Company's Whistleblower Policy has been formulated to enable all employees to raise concerns against any malpractice such as immoral, unethical conduct, fraud, corruption, potential infractions of the ethics, Company's policies, procedures or any other attribute. This policy also outlines the reporting procedure and investigation mechanism to be followed in case an employee blows the whistle for any wrong-doing in the Company. Employees are given protection in two important areas, confidentiality and against retaliation, ensuring that employees can raise concerns regarding any violation or potential violation easily and free of any fear of retaliation, provided they have raised the concern in good faith.

Managing Conflicts of Interest

The Board of Directors recognises that conflicts of interest may occur from time to time. Accordingly each member of the Board and Corporate Management employees are required to provide full disclosure of all actual and potential conflicts of interest. They shall disclose any and all facts that may be construed as a conflict of interest, both through an annual disclosure process and whenever such actual or potential conflict occurs.

Related Party Transactions

In line with the principles of fairness and transparency, AFC requires all transactions or dealings with the related parties be conducted in a manner that would not be detrimental to the Company. Identifying and managing related party transactions comes under the purview of the Company's Related Party Transactions Review Committee, which reports directly to the Board.

Further the Company requires Non-Executive Directors and all Independent Non-Executive Directors to submit a signed declaration disclosing any related party involvements that could materially interfere with the exercise of their unfettered and independent judgement.

Shareholder Rights

The Quarterly results and the Annual Report are the main mediums of communication with the shareholders. The reports are available on the CSE website and the Company's website. Once the Financial Reports are released the shareholders who have concerns could contact the Chairman, Managing Director, or Company Secretary.

All price sensitive information is disseminated to the public as per requirements of the corporate disclosures of Listing Rules.

The Annual General Meeting serves as a key platform to facilitate one to one contact with the shareholders.

Stakeholder Feedback

Stakeholder feedback is a key driver of AFC's continuous improvement agenda. Accordingly AFC welcomes feedback from all stakeholders and has provided several platforms for stakeholders to reach out to the Company. These include;

- One to One discussions
- Social Media
- Formal Meetings
- Telephone calls
- E-mail
- Letters
- Feedback Reports

Finance Companies (Corporate Governance) Direction No. 03 of 2008 and Subsequent Amendments Thereto) on Corporate Governance for Licensed Finance Companies in Sri Lanka

The Central Bank of Sri Lanka has issued the Direction on Corporate Governance in order to improve and sustain the Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka. This Direction is identified as the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the amendments are referred to as Finance Companies (Corporate Governance – Amendment) Direction No. 04 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013. The above Directions comprise of nine fundamental principles, namely

- The responsibilities of the Board
- Meetings of the Board
- Composition of the Board
- Criteria to assess the fitness and propriety of Directors
- Management functions delegated by the Board
- The Chairman and the Chief Executive Officer
- Board-appointed committees
- Related party transactions
- Disclosures

The Company's level of compliance with the Corporate Governance Directions is tabulated below.

Section	Rule	Compliance	Status of Compliance
02) THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS			
2 (1) Strengthening the safety and soundness of the Company			
	(a) Approve, oversee and communicate the strategic objectives and corporate values	Complied	Strategic objectives are formulated once in three years to set out the overall direction of the company encompassing the value creation business model to be adopted, the risk reward proposition and the business thrust having at the core sustainability. Annually it is reviewed in order to establish the performance against the objectives in the backdrop of evolving business environment. Changes made be effected if deemed necessary. These are conveyed to our facilitators (employees) through the well-established communication channels.
	(b) Approve the overall business strategy, including the overall risk policy and risk Management	Complied	In order to achieve our strategic objectives Annual Operating Plan is formulated and approved by the Board. Business Strategy is laid down based on the business approach and the business model. The robust risk policy framework is fully utilised.
	(c) Identifying and managing risk	Complied	The overall risk governance framework is mapped out by the Board and its effectiveness is measured at pre-determined periodic intervals against the risk parameters. Risks are addressed as and when they arise if these triggered due to unforeseen events. The Integrated Risk Management Committee identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to pro-actively manage and mitigate risks. Tolerance levels and risk appetite is determined based on various factors and consistently reviewed with a view of having a robust risk policy framework.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
	(d) Communication policy with all stakeholders	Complied	In order to establish effective and timely communication, a Communication Policy was drawn up and is in place. It addresses the modality and the time lines for communication with the different stakeholders. The identified stakeholders have received accurate and timely information.
	(e) Integrity of the internal control system and management information system.	Complied	The Board along with the Board Audit Committee ensures that the Company has a robust internal control system in order to safeguard shareholders' investments and the Company's assets. Internal control system is reviewed periodically to ensure that it is effective efficient and adequate. Control measures are in place to maintain the integrity of the information/data that is made available to the Management. In addition, the audits would also review the mapping of the key operations and its strength and modifications recommended if required. A Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and observations were monitored by the Board, which confirmed that the Internal Control System and the Management Information System provide reasonable assurance over financial reporting. In addition the Company has also implemented the BCMS Standard which also lends to the control framework as the systems and controls are bi annually audited by External Auditors.
	(f) Identifying and designating Key Management Personnel.	Complied	The Key Management Personnel are identified as per the Company policy which is aided by the Sri Lanka Accounting Standards and as per the Direction issued by the Central Bank of Sri Lanka on Corporate Governance. Key Management Personnel includes the Board of Directors, Chief Operating Officer, Chief Financial Officer, Chief Collections and Recoveries Officer, Chief Continuous Improvement Officer, Chief Credit Officer, Chief Commercial Officer, Assistant General Manager Deposit, Assistant General Manager Audit, Assistant General Manager Risk & Compliance, Deputy Financial Controller and Assistant General Managers Credit.
	(g) Authority and responsibilities of the Board and Key Management Personnel.	Complied	Authority and responsibilities of the Executive Directors and the Key Management Personnel are clearly defined. Accountability stems from their assigned job roles. As regard the KMP's their reporting lines and delegated authority levels and documented and communicated. Key Management Personnel have definitive roles, responsibilities and accountability which is clearly set out by the Board with appropriate reporting lines which is derived from the specific job functions. These are documented and communicated to the relevant persons and is reviewed periodically. The delegated authority levels are documented and are job specific.

Section	Rule	Compliance	Status of Compliance
	(h) Oversight of affairs of the Company by Key Management Personnel.	Complied	The Executive Directors has overview of the KMP's who are at the levels of AGM's and CXO's. Based on the levels of delegated authority the KMP's has oversight over their specific areas of responsibility. Monitoring systems are in place to measure their accountability. They have to make presentations or reports to the Board Sub Committees. In addition, periodically the CXO's and Directors have to make submissions to the Board on their respective disciplines.
	(i) Periodically assess the effectiveness of its governance practices, including: i) selection, nomination and election of directors and appointment of KMP ii) Management of conflicts of interest iii) Determination of weaknesses and implementation of changes where necessary.	Complied	The Board assesses the effectiveness of its governance practices based on feedback at Board and KMP levels. The Board has adopted a nomination process for the selection and appointment of Directors. With regard to the appointments of Directors requirements of the Regulatory Bodies are also complied with. Their reelection is as per the Articles of Association of the company and also the Directions issued by the Central Bank of Sri Lanka. Appointments of KMP's is under the purview of the Managing Director and Executive Directors. A process is in place to evaluate the suitability of the selected person and the appointment could be a promotion or an external appointment. Directors' disclose their positions in other institutions they serve no sooner appointments are made to the Board. These changes of other Directorates are monitored bi annually. At the outset of an impending transaction if a Director has an interest it is disclosed and then he/she abstains from the decision making process. Due process is in place for the evaluation of such transactions and it is carried out at arm's length basis. The Internal Control process is reviewed by the Audit Committee and if required measures are recommended for improvements. Processes, systems and controls are also evaluated during the internal audits and processes strengthened or modified as and when necessary.
	(j) Succession plan for Key Management Personnel	Complied	The Board has identified key and critical positions and has a mapped-out a Succession Plan.
	(k) Regular meetings with the Key Management Personnel.	Complied	The Key Managerial Persons regularly make presentations and participate in discussions on their areas of responsibility at the Board and its Sub-Committee meetings and progress towards corporate objectives is a regular agenda item for the Board where Key Management Personnel are involved regularly. In addition there are meetings held at pre-determined intervals when KMP's and Directors deliberate on matters under their preview.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
	(l) Understanding Regulatory environment.	Complied	The Board of Directors monitor regulatory compliances at monthly Board meetings by means of a regular monthly Board Papers and presentations on compliance. Further, the Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board. All Board members attend the Directors' and CEO's forum arranged by the CBSL and other training programs to keep abreast at the changes in the compliance requirement. The Compliance Officer reports to the IRMC.
	(m) Hiring and oversight of External Auditors.	Complied	The Board Audit Committee is responsible for the hiring and oversight of the External Auditors and on the recommendation of the Audit Committee Board would proceed with the appointment. External Auditors are appointed by the shareholders of the Company at the Annual General Meeting. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with external audit.
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	Complied	The Board has appointed the Chairperson and the Managing Director who is the virtual CEO and there is a clear division between both positions. The chairperson is Non-Executive and is not involved in executive functions. The Managing Director is the Apex Officer of the company. The distinction in the roles ensure the appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.
2 (3)	Director's ability to seek independent professional advice.	Complied	The Directors could obtain independent professional advice as and when necessary at the Company's expense and the Board- approved procedure is in place. However, no such instances have occurred during the year.
2 (4)	Dealing with conflicts of interests.	Complied	The Directors disclose their interest in contracts and abstain from participating in the decision making process.
2 (5)	Formal schedule of matters specifically reserved for Board Decisions.	Complied	The Board has an adopted formal schedule of matters specifically reserved for the Board. Processes are in place to ensure that such matters are strictly under the purview of the Board of Directors. Meetings are structured and conducted to maintain such control.
2 (6)	Situation on insolvency	Complied	The Board is aware of the need to inform the Director of the Department of Supervision of Non-Bank Financial Institutions of such and occurrence and no such situation arose during the year and we do not envisage such situation arising in the foreseeable future.
2 (7)	Publish corporate governance report in the Annual Report.	Complied	Corporate Governance Report has been published by the Company in the Annual Report 2019/20 on pages 103 to 139.
2 (8)	Annual self-assessment by the Directors and maintenance of such records.	Complied	The Company has adopted a scheme of self-assessment to be undertaken by each Director annually and is carried out on an annual basis and records maintained.

Section	Rule	Compliance	Status of Compliance
03) MEETINGS OF THE BOARD			
3 (1)	Regular Board meetings and circulation of written or electronic resolutions.	Complied	A calendar is fixed for all Board Meetings at the commencement of the calendar year. As set out the Board meets regularly at monthly intervals and special Board meetings are convened whenever necessary. The Board met on 18 occasions during the year 2019/20. Prior to the meeting Board Papers are circulated and after due consideration the Board Papers are passed with or without the amendment. Based on the Company's requirements as and when necessary consent is obtained from the Directors through Circular Resolutions
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	Complied	The Agenda is circulated with a minimum of seven working days prior to the date of the meeting. Thereby the Directors have sufficient time to include items to the Agenda. At the request of the Directors' items have been included to the Agenda.
3 (3)	Notice of meetings.	Complied	A calendar of Board meetings is agreed upon at the outset and meeting are held as per the schedule as far as possible. It is changed at the request of a Director with the consent of all. Agenda and Board Papers are circulated in soft form to the Directors in advance for them to make informed decisions. This also includes presentations at Board Meetings.
3 (4)	Directors' attendance at Board meetings	Complied	All Directors have attended 90% of the Board Meetings and no Director has been absent from three consecutive meetings. Directors' Attendance at Board and Sub Committee meetings, Refer page 106 for details of individual Directors' attendance at Board meetings.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	Complied	Alliance Management Services (Pvt) Ltd., a company registered with the Registrar of Companies acts as a Company Secretaries and handles the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations.
3 (6)	Responsibility of preparation of agenda for a Board meeting.	Complied	The Chairperson has delegated the responsibility of the preparation of the agenda to the Company Secretaries Thereby the Company Secretaries prepares the Agenda in consultation with the Chairperson.
3 (7)	Directors' access to advice and services of the Company Secretary	Complied	Access to the Company Secretaries is available to all Directors in order to ensure that the Directors have the required information with regard to the applicable laws, directions, rules and other matters
04) COMPOSITION OF THE BOARD			
4 (1)	The number of Directors	Complied	At the close of the Financial Year the Board comprised of eight (8) Directors. During the year a Non-Executive Director resigned and an Independent Non-Executive Director was appointed. The total number is compliant with the requirement set out in the Corporate Governance direction.
4 (2)	Period of service of a Director	Complied	In compliance with the maximum number of years for a Non-Executive Director, no Non-Executive Director has exceeded nine years in service. Details of their tenures of service are given on pages 24-26.
4 (3)	Board balance	Complied	Board balance was maintained throughout the year.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
4 (4)	Independent Non-Executive Directors and the criteria for independence.	Complied	The Board has the required number of Independent Directors and their independence is maintained and is stringently observed. As the Chairperson is Non-Executive and Non-Independent, a Senior Director has been appointed.
4 (5)	Appointment of Alternate Directors.	Complied	There are no Alternate Directors appointed or operated during the year 2019/20. There are no Alternate Directors appointed to the Board.
4 (6)	Skills and experience of Non-Executive Directors.	Complied	Based on the nomination process, the Board of Directors discuss and agree on the expertise required at Board level. Once this is determined, Non-Executive Director with the required expertise and experience is invited to join the Board.
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	Complied	Quorum required for all Board Meetings is half of the Directors present being Non-Executive. On this basis all meetings were rightly constituted
4 (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors.	Complied	The Independent Non-Executive Directors are identified and specified in all corporate communications. Annually their independence is ascertained via the declarations made by the Non-Executive Directors.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Complied	The Board adheres to the Nomination process set out by the Board when appointing a new Director. Once an appointment is recommended by the Board the approval of the Director, DSNBFI is obtained prior to appointing the Director. Once the Director is appointed, the Colombo Stock Exchange is notified through an announcement and CBSL is also notified. The Board is aware of its responsibilities as to succession and due process is adopted.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment.	Complied	The Directors who are appointed during a financial year are subject to re-election at the Annual General Meeting subsequent to their appointment provided such appointments are not made during the period of notice for the Annual General Meeting. During the current financial year the Director so appointed is subject to retirement and re-election.
4 (11)	Communication of reasons for removal or resignation of Directors.	Complied	There was no removal during the current financial year. During the financial year one Executive Director resigned from the company and the required approval was obtained from the Central Bank of Sri Lanka and the legal requirements were met.
05) CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETY OF DIRECTORS			
5 (1)	The age of a Director shall not exceed 70 years.	Complied	None of the Directors on the Board are over 70 years
5 (2)	Directors shall not hold ofice as a Director of more than 20 Companies/Societies/ Corporate bodies including Associate and Subsidiary Companies.	Complied	None of the Directors hold ofice as Director or equivalent position in 20 or more establishments.

Section	Rule	Compliance	Status of Compliance
06) DELEGATION OF FUNCTIONS			
6 (1)	Delegation of work to the Management.	Complied	As empowered, the Board has delegated the particular functions to the Managing Director, Executive Directors and Key Management personnel.
6 (2)	Periodical evaluations of the delegation process.	Complied	Delegated authority levels and powers are evaluated by the Board and at Management level to ensure that it is current and reflects the structure that is best suited to produce the desired outcome.
6 (3)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Complied	The Board adheres to the Nomination process set out by the Board when appointing a new Director. Once an appointment is determined the approval from the Director, SNBFI is obtained prior to appointing the proposed Director. Once the Director is appointed the Colombo Stock Exchange is notified through an announcement.
07) THE CHAIRPERSON AND CHIEF EXECUTIVE OFFICER			
7 (1)	Division of responsibilities of the Chairman and CEO	Complied	The offices of the Chairperson and the Managing Director are clearly defined. Chairperson does not carry out executive functions and is a Non-Executive Director.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	Complied	Chairperson is a Non-Independent Non-Executive Director. The Chairperson being non independent, a Senior Director has been appointed.
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	Complied	A formal procedure is in place to identify the relationships between the Directors and particularly between the Chairperson and the Managing Director. Based on this there is no material relationship between the Directors or the Chairperson and Managing Director.
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied	The Board is cognizant of the fact that the Chairperson should give the required leadership to the Board, facilitate the effective and timely decision making process by ensuring the flow of information and providing guidance at meetings. Based on the above the Chairperson has carried out the functions during the year under the review.
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	Complied	Preparation of the agenda has been delegated to the Company Secretaries who circulates a formal agenda 7 days prior to the holding of the Board meeting. The agenda is approved by the Chairperson.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	Complied	The Chairperson ensures that all Directors are adequately briefed on all agenda matters. Agenda and Board papers and other related material are circulated with sufficient time prior to the meeting which enables them to be prepared to raise any matter they want to clarify. Presentations are also made to the Board on matters which are declared important for greater emphasis and stimulate healthy deliberations.
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company.	Complied	The Chairperson facilitates and encourages active contribution by all Directors during deliberations at Board level and the decision making process to ensure that the outcome is in the best interest of the Company.
7 (8)	Facilitate effective contribution of Non- Executive Directors and relationships between Executive and Non-Executive Directors.	Complied	With a view to optimizing the decision making process, the Board is constituted with adequate number of Non-Executive Directors who impact the decision making by their objective independent outlook. They also contribute by serving on the Sub Committees and lend their expert advice on specific areas.
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties.	Complied	The Chairperson does not have executive functions nor does she carry out supervisory functions.
7 (10)	Maintain effective communication with shareholders.	Complied	The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with shareholders and they are given the opportunity to raise matters for which clarifications are needed and also express their views. Further, the Board approved communication policy evidences the Company's process in this regard.
7 (11)	Chief Executive Officer functions as the apex executive-in- charge of the day-to-day operations and businesses	Complied	The Managing Director of the Company is the virtual CEO of the Company and is the apex Executive of the Company. The management of the Company by the Managing Director who is responsible for the functionalities of the Company on a daily basis is facilitated by the Executive Directors and the Key Management Personnel.
08) BOARD APPOINTED COMMITTEES			
8 (1)	Establishing Board committees, their functions and reporting.	Complied	The following committees have been appointed by the Board and each such committee is required to report to the Board: 1. Audit Committee 2. Integrated Risk Management Committee 3. Remuneration Committee 4. Related Party Transactions Review Committee The respective Committees present their recommendations to the Board and such recommendations are discussed at Board level and implementation is set out by the Board. The Reports of the Committees are published in the Annual Report.

Section	Rule	Compliance	Status of Compliance
8 (2) Audit Committee			
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	Complied	The Chairpson of the Audit Committee is Mrs. Priyanthi de Silva. She is an Independent Non-Executive Director and holds the requisite qualifications. Her profile appears on page 25.
	(b) All members of the Committee to be Non-Executive Directors	Complied	All the members of the Audit Committee are Non-Executive Independent Directors.
	(c) Functions of the committee include; (i) the appointment of the External Auditors (ii) the implementation of the Central Bank Guidelines. (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor	Complied	The Audit Committee has recommended; • The re-appointment of M/s. Edirisinghe & Co., Chartered Accountants as External Auditors for audit services; • The implementation of guidelines issued by Central Bank of Sri Lanka to Auditors from time to time. • The application of Accounting Standards in consultation with the Chief Financial Officer and External Auditors; • The service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. • No resignation or dismissal of the Auditor has taken place during the year under review. • The Committee ensures that the requirement of rotation of external Audit Engagement Partner, once in every five (5) years, is met.
	(d) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.	Complied	The External Auditor has provided an independent confirmation in compliance with the guidelines for appointment of Auditors of Listed Companies. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines.
	(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering (i) skills and experience of the Auditor (ii) threat to the independence (iii) fee for the non-audit services and independence	Complied	A Board approved process is in place for the engagement of the Auditors to provide non audit services. This process will be adopted only to carry out work where the objectivity of the External Auditor's independence is not compromised. Non audit services were not carried out by the External Auditors.
	(f) Determines the nature and the scope of the External Audit.	Complied	A comprehensive presentation is made by the Auditors to the Audit Committee at a meeting where the proposed audit plan, scope and resources and time lines are set out. The Audit Committee then reviews it and recommends changes if required to further strengthen the audit process.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
	(g) Review the financial information of the Company.	Complied	Interim Financial Statements as well as Annual Audited Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit judgement in the Financial Statements, going concern assumption and compliance with Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.
	(h) Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Management Personnel (if necessary)	Complied	The Audit Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2019/20.
	(i) Reviewing of the External Auditors' management letter and the response thereto	Complied	The Audit Committee upon receipt of the Management Letter, requests the Company to compile the responses to the queries raised and once they are compiled the Auditors are invited to make a presentation at the Audit Committee Meeting. The responses of the corporate Management and the significant findings if any which have arisen during the audit are reviewed and instructions are given to Department Heads to take remedial actions, where necessary.
	(j) Review of the Internal Audit Function • Review scope, function and resources • Review of Internal Audit Programme • Review of Internal Audit Department • Recommendations on Internal Audit functions • Appraise the resignation of senior staff of Internal Audit and any outsourced service providers • Independence of Internal Audit functions	Complied	Annually the Internal Audit Plan is prepared and presented to the Audit Committee. The Audit Committee thereafter reviews the plan and recommends changes if required only. The scope of the audits are reviewed based on the functionalities and considering the different business segments and the related risk profiles. Based on critical factors which the Committee considers vital, the scope is enhanced or frequency increased as the case may be. Once the plan and scope are finalised the resources are mapped out and a recommendation is made to the Board with regard to it. The Internal Audit Department carries out the internal audits on the pre agreed time lines and intervals. The internal audit plan is reviewed regularly. Review of the Internal Audit Department is carried out by the Audit Committee. Recommendations are made to the Board on the functions of the Internal Audit Department. Audit Committee ensured the independence of the Internal Audit through the framework that is in place.
	(k) Consideration about the internal investigations and Management's responses.	Complied	Any request by the Management for specific audits is channelled through the Audit Committee. Such audits have a specific scope which is then considered by the Committee and assigned to the Internal Audit Department. Such reports and responses are considered by the Committee and passed on to the Management for necessary action. Such audits are for improving processes or methodology.

Section	Rule	Compliance	Status of Compliance
	(l) Attendees of Audit Committee meeting with corporate Management and External Auditors.	Complied	The Committee met twice with the External Auditors without the presence of Executive Directors. The Managing Director, Executive Directors, Chief Financial Officer, Chief Risk Officer, Compliance Officer and AGM's attended the meeting as and when invited.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary	Complied	The Board through the Board Audit Committee has ensured that the availability of adequate resources unhindered access to information. If required with the guidance of the Chairperson of the Audit Committee, they could seek external professional advice.
	(n) Regular meetings	Complied	The Audit Committee meets minimum once a quarter and more often as required. The audit findings were issued to its members in advance and the Minutes of the meetings maintained by the Company Secretaries. The Committee has met 10 times during the year and the attendance at those meetings is set out on pages 148 to 149 in Audit Committee Report.
	(o) Disclosures in the Annual Report.	Complied	The Report of the Board Audit Committee is on pages 148 to 149 and includes the detailed activities, meetings held during the year and the Directors attendance at the Audit Committee Meetings.
	(p) Maintain minutes of meetings	Complied	The Company Secretaries acts as the Secretary of the Audit Committee and records and maintains all Minutes of the meetings.
	(q) Whistle blower Policy	Complied	The Company has a Board-approved Whistle blower Policy, whereby employees of the Company are entitled to raise concerns in confidence about the malpractices in the Company.
	(h) Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Management Personnel (if necessary)	Complied	The Audit Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2019/20.
8 (3) Integrated Risk Management			
	(a) The composition of IRMC	Complied	There were two Independent Non-Executive Directors, three Executive Directors at the beginning of the financial year, and was consistently maintained during the year. Key Management Personnel, Chief Financial Officer, Chief Recovery Officer, Chief Credit Officer, Chief Commercial Officer, AGM Treasury, AGM Internal Audit and Compliance Officer attended the Meetings.
	(b) Periodical risk assessment	Complied	The Board has approved a Risk Management Policy which serves as the framework on which the Committee functions. AGM Risk and Compliance presents risk assessment to the Committee and Committee then reviews the risks and recommends mitigating measures. The Management takes the required steps as and when deemed necessary.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
	(c) Review the adequacy and effectiveness of Management level committees to manage risk	Complied	The Committee reviews the specific risks and recommends measures to manage the same within the risk parameters.
	(d) Corrective action to mitigate the risk	Complied	The Committee discusses the mitigation of risks and measures, the corrective action taken and the time frame to implement such measures.
	(e) Frequency of meetings	Complied	The Committee has met 04 times during the year to assess the risks of the Company.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	Complied	The Risk Committee recommends action to be taken against officer to the Executive as and when required.
	(g) Risk assessment report to the Board	Complied	The Committee had apprised Board of the risks and recommendations through the Executive Directors.
	(h) Establishment of a compliance function	Complied	The Board has appointed a Risk and Compliance Officer who is responsible for the compliance function of the Company. There are periodic reports to confirm whether the compliance on all statutory, regulatory and other requirements have been met.
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	Complied	A Board approved policy is in place which defines the related parties, scope of the Committee, transactions that come under the purview of the Committee, exceptions, review process and the disclosures. It specifies that a Director interested in a transaction cannot participate in the decision making process and should abstain. The Committee reviews such proposed transactions at the Related Party Transactions Committee Meetings and makes recommendations to the Board such contracts are entered into at the best possible terms and in accordance with the best practices. The Committee has an approved monitoring and reporting process where such transactions are monitored. Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 53 on page 240 on Financial Statements
9 (3)	Related party transactions.	Complied	A Board-approved process is in place to identify the related party transactions and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.

Section	Rule	Compliance	Status of Compliance
9 (4)	Monitoring of related party transactions defined as more favourable treatment including, (a) Granting regulatory capital (b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counter-party (c) Allowing preferential treatment compared to unrelated parties in the normal course of business (d) Providing or obtaining services without proper evaluation (f) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.	Complied	As stipulated in the Board-approved Related Party Transactions Policy the Committee ensures that transactions are carried out in an arms' length basis and not on more favourable terms. A methodology has been adopted to monitor such transactions.
10) DISCLOSURES			
10 (1)	Publish Interim and Annual Financial Statements based on applicable accounting standards and publish in Sinhala, Tamil and English newspapers	Complied	The annual and bi-annual financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards. Bi-annual Financial Statements have been published in the newspapers in Sinhala, Tamil and English. Interim financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards and have been disseminated through the Colombo Stock Exchange.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report; (a) A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Statement of Directors' Responsibility for Financial Reporting" on page 153.

Corporate Governance

<table>
<tr><th>Section</th><th>Rule</th><th>Compliance</th><th>Status of Compliance</th></tr>
<tr><td></td><td>(b) A report by Board on the finance company's internal control mechanism</td><td>Complied</td><td>Directors' Responsibility Statement on Internal Control Systems over Financial Reporting is given on page 152.</td></tr>
<tr><td></td><td>(c) The External Auditors' certification on the effectiveness of the internal control mechanism.</td><td>Complied</td><td>The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism which is given on page 152.</td></tr>
<tr><td></td><td>(d) Details of Directors and the transactions with the finance company</td><td>Complied</td><td>Directors' interest in contracts with the Company are given below Including Executive Directors.
<table>
<tr><th>Assets and Liabilities as at 31st March</th><th>2020</th><th>2019</th></tr>
<tr><td>Loans</td><td>-</td><td>-</td></tr>
<tr><td>Deposits</td><td>113,868,475</td><td>98,910,941</td></tr>
<tr><th>Income and Expenses</th><th>2020</th><th>2019</th></tr>
<tr><td>Interest Income</td><td>-</td><td>-</td></tr>
<tr><td>Interest Expenses</td><td>1,412,1887</td><td>12,484,377</td></tr>
<tr><th>Remuneration paid</th><th></th><th></th></tr>
<tr><td>Short term - employment benefits</td><td>55,825,250</td><td>51,895,158</td></tr>
<tr><td>Long term-employment benefits</td><td>17,189,895</td><td>9,974,815</td></tr>
</table>
</td></tr>
<tr><td></td><td>(e) Fees/remuneration paid by the finance company to the Directors in aggregate</td><td>Complied</td><td>The aggregate value of remuneration paid by the Company to its Directors is Rs. 73,015,146 in 2019/20 (in 2018/19 Rs. 61,869,973). The details are disclosed under the note 53.2 to the financial statements on page 241.</td></tr>
<tr><td></td><td>(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds</td><td></td><td>
<table>
<tr><th>Category of related party</th><th colspan="2">2020</th><th colspan="2">2019</th></tr>
<tr><th></th><th>Rs.</th><th>% of the Capital Funds</th><th>Rs.</th><th>% of the Capital Funds</th></tr>
<tr><td>Directors</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Other Key Management Personnel and their close family members</td><td>4,606,180</td><td>0.12%</td><td>11,358,778</td><td>0.34%</td></tr>
<tr><td>Subsidiaries</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Joint Venture</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Entities which Directors and their close family members have a substantial interest</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>
</td></tr>
</table>

<table>
<tr><th>Section</th><th>Rule</th><th>Compliance</th><th>Status of Compliance</th></tr>
<tr><td></td><td>(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel</td><td>Complied</td><td>
<table>
<tr><th>Assets and Liabilities as at 31st March</th><th>2020</th><th>2019</th></tr>
<tr><td>Loans</td><td>4,606,181</td><td>11,358,779</td></tr>
<tr><td>Deposits</td><td>6,905,140</td><td>13,048,885</td></tr>
</table>
<table>
<tr><th>Income and Expenses</th><th>2020</th><th>2019</th></tr>
<tr><td>Interest Income</td><td>756,479</td><td>1,844,436</td></tr>
<tr><td>Interest Expenses</td><td>578,702</td><td>1,516,424</td></tr>
</table>
<table>
<tr><th>Remuneration paid</th><th></th><th></th></tr>
<tr><td>Short term - employment benefits</td><td>73,993,451</td><td>71,946,875</td></tr>
<tr><td>Long term - employment benefits</td><td>13,439,171</td><td>13,851,705</td></tr>
</table>
</td></tr>
<tr><td></td><td>(h) Report confirming the compliance with prudential requirements, regulations, laws and internal controls</td><td>Complied</td><td>This has been disclosed in the Report by the Board on Internal Control in page No. 152.</td></tr>
<tr><td></td><td>(i) Non-Compliance reporting</td><td>Complied</td><td>The Director Department of Supervision of Non-Bank Financial Institutions had not brought to the notice of the Board on non-compliance with the Direction.</td></tr>
<tr><td></td><td>(j) The External Auditors' certification of compliance with the corporate governance direction</td><td>Complied</td><td>The Company has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Directions set out by the Central Bank of Sri Lanka.</td></tr>
</table>

Compliance with the Code of Best Practice on Corporate Governance 2017 Issued by the Institute of Chartered Accountants of Sri Lanka

Code Reference	Compliance and Implementation	Status of compliance	Complied
A DIRECTORS			
A.1	The Board	At the beginning of the financial year the Board comprised of 8 Directors and during the year one Non-Executive Director resigned and an Independent Non-Executive Director was appointed and it remained at 8 as at 31st March 2020. At the closure of the financial year there are four Non-Executive Directors and three of them are independent and one non independent The Non-Executive Directors, have the required professional competence, skills and experience in the fields of finance, business, IT, and marketing. The Board is overall responsible for the direction and the strategy of the Company whilst the Managing Director and the Executive Directors are responsible for the day to day management of the Company and delivering on the Strategic and Corporate Plan, both on the financial and the qualitative objects set by the Board.	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.1.1	Regular meetings	Board Meetings are held on a monthly basis on the pre-agreed dates which is changed if required to facilitate maximum attendance. In the financial year 2019/20 the Board met 18 times during the year. Attendance at meetings appears on page 106.	✓
A.1.2	Role and responsibilities of the Board	The Board approved Strategic Plan is in place and commenced for the next three years commencing in the financial year 2019/20. The plan encompasses the strategic direction of the Company and the objectives	✓
A.1.3	Act in accordance with laws	The Board has set out a framework to ensure that the Board and the Directors in their individual capacity and the Company complies with the laws of the land and the regulatory obligations. The Board is apprised by compliance in regard to the applicable laws and regulations and standards on a regular basis.	✓
A.1.4	Access to advice and services of Company Secretary	The Directors have access to the Company Secretaries, a company duly registered as a qualified Secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations.	✓
A.1.5	Independent judgement	The Board comprises of Executive and Non-Executive Directors whose independence is assured at all times. On matters being deliberated they each bring independent judgement and objectivity which then translates to an informed and collective decision making.	✓
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	The Board Meetings are structured in a manner which enables Directors to dedicate such time as required. Meetings of the Committees they serve in too is structured to optimize the time expended in making well informed decisions stemming from adequate material sent in time prior to the relevant meeting.	✓
A.1.7	If necessary in the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board	No such resolutions were presented to the Board	✓
A.1.8	Board induction and training	The newly appointed Director was given appropriate briefing on the affairs of the Company and the business philosophy. Directors are encouraged to attend forums which have direct relevance to their sphere of work and also others. Programs relating to changes in the applicable laws and regulatory framework are attended by the Directors. In addition, in-house programs are conducted on matters that Directors are required to exercise independence and that which affects the overall strategic direction of the Company. The Directors are apprised of the changes in the Directions issued by the Central Bank of Sri Lanka.	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.2	Separating the business of the Board from the executive responsibilities for management of the Company	The Chairperson is Non-Executive and does not engage in any executive functions and the Managing Director who is virtual the apex Executive carries out executive functions. There is a distinct difference in the roles of both positions and the authority they exercise.	✓
A.3	Chairman's role in preserving good corporate governance	The Chairperson provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	✓
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance	The Chairperson of the Audit Committee is a Fellow of Certified Practicing Accountants (FCPA) Australia and a Fellow of the Chartered Institute of Management Accountants (FCMA) UK. The Finance Director is an Associate Member of the Chartered Institute of Management Accountants (ACMA), UK and a Chartered Global Management Accountant (CGMA) 2012 and also a qualified Accountant of the Association of Chartered Certified Accountants, UK (ACCA). Remaining members of the Board also possess experience in finance and other disciplines which has an interface with finance thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance. The profiles of the Board of Directors are given on pages 24 to 26.	✓
A5	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	There were no instances where the Directors could not unanimously resolve matters and accordingly no such matters were recorded in the Minutes.	
A.6	Provision of appropriate and timely information	Management should provide timely information to the Board. The Executive Directors ensures that timely and accurate information is provided by the Management to the Board within the required time frame to enable the Non-Executive Directors in the decision making process. The documents are also supported with presentations on key matters relating to financial performance, sustainability initiatives and matters on compliance. The Minutes, Agenda and Board papers required for a Board meeting should be provided before seven (7) days. Board papers Agenda and Minutes are circulated to the Directors along with the other documents within the agreed time frame prior to the Board meeting.	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.7	Appointments to the Board and re-election Nomination Committee	The Board has an approved nomination process which is stringently followed with regard to the appointments to the Board of Directors. Assessment of Board composition by the Nomination Committee The Board reviews the new appointments and re-elections adopting the specified process. The Articles of Association specifies the re-election of the Directors Disclosure requirements when appointing of new Directors to the Board Announcements are made through the Colombo Stock Exchange on the appointment of new Directors and also on the change of position. The resignations and appointments of Directors were with the prior approval of the Central Bank of Sri Lanka and the announcement was made via the Colombo Stock Exchange. Details of the Board of Directors are given in the Annual Report with resumes for each Director. One Independent Non-Executive Director was appointed during the year following the due process.	✓
A.8	All Directors should submit themselves for re-election at regular intervals	Re-election of Directors. Reelection of Directors is carried out as stipulated in the Articles of Association of the Company for Directors who are continuing on the Board. New Directors are required to retire at the first Annual General Meeting following their appointment as per the Articles of Association and this is also required as per the Corporate Governance Direction of the Central Bank of Sri Lanka.	✓
A.9	Appraisal of Board and committee performance	Annually the Directors submit individual appraisal forms to the Company Secretaries on the agreed format, which is then collated and discussed at the Board Meeting. Decisions made by the Board on appraisal which require action are then implemented as appropriate. Annual self-evaluation by the Board of its sub-committees. The appraisal of the performance of sub-committees is carried out. Disclosure in the Annual Report about the Board's performance evaluation methodology. Disclosures have been made in this Report.	✓
A.10	Annual Report to disclose specified information regarding Directors	Shareholders should be kept advised of relevant details in respect of Directors. Annual Report carries the relevant information. Annual Report disclosure in respect of Directors. Profiles of the Board of Directors are given on pages 24 to 26 including other directorships held by the Directors and memberships of Board Committees. Directors attendance is disclosed on page 106.	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.11	Appraisal of the CEO	The Board should require at least annually assessing the performance of the CEO. The Managing Director functions as the virtual CEO of the Company and the performance is appraised by the Board through the annual appraisal process. The appraisal requires for Directors to assess the performance based on the annual budgets and qualitative measures that the Board set out to achieve at the commencement of the financial year. Evaluation of the performance at the end of the fiscal year. At the end of each financial year the Board evaluates the set targets and the actual performance.	✓
B DIRECTOR'S REMUNERATION			
B.1	Directors' and executive remuneration	The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his/her own remuneration. Setting up of Remuneration Committee. The functions of the Committee include determination of compensation and benefits of the Managing Director and Executive Directors. The compensation of the key management personnel are determined where appropriate. Composition of Remuneration Committee Composition of Remuneration Committee is in line with Listing Rules. All are Non-Executive Directors as per the Code and the Listing Rules of the CSE and two are Independent. Disclosure in the Annual Report about the Remuneration Committee members Remuneration Committee Members are specified in the Report. Remuneration of Non-Executive Directors. The Non-Executive Directors receive a fee Remuneration Committee consults the MD on matters relating to the Remuneration of KMP's and has access to the professional advice	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
B.1 Contd.	Directors' and executive remuneration	The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his/her own remuneration. Setting up of Remuneration Committee. The functions of the Committee include determination of compensation and benefits of the Managing Director and Executive Directors. The compensation of the key management personnel are determined where appropriate. Composition of Remuneration Committee Composition of Remuneration Committee is in line with Listing Rules. All are Non-Executive Directors as per the Code and the Listing Rules of the CSE and two are Independent. Disclosure in the Annual Report about the Remuneration Committee members Remuneration Committee Members are specified in the Report. Remuneration of Non-Executive Directors. The Non-Executive Directors receive a fee Remuneration Committee consults the MD on matters relating to the Remuneration of KMP's and has access to the professional advice	✓
B.2	Level and make-up of remuneration	Level of remuneration of both the Executive and the Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to corporate and individual performance Remuneration of Executive Directors. Remuneration of Executive Directors consists of fixed remuneration and performance based payment in order to attract, retain and motivate them. Remuneration packages in line with industry practices. The Remuneration Committee reviews the information relating to competitors of the Company and due care is taken to ensure that remuneration is on par with industry standards. Remuneration packages in line with other companies in the Group. This is not applicable to the Company	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
B.2 Contd.	Level and make-up of remuneration	Performance-related payments to Executive Directors. In addition to the fixed remuneration, there are performance-related elements of remuneration for Executive Directors and the Managing Director which is directly related to performance with the objective of providing appropriate incentives to those Directors to perform at the highest level. Executive Share Option. There are no Share Option schemes offered by the Company	
		Designing schemes of performance related remuneration. In deciding the remuneration of the Managing Director, Executive Directors and Senior Management, the Company takes note of the appropriate provisions (Early termination of service of Directors.) This situation has not arisen Remuneration of Non-Executive Directors. Non-Executive Directors are entitled to fixed fees. The Company has not offered any Share Option plans to either Executive Directors or Non-Executive Directors.	✓
B.3	Disclosures related to remuneration in Annual Report	Annual Report of the Company should contain a statement of Remuneration Policy and details of remuneration of the Board as a whole. Disclosure in the Annual Report about the Remuneration Committee members, statement of Remuneration Policy and aggregate remuneration paid. Remuneration Committee report is given on page 147 which sets out the details on the composition of the Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 53.2 to the Financial Statements on page 241.	–

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
C .	RELATIONS WITH SHAREHOLDERS		
C.1	Constructive use of the AGM and conduct of other general meetings	The Board should use the AGM to communicate with shareholders and should encourage their participation. Use of proxy votes. The votes of the proxies with regard to the resolutions to be passed at the Annual General Meeting are considered Separate resolutions for separate issues. Individual resolutions are given in the Notice convening the Annual General Meeting with regard to the matters that have to be voted on at the Meeting and where shareholder approval is required. Arrangement made by the Chairperson of the Board that all Chairmen/ Chairpersons of Sub Committees make themselves available at the AGM. At the Annual General Meeting the entire Board is present unless an unforeseen event prevents them from attending the meeting. The Chairs of the Board Sub Committees are also present to respond to any queries raised by the shareholders. Adequate notice for the AGM to the shareholders. The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act. Procedures of voting at general meetings. Shareholders right to appoint a proxy for voting at AGM appears on the Notice of Meeting and on the Form of Proxy. Voting procedures at general meetings appear on the Form of Proxy	–
C.2 Contd.	Communication with shareholders	Channel to reach all shareholders to disseminate timely information. The Company adopts the channels of communication for engaging with shareholders. Disclosures required to be disseminated through the Colombo Stock Exchange is carried out as stipulated. Such disclosures and announcements are available on the CSE website. Quarterly financials are also uploaded in the CSE website and is made available to the shareholders within 45 days from the end of the first three quarters of any financial year and within 90 days from the closure of a financial year. Bi annually, the financials are published in the newspapers as required by the Central Bank of Sri Lanka. The Annual Audited Financials are made available to the shareholders within five months of the closure of the financial year and the Annual Report is also available in the CSE website.	

Code Reference	Compliance and Implementation	Status of compliance	Complied
C.2 Contd.	Communication with shareholders	Policy and methodology of communicating. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided. Implementation of the communication policy and methodology. Shareholders receive the Annual Report from the Company either by way of a CD or in hard copy form. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without any charge Contact person. Shareholders may, at any time, direct questions and request for publicly available information from the Directors or Management of the Company. Company Secretary can be contacted for any queries of shareholders. Awareness of Directors on major issues and concerns of shareholders The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Board attention to the Board or individual Director/s as applicable.	✓
C.3	Disclosure of major and material transactions	Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company. Major transactions During the year, the Company did not engage in or commit to any major transactions which materially affected the Company's net asset base.	✓
D.	ACCOUNTABILITY AND AUDIT		
D.1.	Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects	The Board should present a balanced and an understandable assessment of the Company's financial position and prospects. Board should present interim and other price sensitive information to the public and reports to regulators. The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2020 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.	

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
D.1 Contd.	Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects	Directors' Report in the Annual Report. Annual Report of the Board of Directors on the affairs of the Company is given on pages 140 to 146 covering all areas of this section. Annual Report disclosure stating Board's and Auditors' responsibility Statement of Directors' Responsibility for Financial Reporting is given on page 153 and Auditors' certification on the Internal Control is given on page 152 respectively. Management discussion and analysis Management discussion and analysis is given on pages 57 to 102.	✓
		Disclosure of Related Party Transactions. A detailed Board-approved documented process is available in the Company for monitoring and reporting of Related Party Transactions. The Company Secretary makes necessary disclosures of any Related Party Transactions which require disclosure as per the rules. All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 53 to the Financial Statements on page 240. Directors' assumption on the going concern of the business. This is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 145. Serious loss of capital. No such circumstance occurred, and its likelihood of occurrence is also remote.	✓ ✓
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Company. The IRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal control. Their Risk Management Report and the report by the Integrated Risk Management Committee outlines the responsibilities of the Committee and its activities during the year. The risk framework had been formulated to meet the business specific needs and codes on best practices. The risk related report appears on the pages 154 -162 and the IRMC Sub committee report appears on page 151.	

Code Reference	Compliance and Implementation	Status of compliance	Complied
D.3	Audit Committee	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors. Composition of the Audit Committee. The Audit Committee comprises the following Directors: Mrs. Priyanthi de Silva - Chairperson Lt. Col. A.R. Samarasinghe - Member	✓
		Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors. The Audit Committee periodically reviews the audit plan, scope and results of the audit and its effectiveness. Further independence and the objectivity of the Auditors are also reviewed annually. The Committee would consider independence when providing non-audit engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors Disclosures made in the Annual Report about Audit Committee. Audit Committee report is given on pages 148 to 149 of the Annual Report	✓
D.4	Code of Ethics	Company must adopt a Code of Business Conduct and Ethics for Directors, and members of the Senior Management Team. Any non-compliance with the said Code should be promptly disclosed. Code of Business Conduct and Ethics is in place. There were no violation for disclosure.	✓
D.5	Corporate governance disclosures	The Board should include this in the Annual Report setting out the manner and extent for it to be complied. Disclosure of corporate Governance Compliance The requirement is met with the presentation of this Corporate Governance Report from pages 103 to 139 of the Annual Report.	✓
E & F	Encourage voting at AGM	The Company has 1391 ordinary voting shareholders of which 20.06% are institutional shareholders. All shareholders are encouraged to participate at AGM and cast their votes. The AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly.	✓

Corporate Governance

Listing Rules Corporate Governance for Listed Companies Issued by the Colombo Stock Exchange

Section	Rule	Status of Compliance	Compliance
7.6 (iv)	The public holding percentage	Please refer page 264	✓
7.6 (v)	Director's and Chief Executive Officer's holding in shares at the Item 5.4 of the "Investor Relations" beginning and at the end of the financial year	Please refer page 143	
7.6 (vi)	Information pertaining to material foreseeable risk factors	Please refer the pages 46 to 47	
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Please refer pages 41 to 43	✓
7.6 (viii)	Extents, locations, and valuations of land holdings and Investment properties as at the end of the year	Please refer Notes 33 and 33.4 Information on the freehold land and buildings of the Company in the Notes to the Financial Statements on pages 220 and 224	✓
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Please refer Note 45 Stated Capital in the Notes to the Financial Statements on page 232	✓
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year	Please refer 'Shareholder Information' on pages 264 and 265.	✓ ✓
7.6 (xi)	Ratios and market price information: Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share Debt – Interest rate of comparable Government Securities, debt/ equity ratio, interest cover and quick asset ratio, market prices and yields during the year Any changes in credit rating	Please refer 'Financial Capital' on pages 68-70 Please refer 'Ten year summary' on page 262 Please refer 'Corporate information' on page Inner Back Cover	
7.6 (xii)	Significant changes in the Company or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year	Please refer Note 33 - Property, Plant & Equipment in the Financial Statements on page 220.	✓
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	There were no any share issues, Rights Issues or private placement during the year.	✓
7.6 (xiv)	Information in respect of Employee Share Option Schemes: Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) Highest, lowest, and closing price of the share recorded during the financial year	The Company does not have any Employee Share Ownership or Stock Option Scheme at present	✓

Section	Rule	Status of Compliance	Compliance
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules	Please refer the sections below	✓
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	The Company did not have any Related Party Transactions exceeding this threshold during the year	✓
07.10.1 NON-EXECUTIVE DIRECTORS			
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	As at 31st March 2020 The Board comprised of four Non-Executive Directors out of a total 8 members which is 50%	✓
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised of 8 Directors as at the conclusion of the immediately proceeding AGM.	✓
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	The cessation and the appointment of the Directors as disclosed in 7.10.1 (b) complied with the requirement	✓
07.10.2 INDEPENDENT DIRECTORS			
7.10.2 (a)	Two or one-third of Non-Executive Directors whichever is higher, should be independent.	The Board has determined that three Directors out of four Non-Executive Directors are Independent	✓
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	All Directors have submitted annual declarations in respect of the year under review.	✓
07.10.3 DISCLOSURES RELATING TO DIRECTORS			
7.10.3 (a)	The Board shall make determination of Independence/Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Please refer page 142 of the Annual Report	✓
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	Not applicable	✓
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer pages 24-26 in the Annual Report	✓
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	Please refer pages 24-26 in the Annual Report.	✓
07.10.4 CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS			
7.10.4 (a-h)	Requirements for meeting criteria to be independent	All Independent Directors of the Company met the criteria for independence specified in this Rule.	✓

Corporate Governance

Section	Rule	Status of Compliance	Compliance
07.10.5 REMUNERATION COMMITTEE			
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Board appointed Remuneration Committee is in place. Please refer page 147 of the Annual Report. All the Directors in the Remuneration Committee comprised of Non-Executive Directors and two are Independent Non-Executive Directors.	✓
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors. Majority of whom shall be independent, whichever shall be higher.	Please refer the Report of the Remuneration Committee on page 147 to the Annual Report.	✓
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer the page 147 of Remuneration Committee Report and not number 53.2, page 241.	✓
07.10.6 AUDIT COMMITTEE			
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher. An Independent Non-Executive Director functions as the Chairperson One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings. The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	All the members of the Audit Committee are Independent Directors. An Independent Non-Executive Director, Mrs. Priyanthi de Silva functions as the Chairperson. The Managing Director, the Director Finance and Operations and Chief Financial Officer attend the Meetings by invitation The Chairperson of the Audit Committee is a Fellow of Certified Practicing Accountants (FCPA) Australia, Fellow of the Chartered Institute of Management Accountants (FCMA) UK	✓
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Please refer Audit Committee Report on page 148 of the Annual Report.	✓

Section	Rule	Status of Compliance	Compliance
7.10.6 (c)	Annual Report shall set out; (i) The names of the Directors who comprise the Audit Committee. (ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. (iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.	Please refer the Audit Committee Report' on pages 148-149 for the required disclosure.	✓

Our External Auditors certify that the disclosures and related content in the Corporate Governance report is consistent with 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

29th June 2020

Annual Report of the Board of Directors on the Affairs of the Company

General

The Directors of Alliance Finance Company PLC (AFC) have pleasure in presenting this report to the shareholders together with the audited Financial Statements for the year ended 31st March 2020 and the Independent Auditors' Report. The information is provided in conformity with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Leasing Act No. 56 of 2000 and amendments thereto. Directions issued by the Central Bank of Sri Lanka, Corporate Governance Direction No. 03 of 2008" and amendments thereto and recommended best practices on corporate governance. This Report was approved by the Board of Directors on 29th June 2020.

Company Overview

AFC was incorporated as a public company on 18th July 1956 under the provisions of the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 and bears Registration Number PQ 93. AFC's ordinary shares were listed on the Main Board of the Colombo Stock Exchange (CSE) in 1959 (then Colombo Brokers Association).

The Registered office of the Company and the principal place of business is situated at "Alliance House", 84 Ward Place, Colombo 7.

ICRA Lanka Limited has assigned a BBB- (with a negative outlook) rating to the Company.

Purpose and Values

AFC is guided by its purpose statement and a set of high impact goals reflecting the Company's business philosophy which is underpinned by the triple-bottom-line approach. These are detailed on pages 28-35 of this Annual Report. In achieving its set goals and objectives all Directors, Management and employees of AFC conduct their activities to the highest level of ethical standards and integrity as set out in the Code of Ethics.

Principle Business Activities

The principal activities of the Company include providing, finance leases, term loans, gold loans, pledge loans, mortgage loans, acceptance of public deposits and savings. Other Lines of business include hire-purchase, group-loans, trading, investment in shares and real estate. The Company also provides end-to-end vehicle management solutions which include operating leasing and hiring of vehicles.

The principal activity of the subsidiary Alfinco Insurance Brokers (Pvt) Ltd., is brokering of insurance business.

Branch Network

The Company maintained 88 points of presence as at 31st March 2020. In the year under review, the Company began the process of consolidating its branch network with some branches being amalgamated in order to form a more customer centric business model. Customers would then avail themselves of all products on offer at one location.

Branches were also relocated to new premises in order to facilitate this. More details regarding this is available on page 72 of the Annual Report.

Review of Operations and Future Developments

An overall assessment of the Company's financial position and performance during the year, with the review on financial results, special events that took place and future developments, is summarized in the Chairperson's Statement on (pages 16 to 19) and the Managing Director's Statement on (pages 20 to 23). Comprehensive details are available in the Operational Review on (pages 57 to 67) and the Capital Management Review on (pages 68 to 102) of this Annual Report. The report along with the audited financial statements reflect the state of affairs of the Company for the year ended 31st March 2020.

Financial Statements of the Group and the Company

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 7 of 2007.

The Financial Statements of the Company are duly certified by the Bakertilly Edirisinghe & Company and approved by the Board of Directors and signed by the Deputy Chairman and Managing Director and Director Finance and Operations are shown on pages 162 to 175 of this Annual Report.

Auditor's Report

The Company's Auditors, Baker Tilly Edirisinghe & Company performed the audit of the consolidated financial statements for the year ended 31st March 2020 and the Auditors' Report issued thereon which is given on page 164 of this Annual Report.

Accounting Policies and Changes During the Year

Significant new accounting policies adopted in preparation of the financial statements of the Company are given on pages 176 to 196. These financial statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS

01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007 and SLFRS 9.

Accounting Period

The financial accounting period reflects the information from 1st April 2019 to 31st March 2020.

Financial Results and Appropriations Interest Income

The total interest income of the Company for the year ended 31st March 2020 was Rs. 7,212 Mn (Rs. 6,833 Mn in 2018/19). A more descriptive analysis of the interest income is given in Note 7.1 to the financial statement on page 197.

Financial Results

The Company recorded a Net Profit of Rs. 209 Mn for the financial year ending 31st March 2020. The Company's performance and details of appropriation of profit relating to the Company are tabulated as follows;

	Year ended 31.03.2020 Rs.	Year ended 31.03.2019 Rs.
Turnover	17,577	16,326
Retained earnings brought forward from previous year	**1,655**	**1,500**
Less: Impact of adopting SLFRS 9	-	(20)
Less: Impact of adopting LKAS 16	(20)	-
Add: Profit after Taxation	209	306
Earnings available for appropriation	**1,844**	**1,786**
Appropriations:		
Add: Other comprehensive income	-	6
Add: Net actuarial gain/(loss) on defined benefit plan	9	-
Less: Dividend paid	(34)	(76)
Less: Transfer to reserves	(42)	(61)
Total appropriations	**(66)**	**(131)**
Retained earnings carried forward	**1,778**	**1,655**

Taxation

The income tax rates applicable on the profits earned are 28% from April to December 2019 and 24% from January 2020 to March 2020. The rate of VAT on financial services during the year is 15%. The current year income tax provision for the Company is Rs. 323 Mn. A more descriptive note on income tax and deferred tax of the Company is disclosed in note 16 to the Financial Statements.

Dividend

The Board of Directors is not recommending a Dividend for the year under review.

Property, Plant and Equipment

The total capital expenditure incurred on property, plant and equipment (including capital work in progress) and intangible assets of the Company in the year ended 31st March 2020 amounted to Rs. 78 Mn and Rs. 8.3 Mn respectively (Rs. 199 Mn and Rs. 8.3 Mn in 2018/19). The details of property, plant and equipment are presented in Note 33 (pages 220 to 225) to the Financial Statements.

Extents, locations, valuations and the number of buildings of the Entity's land holding and investment properties are detailed on pages 219 and 225 of this Annual Report.

Investments

Details of investments held by the Company are disclosed in Notes 30 and 31 on pages 217 to 218 to the Financial Statements.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the Stated Capital of the Company. Details of shareholders' funds disclosed in the notes 45 to 47 of the Notes to the Financial Statements.

The Stated Capital and reserves stood at Rs. 614 Mn and Rs. 3,999 Mn respectively as at 31st March 2020 (Rs. 614 Mn and Rs. 3,896 Mn as at 31st March 2019).
During the financial year Rs. 42 Mn was transferred from retained earnings to the statutory reserve. The Stated Capital represents 33,696,000 Ordinary Shares.

Details of movement of reserves and Stated Capital are provided in the Statement of Changes in Equity on page 172 of the Financial Statements.

No funds were raised through public issue or private placement of shares during the year under review.

Issue of Debentures

There were no new issues of debentures during the financial year 2019/20.

Annual Report of the Board of Directors on the Affairs of the Company

Minimum Capital Requirement

The Company ensures that it maintains the statutory requirement on minimum core capital, to mitigate the risk and safeguard the depositors, thus ensuring the sustainability of the Company and the industry as a whole. Minimum Core Capital requirement as at 01.01.2020 was Rs. 2 Bn and the Company maintained Rs. 3.4 Bn. end of the financial year.

Share Information

The ten-year summary on pages 262 to 263 and shareholder information and information on trading are provided under the title Shareholder Information on pages 264 to 265 of this Annual Report and is presented with the purpose of providing more price sensitive information to the shareholders which includes;

- Number of shares representing the
- Entity's stated capital
- A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holding
- The ratio of Dividend per share, Dividend payout and Net assets per share
- Float adjusted market capitalisation, public holding percentage, number of public shareholders and the Minimum Public Holding Requirement

Employee Share Option

The company has not adopted an Employee Share Option Scheme.

Substantial Shareholdings

The list of the Company's top 20 shareholders, number of shares held by them, percentage of their respective holding and Public holding percentage is given under the title 'Shareholder Information' on pages on 264 to 265.

Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published material.

Distribution of Shares

The details of the distribution of the shares appears on page 264.

Board of Directors

As at 31st March 2020, the Directorate of Alliance Finance Co. PLC consisted of eight Directors with wide financial and commercial knowledge and experience. The Board comprises of four Executive and four Non-Executive Directors. The qualifications and experience of the Directors is provided on pages 24 to 26 of this Annual Report. The following Directors held office as at the end of the financial year.

Name of Director	Executive/non-executive status	Independence/non-independence status
Mrs. R.N. Ponnambalam	Non-Executive	Non Independent
Mr. R.K.E.P. de Silva	Executive	Non Independent
Mr. J.M. Gunasekera	Executive	Non Independent
Mr. W.P.K. Jayawardana	Executive	Non Independent
Mr. R.E. Rambukwelle	Executive	Non Independent
Lt.Col. A.R. Samarasinghe	Non-Executive	Independent
Mrs. P. de Silva	Non-Executive	Independent
Mr. L.J.H. de Silva	Non-Executive	Independent

The profiles of the Directors' appear on pages 24 to 26.

Resignations and Appointments

Changes to the Board occurred with the resignation of Dr. L.A.P Medis. Mr. L.J.H. de Silva was appointed to the Board on 16th October 2019 as an Independent Non-Executive Director.

We wish to place on record our grateful thanks to Dr. L.A.P. Medis for his contribution during his term of office. We take the opportunity to welcome Mr. L.J.H. de Silva and look forward to his valued contribution.

Lt. Col. A.R. Samarasinghe Independent Non-Executive Director functions as the Senior Director as our Chairperson is Non Independent.

The appointment was made with the prior approval of the Central Bank of Sri Lanka.

Retirement by Rotation

Lt. Col. A.R. Samarasinghe retires by rotation as per Article Nos. 130 & 131 and being eligible offers himself for re-election with the unanimous support of the Directors.

Mr. L.J.H. de Silva retires as per Article No.135, retirement at the AGM immediately after the appointment and being eligible offers himself for re-election with the unanimous support of the Directors.

Directors' Interest Register

In compliance with the Companies Act No. 07 of 2007, the Company maintains an Interests Register which is available for inspection.

Directors' Interest in Contracts

The Directors of the Company have made general declarations as provided in the section 192 (2) of the Companies Act No. 07 of 2007 of their interests in transactions of the Company. Details of the transactions are disclosed on pages 240 to 242 under related party transactions. Furthermore, the Chairperson, on behalf of the Board of Directors has made general declarations that there is no financial, business, family or other material/relevant relationship (s) between themselves as required to be disclosed by the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

Related Parties Transactions with the Company

The Directors have disclosed the transactions, any that could be termed as a Related Party Transaction as per the accounting standard.
All non-recurrent transactions have been reviewed by the Related Party Transactions Review Committee, as required by the CSE Listing Rules.
All Related Party Transactions have been carried out in an arm's length basis with no preferential treatment being assigned. The aggregate value of the transactions appears on page 240.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2020.

Directors' Remuneration and Related Expenditure

The details of Directors' fees and Directors' emoluments paid during the year are stated below.

	31st March 2020	31st March 2019
Director's Emoluments Rs. Mn	73	62

Directors' Interest in Shares

In compliance with section 200 of the Companies Act, the Directors have disclosed to the Board their shareholding in the Company. There have been no acquisitions or disposals of shares by the Directors in the financial year.

The Directors' individual shareholdings in the Company as at 31st March 2020 and 31st March 2019 are given below.

Name of Director	Shareholding as at 31/3/2020	Shareholding as at 31/3/2019
Mrs. R.N. Ponnambalam	2,666	2,666
Mr. R.K.E.P. de Silva *	8,934,075	8,934,075
Mr. J.M. Gunasekera	1,500	1,500
Mr. W.P.K. Jayawardana	100	100
Mr. R.E. Rambukwelle	10,000	10,000
Lt. Col. A.R. Samarasinghe	1,386	1,386
Mrs. P. de Silva	100	100
Mr. L.J.H. de Silva (appointed 16th October 2019)	100	100

* Jt. Holding with Mr. J.E.P.A. de Silva 2,101,216

Managing Directors' Interest in Shares

The Managing Director, Mr. R.K.E.P. de Silva's individual shareholdings in the Company as at 31st March 2020 and 31st March 2019 is given above and also appears under 20 major shareholders.

Director's Meetings

The details of Directors' attendance at meetings are presented in the Corporate Governance report on page 106 of this Annual Report.

Board Sub Committees

Board Audit Committee

All members of the Audit Committee are Independent Non-Executive Directors. Executive Directors, Senior Management members, internal and external auditors attend the meetings by invitation. The Board Audit Committee Report is given on pages 148 to 149 of this Annual Report.

Integrated Risk Management Committee

The Board of Directors has established a comprehensive risk management system in the Company to identify, evaluate and manage the risks associated with the operations of the Company. The system is reviewed on a regular basis by the Board to facilitate the changes in the business environment. A detailed overview of the process is set out in the Integrated Risk Management Committee Report on page 151 of this Annual Report.

Remuneration Committee

The Report of the Remuneration Committee is given on page 147 of this Annual Report.

Related Party Transactions Review Committee

The Report of the Related Party Transactions Review Committee is given on page 150 of this Annual Report.

Annual Report of the Board of Directors on the Affairs of the Company

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company, which reflect a true and fair view of the state of its affairs.

The Directors are of the view that the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement, significant accounting policies and notes to the financial statements for the year ended 31st March 2020 and statement of financial position as at that date have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007 and the Regulations made under Finance Business Act. No. 42 of 2011.

The "Statement of Director's Responsibility for Financial Reporting" is provided on page 153 and forms an integral part of this report.

Donations

The Company expended Rs. 1.71 Mn for donations and Corporate Social Responsibility activities during the year (Rs. 3.96 Mn in 2018/19).

Related Party Transactions

There are no related party transactions that exceed 10% of the Equity or 5% of the total assets whichever is lower, confirmation that the Company has complied with the requirements of the Code of Best Practice on Related Party Transactions in respect of requisite disclosures is dealt within the separate report. However, the Directors have disclosed the transactions that could be classified as related party transactions which are adopted in the presentation of the Financial Statements and accordingly given in Note 53 on pages 240 to 242 of this Annual Report.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the Financial Year ended 31st March 2020.

System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial operations and compliance controls required to carry out its operation in an orderly manner, safeguard its assets and secure as far as possible and the accuracy and reliability of the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Board Audit Committee Report forms an integral part of the Annual Report and is given on pages 148 to 149. The Directors have assigned the internal audit function to the AGM Internal Audit, who reviews and reports on the effectiveness of financial, operational and compliance controls. The External Auditors too independently verify this and their certification appears on page 152.

Directors ' Statement on Internal Controls on Financial Reporting

The Board has issued a statement on the Internal Control mechanisms as enumerated under Internal Controls. This statement forms an integral part of the Annual Report of the Board of Directors of the Company.

The Auditors of the Company have furnished an Assurance Report on the Internal Controls which appears on page 152.

Corporate Governance

The Board of Directors is committed to develop the corporate governance principles of the Company and furthermore has adopted a Corporate Governance Policy including the procedures and processes governing the different stakeholders in the organisation – such as the Board, Managers, Shareholders and other participants to ensure that the highest principles of Corporate Governance is maintained across all constituents.

In adopting the aforesaid Corporate Governance Policy, the Board has ensured that the Company is compliant with the recommendations and proposals of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka, the Listing Rules of Colombo Stock Exchange (CSE) and the Finance Companies (Corporate Governance) Direction No. 3 of 2008, No. 4 of 2008 and No. 6 of 2013.

The Directors declare that

- The Company has not engaged in any activity which contravenes laws and regulations
- The Company has endeavored to ensure the equitable treatment of shareholders
- The business is a going concern
- The effectiveness and successful adherence of internal controls and risk management is practiced by the Company

The measures taken in this regard are set out in the Corporate Governance Report on pages 103 to 139 of this Annual Report.

An Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Related Party Transaction Review Committee function as Board Sub Committees with Directors who possess the requisite qualification and experience. The composition of the said Committees is set out in Inner Back Cover of this Annual Report.

Human Resources

The Company has continued to invest in human capital development and implement effective human resource management policies to develop an effective and efficient work team to optimise their contribution towards the achievement of corporate goals and objectives and to ensure the success of the Company and the work team. The steps taken are further elaborated in the Human Capital Report on pages 78 to 87 of this Annual Report.

Material Issues Pertaining to Employee and Industrial Relations

No material issues pertaining to employees or industrial relations of the Company occurred during the year under review.

Stakeholder Management / Corporate Social Responsibility

The Company continues to take measures on an ongoing basis to manage the expectations of stakeholders and enhance the value created to shareholders, customers, suppliers, and the community. These efforts are presented in the Social and Relationship Capital Report presented on pages 88 to 97 of the Annual Report.

Environmental Protection

To the best of knowledge of the Board, the Company has complied with the relevant environmental laws and regulations.

The Company has not engaged in any activity that is harmful or hazardous to the environment.

The Company has not engaged in any activity that caused detriment to the environment. On the contrary the Company has undertaken several initiatives that contributed to the environmental protection positively. Further details of these initiatives of the Company are outlined in the Natural Capital Review on pages 98 to 102.

Compliance with Laws and Regulations

The Company has not engaged in any activity contravening any laws and regulations.

Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to the employees have been made except for certain income tax assessments against which appeals have been lodged.

Outstanding Litigation

In the opinion of the Directors formed in consultation with the Company's lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on Note 49.1 to the Financial Statements on page 235.

Contingent Liabilities

There are no contingent liabilities for the Company in the foreseeable future.

Events After the Reporting Date

Details of events after the reporting date are reflected in Note 50 of page 235 to the Financial Statements.

After a stringent lockdown period of over a month due to spread of COVID-19, the Group resumed its regular operations whilst ensuring health and safety guidelines and suitable working place arrangements. Despite the uncertainties and lack of knowledge around the pandemic, it is positive that the community spread is not observable across the country. The Board, having assessed the existing and anticipated effects of COVID-19, is hopeful that the Company is better able to withstand the challenges in the operating environment. This is more fully described in Note 50 to the Financials Statements.

Demise of Our Former Chairman and Managing Director

It is with deep sadness that we wish to place on record the demise of Mr. Pratap Kumar de Silva in May 2020. He was an integral part of the Company since its inception until he retired in 2011which spread over 50 years. His contribution has been of immense value to the Company.

Going Concern

After considering the financial position, the Company's Corporate/Business plans, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Annual Report of the Board of Directors on the Affairs of the Company

Auditors

The Company's Auditors during the year under review were Baker Tilly Edirisinghe & Company.

As far as the Directors are aware, the Auditors do not have any relationship or interest in the Company or its subsidiaries other than to the extent disclosed in this paragraph.

Audit Fees

A total amount of Rs. 1,400,000 is payable by the Company to the auditors for the year under review comprising Rs. 1,175,000 as Audit Fees and Rs. 225,000 as audit related fees and expenses.

Re-appointment

The retiring Auditors, Baker Tilly Edirisinghe & Company have expressed their willingness to continue in office and a resolution to re-appoint them as Auditors will be proposed at the forthcoming Annual General Meeting at an all inclusive fee of Rs. 1,300,000/- and Rs. 252,000/- as audit related fees and expenses.

Annual General Meeting

The Annual General Meeting will be held at 9.30 a.m. on 21st August 2020.

Notice of Meeting

Notice of the meeting relating to the 64th Annual General Meeting is provided on pages 279 to 280 of this Annual Report.

By order of the Board of Directors,.
Alliance Finance Co. PLC

Sgd.
Alliance Management Services (Pvt) Ltd.
Secretaries

29th June 2020

Remuneration Committee Report GRI 102 – 36

The Remuneration Committee was appointed by the Board of Directors and is constituted in compliance to the Rules of the Colombo Stock Exchange.

Composition of the Committee

Mrs. R.N. Ponnambalam – Chairperson
Mrs. P. de Silva – Member
Mr. L.J.H. de Silva – Member

During the year the committee was reconstituted and prior to the reconstitution Lt. Col. A.R. Samarasinghe functioned as the Chairman.

Meetings

The Committee is required to meet as and when there is a requirement. The Committee met on three occasions during the year under review.

Members of the Corporate Management were invited to participate at the sittings of the Committee Meetings as and when required by the Chairperson, considering the matters for deliberation at such meeting.

The proceedings of the Committee meetings were regularly reported to the Board of Directors.

Remuneration Policy

The Committee recognizes rewards as one of the key drivers influencing employee behavior, thereby impacting business results. Therefore, the reward programs are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance-based criteria. The Company's variable (bonus) pay plan is determined according to the overall achievements of the Company and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the performance of the Company overall, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

Functions

Assist the Board where necessary on setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced Directors/employees in the Company. The Committee recommends to the Board on the compensation of the Managing Director, Executive Directors and when required to the Key Management positions.

Directors Remuneration

The details of the Directors remuneration appear on page 240 of the Annual Report.

R.N. Ponnambalam (Mrs)
Chairperson
Remuneration Committee

29th June 2020

Report of the Audit Committee

This report is provided by the Audit Committee, in respect of the financial year ended 31st March 2020. The Committee's operation is guided by a mandate that is approved by the Board which is detailed in the Terms of Reference.

Composition

The Committee is appointed by the Board and is comprised of two Independent Non-Executive Directors.

- Mrs. P. De Silva - Chairperson
- Lt. Col. Athula R. Samarasinghe

Executive Functions

The Audit Committee has executed its duties and responsibilities during the financial year in accordance with its Terms of Reference and in relation to the matters of Company's internal and external audit processes, financial reporting, risk assessment and internal controls over financial reporting.

External Auditors and Audit

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

- Recommended the reappointment of Baker Tilly Edirisinghe & Co., external auditors for the financial year ended 31 March 2021,
- 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, impairments 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, cash flows for the financial year, 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' report;
- 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. Evaluated the independence, effectiveness and performance of the Internal Audit Department and compliance with its mandate. 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;
- 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 risk management reports, 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 and concluded that it had been complied with consistently and in a timely manner.

Regulatory Compliance

As an ongoing process, the Compliance Officer is tasked with the function and reports on the changes via the Audit Committee to the Board on this.

Meetings

The Audit Committee meets on a regular basis to review the Internal Audit Reports and the replies to take corrective action. 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. The committee also reviewed the matters within the scope of the terms of reference.

Attendance at Meetings

	Meeting Held	Meeting Present
Ms. Priyanthi de Silva	10	10
Lt. Col. Athula R. Samarasinghe	10	10

de Silva

Priyanthi de Silva (Mrs.)
Chairperson
Audit Committee

29th June 2020

Related Party Transaction Review Committee Report

Composition

The Board appointed Related Party Transactions Review Committee is comprised of Lt. Col. A.R. Samarasinghe who is an Independent Non-Executive Director who functioned as the Chairman, a Non-Executive Director and one other Independent Non-Executive Director. The Managing Director, Executive Directors and other officers have been invited to the meetings as and when required.

The Committee was reconstituted, and Mrs. P. de Silva was appointed Chairperson on 20th December 2019 whilst Mrs. R.N. Ponnambalam and Mr. L.J.H. de Silva functioned as the members of the Committee as at 31st March 2020.

The Company Secretaries function as the Secretary to the Committee.

Constitution

The Related Party Transactions Committee was formed in compliance with the laws and regulations stipulated by the Securities and Exchange Commission, Companies Act, Section 9 of the Listing Rules of the Colombo Stock Exchange, Direction of the Central Bank of Sri Lanka and the Accounting Standards. The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Company in order to ensure that related parties are treated on par with other shareholders and constituents of the Company.

In carrying out the duties of the Committee the Committee is required to avoid 'conflicts of interest' which may arise from any transaction of the Company with any person particularly with related parties, ensure arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Company to avoid engaging in transactions with related parties in a manner that would grant such parties 'more favorable treatment' than accorded to other constituents of the Company carrying on the same business.

Summary of Responsibilities of the Committee

The Committee's key focus is to review all proposed Related Party Transactions prior to the completion of the transaction according to the procedures laid down in the Policy which was approved by the Board of Directors. Its key responsibilities are as follows:

- Evaluate any proposed Related Party Transactions on a quarterly basis,
- Review any post quarter confirmations on related party transactions,
- Obtain approval from the Board wherever necessary,
- Review the threshold for Related Party Transactions which require either shareholders' approval or immediate market disclosures
- Review the criteria of Key Management Personnel,
- Report to the Board on the Committee's activities.
- To review independently the Related Party Transactions as per the guidelines laid down in the Related Party Transactions review policy.

Disclosures

Information relating to all related parties, as extracted as at the end of each quarter, was presented to the RPTRC.

The non-recurrent RPT's value was below the threshold set by the Colombo Stock Exchange.

The aggregate value of the Related Party Transactions that were recorded was below the threshold.

Meetings

The Committee met on four separate occasions to approve and confirm transactions with the related parties.

P. de Silva

Priyanthi de Silva (Mrs.)
Chairperson
Related Party Transactions Review Committee

29th June 2020

Integrated Risk Management Committee Report

Composition of Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (BIRMC) consists of the following members;

Lt. Col. A.R. Samarasinghe - *Chairman (Independent Non-Executive Director)*
Mrs. P. de Silva - *Member*
Mr. R.K.E.P. de Silva - *Deputy Chairman & Managing Director*
Mr. J.M. Gunasekera - *Executive Director Sustainability*
Mr. W.P.K. Jayawardana - *Executive Director Finance & Operations*
Mr. R.E. Rambukwelle - *Executive Director Credit Marketing & Operations*
Mr. E.C.S.R. Mutttupulle - *Chief Operating Officer*
Mr. M.J. Benedict - *Chief Collection and Recoveries Officer*
Mr. G.C. de Silva - *Chief Financial Officer*
Mr. A.A.P. Rodrigo - *Chief Credit Officer*
Mr. Sampath Wickramarachchi – *AGM Internal Audit*

Mrs. P. de Silva, Independent Non-Executive Director was appointed member.

Charter of the Board Integrated Risk Management Committee

The BIRMC was established by the Board of Directors, in compliance with the Section 8 (3) of Direction No. 3 of 2008 on the "Corporate Governance for Licensed Finance Companies in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka. The composition and the scope of work of the Committee is in conformity with the provisions of the of the said Direction.

The Charter of the BIRMC was reviewed by the Board of Directors in 2018. Its scope and functions, in the context of the Company's overall Risk management framework, are fully described in the 'Risk Management Report' of this Annual Report.

Board Integrated Risk Management Committee Meetings

The Committee held four meetings, on a quarterly basis, during the year under review. The attendance of Committee Members at meetings is stated is reflected in the Annual Report.

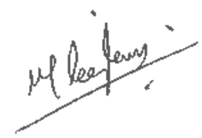
Methodology Adopted by the Board Integrated Risk Management Committee

The Committee continued to work very closely with the Key Management Personnel and the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management. The Committee functions included the following: -

- To assess all risks on a regular basis via appropriate risk indicators and mis reports.
- To ensure that the risks of the Company are within the prudent levels decided by the Committee based on the Company's risk appetite and the regulatory and supervisory requirements. Corrective actions, if any are taken promptly on a need basis.
- To take appropriate actions against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at the Company
- To establish a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations assisted by the Compliance Officer of the Company

To review the updated Business Continuity Plan

During the year under review, the Committee supported and moved forward the Company's business strategy and reinforced its values in the context of a clearly articulated risk appetite and effective risk management system.



Lt. Col. A.R. Samarasinghe
Chairman
Integrated Risk Management Committee

29th June 2020

Report of 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 to provide reasonable assurance regarding the achievement of objectives 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.

Financial statements of the Group are in compliance with prudential requirements, regulations and laws.

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 Auditors' Statement

The External Auditors, Messrs Baker Tilly Edirisinghe and Company have reviewed the above Directors' Statement on internal control for the year ended 31st March 2020 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.

de Silva

Priyanthi de Silva
Chairperson- Audit Committee

Romani de Silva
Deputy Chairman and Managing Director

29th June 2020

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 150 (1),151,152 (1) 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 2020 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 the 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 pages 164 to 167.

By order of the Board
Alliance Finance Co. PLC

(Sgd.)
Alliance Management Services (Pvt) Ltd
Secretaries

29th June 2020

Risk Management Report

Risk Environment

The financial sector expansion and performance slowed down during the year 2019 compared to the previous year mainly due to subdued economic activities and uncertainty caused by the Easter Sunday attacks, political instability and lock down to prevent COVID-19 pandemic which initiated during the year. Further, the demand for new vehicle financing further hindered by lending restrictions imposed on certain vehicle classes. Due to the adverse weather conditions prevailed in certain districts of the country, agriculture production was affected. The lower growth in GDP was an outcome of low demand for loans and advances. The slowdown in the economic activities, loss of investor confidence and declined lending activities of the sector caused the increase in the NPL ratio. Further, economic factors considered in implementation of Sri Lanka Financial reporting Standards (SLFRS) 9, was deteriorated and causing increased credit losses. To curtail the increase in NPLs and provisions, credit screening was tightened.

Regulatory actions taken for few LFCs that were not compliant with the prudential limits in Capital adequacy, liquidity ratios core capital and risk and governance issues brought negative sentiments in the minds of general public on placing deposits with NBFI sector.

The regulator adopted an accommodative monetary policy stance in May 2019 and reinforced the same in August 2019 and early 2020 to revive economic activities. CBSL reduced the Policy rates by 200 bps to improve credit flows to the economy and introduced Deposit interest ceiling to the NBFI sector. Therefore, deposit mobilisation was a challenging task for the year.

Even in the volatile environment, the industry maintained the capital and liquidity ratios above the minimum requirement.

Risk Management Strategy

AFC's Risk management strategy aims to manage the risks of the Company in a proactive manner while taking a calculated risk that will allow greater benefits to the Company as we pursue our identified growth opportunities. We take a holistic and forward-looking view of the risks we face, continuously assessing our existing risk universe, while constantly keeping tabs on emerging risks. This approach, we believe is critical to our long-term sustainability, enabling us to deliver what matters most to our customers while balancing our obligations to our other stakeholders, thereby protecting the Company's legitimacy and reputation.

Objectives of Risk Management

- To assist in decisions relating to accepting, transferring, mitigating and minimizing risks and recommending remedial actions;
- To evaluate the risk profile against the approved risk appetite on continuing basis;
- To estimate possible losses that could arise from risk exposures assumed;
- To periodically conduct stress testing to confirm that the Company holds appropriate buffers of capital and liquidity to meet unexpected losses and honour contractual obligation;
- To integrate risk management with strategy development and implementation; and
- To instill and maintain a strong risk culture within the Company.

Risk Management Framework

Our comprehensive risk management framework and clear risk appetite, which describes the risk tolerance levels, ensures a consistent approach to managing risk across the Company.

We regularly assess and enhance our risk management framework to ensure that it is fit-for-purpose and that we have adequate capacity to manage risks in unpredictable operating environments.

Risk Appetite

Risk appetite is the nature and level of risks that AFC is prepared to bear. The Board regularly reviews the Company's Risk Appetite in response to changes in our operating environment, while in specific situations it is reviewed more often in order to guide decision making in relation to our exposures and capital allocation towards specific customers and sectors. The details are documented and clearly articulated comprehensively to those who are responsible for managing risk.

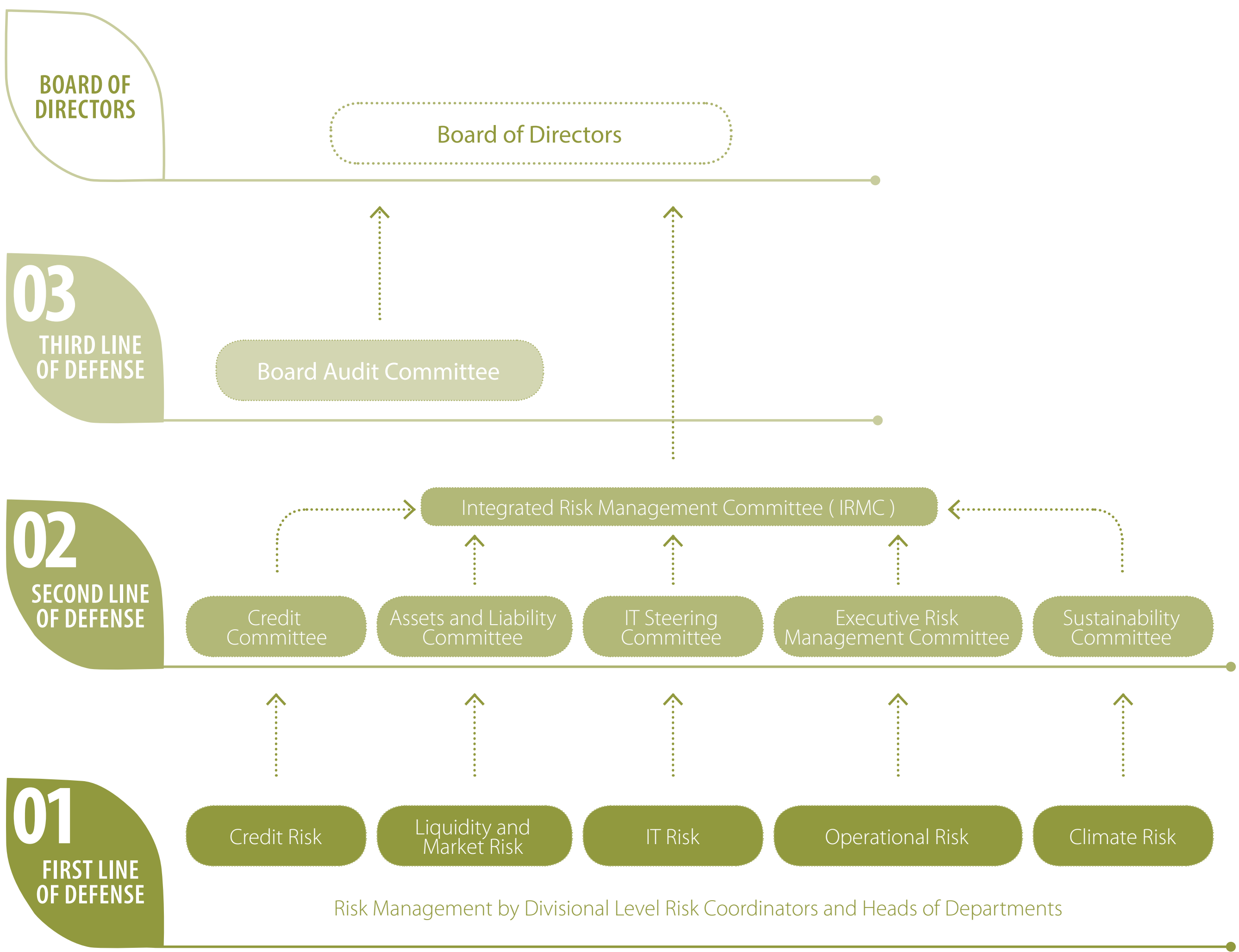
Risk Culture

Risk culture of AFC determines the effectiveness of the management of the risks of the Company. AFC has honed a culture led by the management in setting the risk management tone of the Company to manage risks proactively. In recent years we have made focused efforts to strengthen the risk culture by improving risk awareness, by means of embedding the principles in Company's values and norms, extensive training programs to staff and adopting scientific risk assessment methodology.

Risk Governance (Three-lines-of-defense)
With the purpose of establishing a robust

risk management system, the Company has adopted a governance framework with three lines of defense to replicate clear accountability for risk taking, oversight and independence assurance within the Company.

The AFC Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk- related responsibilities, it is supported by two key committees namely the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC). The IRMC & BAC supported by executive level committees, credit committee, Assets and Liability Committee, IT steering committee. The risk Structure is based on the three lines of defense and aims to drive accountability and ownership while facilitating an appropriate level of independence and segregation of duties.



Risk Management Report

Managing Material Risks

GRI 102 – 11 GRI 102 – 15

Credit Risk

Credit risk is potential financial losses due to failure of customers or counterparties to discharge the contractual obligations and objective of the credit risk management is to safeguard the assets quality.

Credit Risk arises from direct lending activities of the Company. Total Credit risk constitute default risk, concentration risk and settlement risk.

NBFI sector of Sri Lanka was severely impacted due to rising non performing advances. During FY 19/20, the non performing advances ratio of the industry has increased over 10.6% from 7.7% compared to FY 18/19. Given the magnitude of the issue, AFC identified Credit Cost to be the largest risk component, and provided a high concentration on managing and mitigating the impact of rising credit cost.

Credit Risk Governance

Governance of Credit Risk comes under the purview of the Credit Committee, where discussions and actions are being primarily focused on proactive actions where thorough review of financial performance and trends where diagnostic planning of actions are taken take place. Alternatively, the development of the external environment is being discussed at large to ensure proactive decision making regarding minimizing the credit risk of the AFC. The credit risk policy of the Company is reviewed and revised annually with the approval of the Board of Directors.

As a financial services institution, the effective management of Credit Risk enables the Company to maintain a well-diversified portfolio that has the capacity to maximize returns and achieve an optimal risk-reward pay-off and thereby ensure our business achieves its strategic purpose. Furthermore, proper Credit Risk Management helps to minimize non-performing loans and safeguards portfolio quality.

Default Risk

Default Risk is the risk of potential financial loss resulting from the failure of customer or the counterparty to meet their debt or contractual obligation.

The management of default risk is a team effort of the central recoveries unit, call centre and recovery teams based at branches. As per the Company's policy, routine customer reminders are sent to all customers, while a strict monitoring procedures are in place to maintain proactive follow up of collections. Early warning signals are monitored centrally, along with a watch listing procedures to control new entrants to the non-performing loan bracket. The monthly plan of recovery takes place in the monthly meeting with the recovery team of AFC, along with the action plan for non-achievements of previous months.

Action for the year

- Completed the IFC technical assistance program that aimed at reengineering processes and strengthening the credit functions to enhance the credit quality.
- Large loan facilities subjected to independent pre sanction review process to assess the financial and commercial viability of loan proposals and to ensure compliance to the Credit Policy Framework.
- Post sanction review carried out for sample and based on the findings credit delegation criteria and levels adjusted.
- Credit Risk policy designed by clearly defining credit procedure, risk appetite, exposures and guidelines.
- Identified high risk portfolio as a phasing out products.
- The Chief Collection and Recovery Officer and middle managers were appointed from specific regions to improve the efficiency of credit recoveries
- Invested in a Delinquency Management system for call recording and effective surveillance of credit recoveries.
- Strengthened the collection and recovery mechanisms.
- Stringent KPI's were assigned to ensure the focus on timely recoveries.
- Activities at the outbound call Centre were further streamlined to support the overall recovery efforts.
- Strengthened the legal processes, with the appointment of regional level lawyers to expedite the litigation process against willful defaulters.
- Regular reports on the credit quality of portfolios are provided to the Board which may require appropriate corrective actions to be taken.
- Training programs were conducted to educate on credit practices in leasing focusing the staff transferred from other departments to lending department.

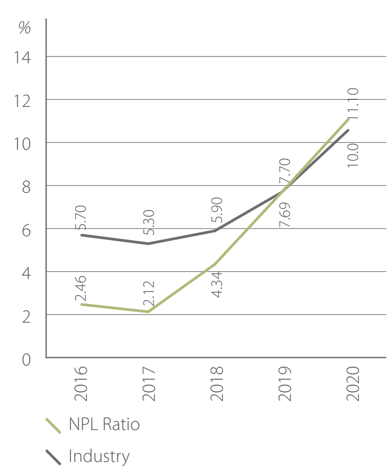
Assessment

Non-performing loans ratio is monitored on a regular basis at different delegated levels for different product categories. In addition, company's NPL ratio is compared with peers and industry for benchmarking

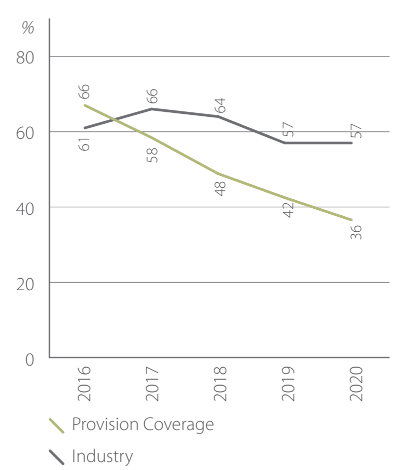
During the year, asset quality of the sector deteriorated .This is mainly due to slowing down in economic activities, Easter Sunday attacks and declined lending activities.

This compelled the Company to strengthen collection and monitoring mechanisms while curtailing lending to relatively risky segments of the market. Several key sectors such as tourism, construction and hospitality recorded sharp downturns due to Easter Sunday attacks and disruptions of COVID-19 and persistent droughts impacted the country's Agriculture sector.

NPL Ratio



Provision Coverage



Concentration Risk

Concentration risk is the risk of uneven distribution of company's loan and advances to individual counterparties, products or geographical regions.

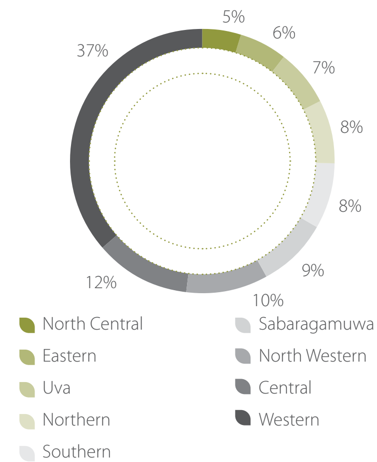
AFC takes action to mitigate Concentration Risk at a portfolio level as well as at product level. Accordingly, to reduce the over dependence on a single business, we maintain a healthy portfolio spread across all our businesses. Among each business unit a strong emphasis is placed on product diversification that would support our efforts to minimize the reliance on a single source.

Action for the Year

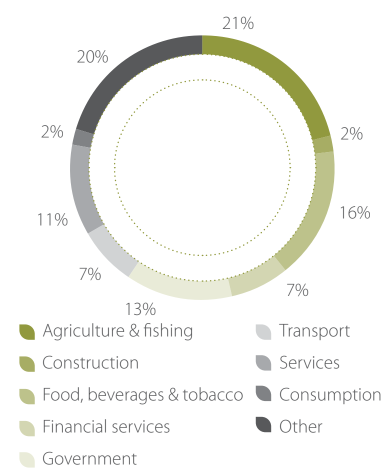
- AFC Credit Committee reviewed the product mix and carried out revisions on a regular basis to mitigate the risk due to regular market changes and regulatory requirements.

Assessment

Geographic Concentration



Industry Concentration



Risk Management Report

	Regulatory limit Rs.000	Actual 31/03/2020 Rs.000
Individual borrower	569,758	73,825
Group of borrower	759,678	73,825

Exposure limits are well managed for the Financial Year 2019/20

Given the prevailing risk universe, AFC adopted a conservative approach, with a selective lending strategy to ensure all lending activities were strictly based on the customer's risk rating. Accordingly credit evaluation procedures streamlined with a strong emphasis on strengthening management oversight of approvals.

Market Risk

Market risk is the potential loss arising due to market fluctuation in interest rates, exchange rates, and commodity prices such as gold prices.

AFC's key market risk consists of Interest rate risk, exchange rate risk and commodity risk of fluctuations of world gold prices. Market risk indicators were maintained in line with the Company's risk appetite during the year.

Market Risk Governance

The Board remains the ultimate authority in charge of determining the Company's Market Risk Management policy, while AFC's Asset and Liability Committee (ALCO) and the Treasury Division are collectively responsible for monitoring Market Risk, reviewing risks and periodic reporting, setting limits and guidelines, and formulating and implementing plans regarding market risk management in line with the Board approved guidelines.

Interest Rate Risk

Interest rate risk is the potential for changes in rates to reduce the Company's earnings or value.

Continuous volatility in market interest rate affects the Company's net interest income and net interest margin.

Given the lack of fixed medium and long-term funding in the market, managing maturity of its assets and liabilities and the resulting interest rate risk poses significant challenges to the Company. The Company is exposed to a risk of fluctuating interest rates in the market in line with fixed rates assets and floating rate liabilities in maturity profile. Along with the gradual increase in the interest rates during the year, AFC interest risk increased slightly. Interest rate risk was managed effectively through proactive monitoring of interest rate trends and maturity mismatches and timely repricing decisions

Action for the year

- Maintained a balance between funding based on fixed and floating rates.
- ALCO closely monitored the interest rate movements and issues directions to lending and borrowing units on interest rate strategies.
- Negotiated interest rate caps on new borrowings.
- ALCO's recommendation to source alternative fixed rates funding was implemented, with a total of Rs. 3.94 Bn being raised during 2019/20.

Assessment

Interest rate risk is managed principally through minimizing interest rate sensitive asset and liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

The Treasury Department of AFC uses a range of tools such as sensitivity analysis, stress testing and scenario analysis to monitor the impact of various forms of interest rate risk.

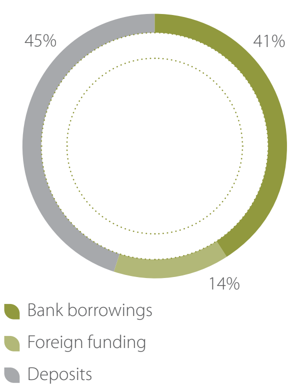
Stress Test on NII from Interest Rate Shocks

Change from basis points Sensitivity

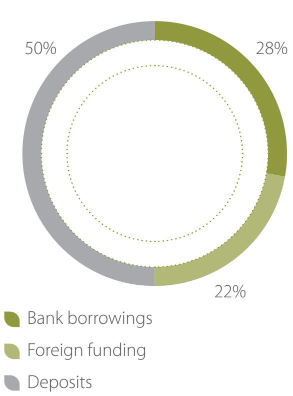
	Increase Rs.000	Decrease Rs.000
100	62,296	(62,296)
200	124,592	(124,592)

Evaluation of net interest position and analysis of various interest rate scenarios are carried out in order to assess the interest rate risk faced by the Company. Regular monitoring of trends in the economy in general and interest rates in particular are carried out with a view toward limiting any potential adverse impact on the Company's earning. Making timely adjustments to the proportion of the fixed rate borrowing in the funding mix is also being done.

Funding Mix 2020

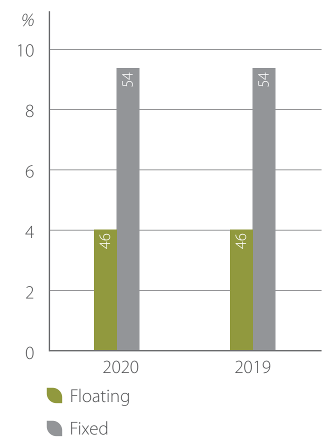


Funding Mix 2019



Diverse funding portfolio comprises deposits 45%, Bank borrowings 41 %, and foreign funding 14%

Borrowings - Fixed to Floating Mix



AFC borrowings fixed and floating mix consisted of 46%: 54% ratio of floating to fixed term borrowings during 2019/20.

Exchange Rate Risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Sri Lankan rupee continued to show a depreciating trend against the US dollar throughout the year of 2019/20.

Managing Exchange Rate Risk

In parallel to the increase in the Company's foreign currency borrowings, the Treasury continued to engage in proactive currency FX swaps as part of its hedging strategy aimed at reducing the exposure to exchange rate fluctuations. These actions helped safeguard the Company's repayment capacity of foreign borrowings.

Commodity Price Risk

Commodity price risk refers to the uncertainties of future market values and of the size of the future income caused by the fluctuation in the prices of commodities.

Given the significance of the gold loan business to the company's overall lending position, fluctuation in gold price could have an adverse impact on earnings.

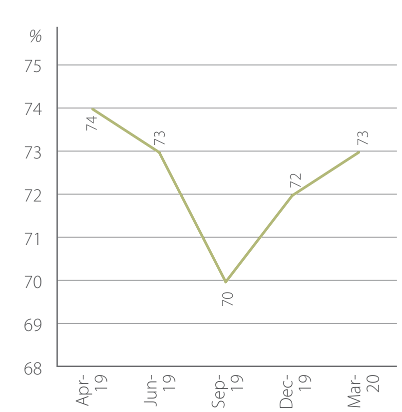
The Company is engaged in Gold Loan business and it is 8% of the total loan portfolio, therefore fluctuations in gold prices could have an adverse impact on earnings. Gold price risk could arise from either of adverse movement in the world gold prices or exchange rates.

Gold Prices - A strong upward movement in World Gold Prices provided an opportunity to bolster the Company's Gold Loan business

Managing Gold Price Risk

- Concentrates on shorter term products to initiate its recovery process faster
- Frequent revision to the advance offered per gold sovereign: the company practices a process of revisiting advances offered per sovereign to reflect market value fluctuation to maintain the desired LTV
- Review and update gold loan policy manual to mitigate possible operational risk.

Gold Loan LTV



Risk Management Report

Liquidity Risk

Liquidity risk is the Company's inability to meet financial obligations as they fall due, without incurring unacceptable losses.

AFC Liquidity Risk arises as a result of the maturity mismatch between assets and liabilities portfolio.

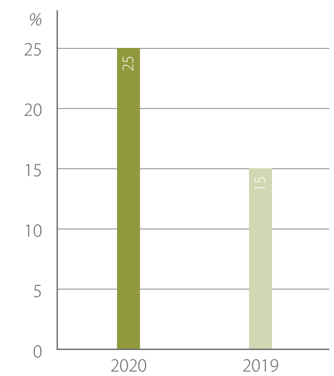
The company's primary objective in the liquidity management is to ensure adequate funding for its businesses throughout market cycles even in periods of financial distress. To achieve this objective, the company regularly monitors liquidity position and maintain an adequate buffer of liquid assets.

The Treasury's efforts to canvass long term foreign funding while maintaining a 50:50 ratio between deposit borrowing and bank borrowing throughout the year helped the Company to successfully bridge the maturity mismatch and thereby maintain a consistently low liquidity risk profile.

Action for the year

- The Company maintained statutory liquidity ratio well above the regulatory limit.
- Daily liquidity is monitored and stress scenarios covering various market conditions are also considered.
- Strengthened the contingency funding arrangements using standby facilities.
- Regular ALCO meetings were held and the Committee monitors the liquidity position of the Company and liquidity management.
- ALCO reviewed the overall liquidity position as shown by the weekly liquidity report.
- Maintained the deposit renewal ratio above the internal threshold of 80%.
- Continuous analysis and monitoring of liquidity positions and maintained an adequate buffer of liquid assets.

Statutory Liquid Assets Ratio



The Company maintained adequate liquidity buffers during the year with the statutory liquid assets ratio.

The Company also maintained Deposits renewal ratio above 85% throughout the year.

Assessment

Financial Assets and Liability Gap

	On Demand	<03 Months	3-12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
2020	1,336.94	1,037.57	(3,688.17)	2,667.62	713.61	(46.70)	2,020.88
2019	(195.29)	1,435.49	(458.56)	2,427.23	(1,107.69)	(84.87)	2,016.31

Operational Risk

The risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people, and systems or from external events

Type	How we managed it	Outcome
System failure	• Robust IT infrastructure. • Skilled IT team. • Disaster recovery site is operated in a remote location. • SMS alert system that ensures that all employees are communicated via SMS on System failure. • Online backup of data stored at the disaster recovery site.	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 done by a professional IT security firm to identify potential security threats to the system. • Access controls to systems • 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 packages in addition to training of Field Officers. • A grievance handling process is in place. • Continued employee engagement. • Introduced employee insurance scheme	There were frauds reported during the year. Deaths due to accidents were reported.
Property	• Adequate insurance cover • CCTV coverage is in operation	There are no losses reported during the year.
Risk of operational breach or non-compliance with internal controls.	• The internal audit team conducted periodic audit as planned. • All locations are ranked on nineteen (19) parameters covering areas such as integrity of financial reporting, operational effectiveness and compliance with laws.	Identified low performing branches
Fraud related to Gold Loan activity.	• Obtained fidelity insurance cover • Adequately insured collaterals • Strengthened the Supervisory layers • Implemented whistle-blower policy	No significant losses recorded

Risk Management Report

Strategic Risk

The risk that the Company's future business plans and strategies are inadequate to prevent financial loss or protect the AFC's competitive position and generate expected shareholder returns.

Action for the year

- We rolled out a new Strategic Plan 2019 / 23 and reviewed performance on quarterly basis.
- Reviewed product profitability on a monthly basis and took corrective actions.

Reputational Risk

The risk of potential or actual damage to the Company's image which may have a detrimental impact on the profitability and/or sustainability of the business.

Action for the year

- The Company continued to strengthen relationships through open and transparent communications with all stakeholders. (More details in pages 36-40).
- In testimony to our strong reputation, the results of the customer satisfaction survey that was conducted during the year indicated that "Top of mind recall" of AFC is significantly high compared to competitor

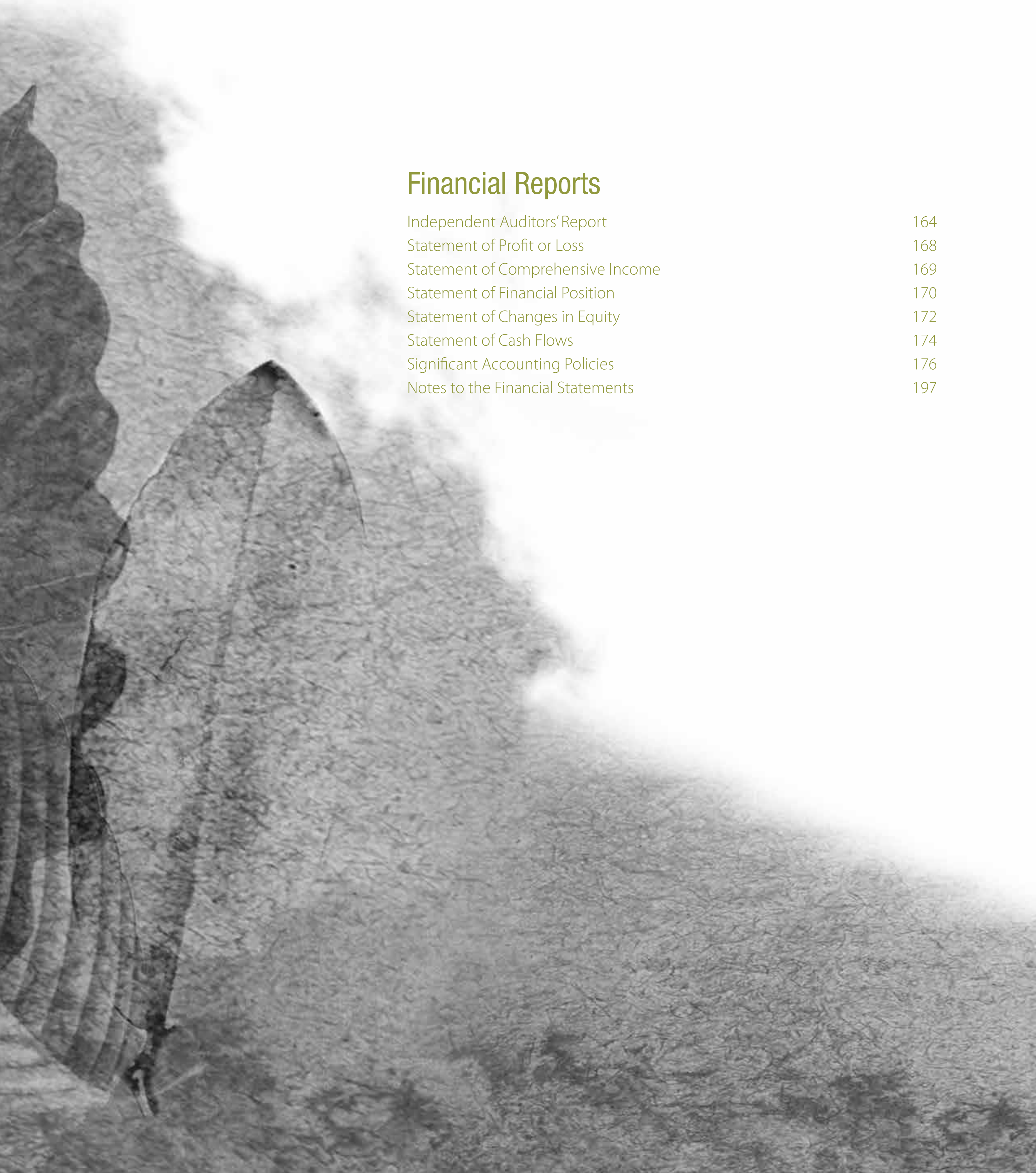
Capital Risk

Capital risk is the risk that the Company has insufficient capital resources to meet minimum regulatory requirements and to support credit rating, growth and strategic options of the Company.

Capital Adequacy Ratio (CAR) is the key indicator which measures the financial strength of a financial institution, expressed as a ratio of its capital to its risk weighted assets. A higher capital adequacy ratio indicates that the Company is able to handle losses and fulfill its obligations to account holders without ceasing operations. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of a financial system.

Capital adequacy	Regulatory limit	Actual 31/03/2020	Actual 31/03/2019
Core capital ratio	6.5%	9.86%	9.35%
Total risk weighted asset ratio	10.5%	12.97%	12.37%
Capital funds to deposit ratio	10%	30.76%	29.42%

Financial Reports



Independent Auditors' Report

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Edirisinghe & Co.
Chartered Accountants
45, Braybrooke Street
Colombo 02
Sri Lanka

T: +94 11 2433933
F: +94 11 2445683
E: nfo@bakertilly lk
W: www.bakertilly.lk

TO THE SHAREHOLDERS OF ALLIANCE FINANCE COMPANY PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alliance Finance Company PLC (the "Company") and the consolidated financial statements of the Company and its subsidiary (the "Group"), which comprise the Statements of financial position as at 31 March, 2020 and the Statements of profit or loss, Statements of other comprehensive income, Statements of changes in equity and Statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March, 2020 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. For each matter below, we have provided a description of how our audit procedures addressed the matter in that context.

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

<table>
<tr><th>Key Audit Matter</th><th>How our audit procedures addressed the key audit matter</th></tr>
<tr><td>
Impairment allowances of loans and advances

The accounting policy relating to provisioning of impairment for loans and advances is described in note 4.4.7, the detail relating to impairment charges for the year ended 31 March 2020 is included in note 11 and details of provisions carried at 31 March 2020 are included in note 23, 24 and 25.

The assessment of impairment of loans reguires significant Judgement by the Company may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements inherent in the determination of the provision for impairment and historical issues in relation to classifying of loans as non-performing advances (NPAs) and insufficient provisioning, we determined this to be a matter of most significance to our audit.

Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. They are calculated on a collective basis for portfolios of loans of a similar nature (the collective impairment model) and on an individual basis for significant loans (individual impairment model). Both models used by the Company utilize arrears as the primary impairment trigger; however, there is a risk that other impairment triggers are not identified on a timely basis.

For the collective impairment model, impairment is calculated on a modeled basis for portfolios of loans and advances. This is because loans and advances considered under this model comprise of large numbers of accounts with relatively small individual balances. The key assumptions and judgements made by the Company underlie the calculation of impairment. Key assumptions and judgements include the calculation of the average loss percentage once a loan is identified as default.
</td><td>
Our procedures included the following:

Impairment of loans and advances
We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation.

• We assessed the appropriateness of the accounting ' policies and loan impairment methodologies applied by comparing these to the reguirements of SLFRS 9: Financial Instruments.
• We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities. Where credit losses were calculated on a modelled basis we performed the following audit procedures:
• We compared and confirmed the consistency of the model used by the management for the purpose of determining the impairment provision as at 31 March 2020. This included testing the consistency of key judgements and assumptions applied in the calculation of individual and portfolio provisions. We tested input data and re-performed model calculations to ascertain the accuracy of calculations performed by the management.
  • Assessed the consistency and reasonableness of forward-looking information incorporated into the credit loss calculations considering multiple economic scenarios selected and the weighting applied to each scenario.
  • We assessed the impact arising from the relief measures introduced by Government of Sri Lanka to the expected cash flows factored in to the calculation of LGDs.
  • Further, we assessed the appropriateness of management application of temporary practical expedients introduced by CA Sri Lanka in relation to determination of ECL.
</td></tr>
<tr><td>
Management assessment of material uncertainty relating to impact of COVID-19

The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of financial statements, the directors have reviewed the Group's cash flow projections for next 12 months. The cashflow projections were based on managernent's assumptions and estimation of future cash inflows and outflows, taking into consideration the potential impact of COVID-19 pandemic.
</td><td>
Our audit procedures included following;

• Assessed the director's assessment of the Group's ability to continue as going concern including challenging the underlying data and key assumptions used to make the assessment, and evaluated the plans for future actions in relation to the going concern assessment.
• Obtained Group's cash flow projections covering the period of not less than twelve months from reporting date and challenged these key assumptions used in preparing the projections.
</td></tr>
</table>

EDIRISINGHE & CO.
Chartered Accountants
BAKER TILLY

Independent Auditors' Report

Key Audit Matter	How our audit procedures addressed the key audit matter
Management assessment of material uncertainty relating to impact of COVID-19 Contd. Note 2.10.1 and note 50 to the financial statements, described the impact of COVID-19 outbreak to the current year financial statements and possible effects to Group's future projections, performance and cashflows. Further the management considered it is appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the end of the financial year. We identified the management assessment of the potential impact of COVID-19 event and related disclosures as a key audit matter because the cash flow projections referred to above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates.	**Our audit procedures included following; Contd.** • Evaluated the sensitivity of the projected liquidity positions by considering downside scenario together with reasonably. • Assessed the adequacy of disclosures in the financial statements in relation to the going concern basis of accounting reference to requirements of prevailing accounting standards and potential impact of the COVID-19 outbreak.

Other Information

Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal controls as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Groups' 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 Groups' financial reporting process.

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional 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 Groups' 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 3337.

Edirisinghe & Co,
Chartered Accountants
Colombo

EDIRISINGHE & CO. Chartered Accountants BAKER TILLY

29-June-2020

Statement of Profit or Loss

For the year ended 31st March	Notes	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
Gross Income	6	7,679,217,661	7,243,598,369	7,738,764,376	7,324,060,190
Interest income		7,212,017,278	6,832,724,997	7,214,750,962	6,835,674,145
Interest expenses		(3,321,169,317)	(3,244,034,169)	(3,321,169,317)	(3,244,034,169)
Net Interest Income	7	3,890,847,961	3,588,690,828	3,893,581,645	3,591,639,976
Fee and commission income		180,002,654	180,053,256	236,811,281	257,538,486
Fee and commission expenses		(178,059,341)	(214,596,424)	(178,073,741)	(214,822,571)
Net Fee and Commission Income	8	1,943,313	(34,543,168)	58,737,540	42,715,915
Net gain/(loss) from trading	9	49,512,493	(4,062,314)	49,512,493	(4,062,314)
Other operating income (net)	10	237,685,236	234,882,430	237,689,640	234,909,873
Total Operating Income		4,179,989,003	3,784,967,776	4,239,521,318	3,865,203,450
Impairment charges for loans and other losses	11	(1,112,357,328)	(813,494,810)	(1,112,357,328)	(813,494,810)
Net Operating Income		3,067,631,675	2,971,472,966	3,127,163,990	3,051,708,640
Operating Expenses					
Personnel expenses	12	(821,722,767)	(780,351,399)	(831,086,788)	(802,968,838)
Other operating expenses	13	(1,283,645,436)	(1,224,682,084)	(1,290,134,774)	(1,244,382,252)
Depreciation and amortization	14	(131,646,655)	(136,086,759)	(131,782,247)	(136,213,766)
Total operating expenses		(2,237,014,858)	(2,141,120,242)	(2,253,003,809)	(2,183,564,856)
Operating Profit before Taxes on Financial Services		830,616,817	830,352,725	874,160,181	868,143,785
Taxes on financial services	15	(296,140,836)	(221,190,685)	(296,140,836)	(221,190,685)
Operating Profit after Taxes on Financial Services		534,475,981	609,162,040	578,019,345	646,953,100
Share of profit/(loss) from associate		(2,842,382)	(8,893,804)	(2,842,382)	(8,893,804)
Profit before Taxation from Operations		531,633,599	600,268,236	575,176,963	638,059,296
Provision for income taxation	16	(323,000,000)	(294,096,680)	(334,797,494)	(304,370,093)
Profit for the year		**208,633,599**	**306,171,556**	**240,379,469**	**333,689,203**
Profit attributable to :					
Equity holders of the company		208,633,599	306,171,556	228,931,908	323,766,338
Non controlling interest		-	-	11,447,561	9,922,865
Profit for the year		**208,633,599**	**306,171,556**	**240,379,469**	**333,689,203**
Basic Earnings Per Share	17	6.19	9.09	6.79	9.61
Dividend Per Share	18	-	1.00	-	1.00

Figures in brackets indicate deductions.
Accounting policies & notes to accounts form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31st March	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
Profit for the year	208,633,599	306,171,556	240,379,469	333,689,203
Other Comprehensive Income not to be Reclassified to Profit or Loss				
Actuarial gains /(losses) on defined benefit plans	12,086,651	8,681,427	12,076,162	8,760,704
Deferred tax effect on above	(2,900,796)	(2,430,800)	(2,900,796)	(2,430,800)
Equity investments at FVOCI - net change in fair value	(61,455,160)	-	(61,455,160)	-
Net Other Comprehensive Income not be Classified to Profit or Loss	(52,269,305)	6,250,627	(52,279,794)	6,329,904
Total Comprehensive Income for the year	**156,364,294**	**312,422,183**	**188,099,675**	**340,019,107**
Attributable to:				
Equity holders of the company	156,364,294	312,422,183	176,295,289	330,067,655
Non controlling interest	-	-	11,804,386	9,951,452
Total Comprehensive Income for the year	156,364,294	312,422,183	188,099,675	340,019,107

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 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
Assets					
Cash and cash equivalents	21	986,553,659	281,584,736	1,027,324,614	290,719,999
Repurchase agreements		350,388,985	210,053,286	350,388,985	210,053,286
Placements with banks & financial institutions		915,617,034	732,163,843	915,617,034	732,163,843
Financial assets recognised through profit or loss	22	1,550,282,902	1,807,179,090	1,550,282,902	1,807,179,087
Loans and advances - at amortised cost	23	6,184,304,979	6,512,027,536	6,184,454,429	6,512,165,856
Lease rentals receivable & stock out on hire - at amortised cost	24	20,055,543,842	18,842,072,665	20,055,543,842	18,842,072,665
Hire purchase rentals receivable & stock out on hire - at amortised cost	25	4,527,976	12,349,092	4,527,976	12,349,092
Financial assets- fair value through other comprehensive income	26	137,940,332	579,250	137,940,332	579,250
Other trading stocks	27	207,388,189	402,218,369	207,388,189	402,218,369
Other financial assets	28	459,367,873	405,850,825	535,032,270	446,862,407
Other non financial assets	29	176,524,164	217,142,825	176,999,477	217,142,819
Investments in associates	30	45,626,717	48,469,100	94,434,188	84,731,550
Investments in subsidiaries	31	16,924,038	16,924,038	-	-
Investment property	32	549,000,000	549,000,000	549,000,000	549,000,000
Property, plant & equipment	33	1,694,020,530	1,746,403,417	1,694,141,728	1,746,660,210
Intangible assets	34	55,957,723	56,523,495	55,957,723	56,523,495
Right of use asset	35	259,039,810	-	259,039,810	-
Retirement benefit assets	43	1,046,687	-	-	-
Deferred tax assets	44	295,240,407	291,123,246	295,790,313	291,667,571
Total Assets		**33,945,295,847**	**32,131,664,813**	**34,093,863,812**	**32,202,089,499**

As at 31st March	Notes	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
Liabilities					
Due to banks	36	15,424,806,029	12,589,469,582	15,453,081,167	12,589,469,582
Due to depositors - at amortised cost	37	12,347,296,849	12,493,682,808	12,347,296,849	12,493,682,808
Debt instruments issued and other borrowed funds	38	-	819,062,771	-	819,062,771
Other financial liabilities	39	791,703,913	781,933,240	810,353,917	781,537,579
Other non financial liabilities	40	26,266,583	56,531,752	26,266,583	56,531,752
Derivative financial liabilities	41	59,836,277	99,770,779	59,836,277	99,770,779
Income tax liabilities	42	152,139,514	142,874,259	155,059,678	145,940,743
Retirement benefit liabilities	43	-	30,699,249	1,244,584	32,643,265
Deferred tax liabilities	44	530,275,376	607,383,605	530,283,797	607,459,177
Total Liabilities		**29,332,324,541**	**27,621,408,045**	**29,383,422,851**	**27,626,098,456**

As at 31st March	Notes	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
Shareholders' Funds					
Stated capital	45	613,980,000	613,980,000	613,980,000	613,980,000
Retained earnings	46	1,777,742,345	1,655,299,368	1,833,953,692	1,691,222,896
Reserves	47	2,221,248,961	2,240,977,401	2,221,248,961	2,240,977,401
Total Equity Attributable to Equity Holders of the Company		4,612,971,306	4,510,256,769	4,669,182,653	4,546,180,297
Non controlling interest		-	-	41,258,308	29,810,747
Total Equity		4,612,971,306	4,510,256,769	4,710,440,961	4,575,991,044
Total Liabilities and Shareholders' Funds		33,945,295,847	32,131,664,813	34,093,863,812	32,202,089,499
Contingent Liabilities and Commitments	49	339,910,381	312,100,000	339,910,381	312,100,000
Net assets value per share (Rs.)	19	137	134	139	135

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

29-Jun-20
Colombo

Statement of Changes in Equity

	Stated Capital	Statutory Reserve Fund	Revaluation Reserve	General Reserve	Available for Sale Reserve	FVOCI	Non Controlling Interest	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Company									
Balances as at 31st March 2018	613,980,000	773,074,800	1,018,409,546	388,258,055	5,358,466	-	-	1,499,994,909	4,299,075,776
Impact of adopting SLFRS 9	-	-	-	-	(5,358,466)	5,358,466	-	(20,066,724)	(20,066,724)
Restated opening balance under SLFRS 9	613,980,000	773,074,800	1,018,409,546	388,258,055	-	5,358,466	-	1,479,928,185	4,279,009,052
Profit for the year	-	-	-	-	-	-	-	306,171,556	306,171,556
Other comprehensive income, net of tax	-	-	-	-	-	-	-	6,250,627	6,250,627
Reclassified to profit or loss as per SLFRS 09	-	-	-	-	-	(5,358,466)	-	-	(5,358,466)
Transfer to statutory reserve	-	61,235,000	-	-	-	-	-	(61,235,000)	-
Dividend paid	-	-	-	-	-	-	-	(75,816,000)	(75,816,000)
Balances as at 31st March 2019	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-		1,655,299,368	4,510,256,769
Balance as at 1st April 2019	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-	-	1,655,299,368	4,510,256,769
Impact on adoption of SLFRS 16							-	(19,953,757)	(19,953,757)
Profit for the year	-	-	-	-	-	-	-	208,633,599	208,633,599
Other comprehensive income, net of tax	-								
Net actuarial gain/(loss) on defined benefit plan	-	-	-	-	-	-	-	9,185,855	9,185,855
Equity investments at FVOCI - net change in fair value	-	-	-	-	-	(61,455,160)	-	-	(61,455,160)
Transfer to statutory reserve	-	41,726,720	-	-	-	-	-	(41,726,720)	-
Dividend paid	-	-	-	-	-	-	-	(33,696,000)	(33,696,000)
Balances as at 31st March 2020	613,980,000	876,036,520	1,018,409,546	388,258,055	-	(61,455,160)	-	1,777,742,345	4,612,971,305

	Stated Capital	Statutory Reserve Fund	Revaluation Reserve	General Reserve	Available for Sale Reserve	FVOCI	Non Controlling Interest	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Group									
Balances as at 31st March 2018	613,980,000	773,074,800	1,018,409,546	388,258,055	5,358,466	-	19,859,296	1,518,272,964	4,337,213,127
Impact of adopting SLFRS 9	-	-	-	-	(5,358,466)	5,358,466	-	(20,066,724)	(20,066,724)
Restated opening balance under SLFRS 9	613,980,000	773,074,800	1,018,409,546	388,258,055	-	5,358,466	19,859,296	1,498,206,240	4,317,146,403
Profit for the year	-	-	-	-	-	-	9,922,865	323,766,338	333,689,203
Other comprehensive income, net of tax	-	-	-	-	-	-	28,587	6,301,317	6,329,904
Reclassified to profit or loss as per SLFRS 09	-	-	-	-	-	(5,358,466)	-	-	(5,358,466)
Transfer to statutory reserve	-	61,235,000	-	-	-	-	-	(61,235,000)	-
Dividend paid	-	-	-	-	-	-	-	(75,816,000)	(75,816,000)
Balances as at 31st March 2019	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-	29,810,747	1,691,222,896	4,575,991,044
Balance as at 1st April 2019	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-	29,810,747	1,691,222,896	4,575,991,044
Impact on adoption of SLFRS 16								(19,953,757)	(19,953,757)
Restated opening balance under SLFRS 16	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-	29,810,747	1,671,269,139	4,556,037,287
Profit for the year	-	-	-	-	-	-	11,447,560	228,931,908	240,379,468
Other comprehensive income, net of tax -									
Net actuarial gain/(loss) on defined benefit plan	-	-	-	-	-	-	-	9,175,366	9,175,366
Equity investments at FVOCI - net change in fair value	-	-	-	-	-	(61,455,160)	-	-	(61,455,160)
Transfer to statutory reserve	-	41,726,720	-	-	-	-	-	(41,726,720)	-
Dividend paid	-	-	-	-	-	-	-	(33,696,000)	(33,696,000)
Balances as at 31st March 2020	613,980,000	876,036,520	1,018,409,546	388,258,055	-	(61,455,160)	41,258,308	1,833,953,692	4,710,440,961

Figures in brackets indicate deductions.
Accounting policies & notes to accounts form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 31st March	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Cash Flows From / (Used in) Operating Activities				
Profit before Income Tax Expense	531,633,599	600,268,236	575,176,963	638,059,296
Adjustments for;				
Depreciation of property, plant & equipment	122,791,253	127,514,906	122,926,845	127,641,913
Amortization of intangible assets	8,855,402	8,571,853	8,855,402	8,571,853
Amortization of Right of use asset	75,954,501	-	75,954,501	-
Impairment (reversal)/provision	651,044,667	436,855,346	651,044,667	436,855,346
Interest on fixed deposits, commercial paper & treasury bills	(118,946,904)	(105,930,809)	(121,680,588)	(108,879,957)
(Profit) /loss on sale of securities	(7,446,395)	4,076,301	(7,446,395)	4,076,301
Fair value (gain)/loss on equity investments (FVTPL)	(939,142)	1,129,628	(939,142)	1,129,628
Fair value gain on investment property	-	(60,909,500)	-	(60,909,500)
Previous year WHT written-off	-	10,546	-	10,546
Bad debt written-off	461,312,661	376,639,464	461,312,661	376,639,464
Diminution/(appreciation) in value of investments	(14,108,468)	39,152,075	(14,108,468)	39,152,075
Diminution/(appreciation) in value of treasury bonds	2,566,699	(5,862,896)	2,566,699	(5,862,896)
Loss/(profit) on disposal of property, plant & equipment	(21,293,820)	(912,208)	(21,293,820)	(912,208)
Provision/(reversal) for defined benefit plans	28,944,650	32,693,185	29,391,316	33,121,699
Dividend received	(4,317,948)	(5,635,045)	(4,317,948)	(5,635,045)
Share of loss/(profit) from associates	2,842,382	8,893,804	2,842,382	8,893,804
Operating Profit before Working Capital Changes	1,718,893,137	**1,456,554,885**	1,760,285,075	**1,491,952,318**
(Increase)/decrease in trading stock	194,830,180	(260,869,694)	194,830,180	(260,869,694)
(Increase)/decrease in loans and advances	118,483,740	1,007,521,857	118,472,611	1,007,510,236
(Increase)/decrease in lease rentals receivable & stock out on hire	(2,116,276,583)	(1,752,643,849)	(2,116,276,583)	(1,752,643,849)
(Increase)/decrease in hire purchase rentals receivable & stock out on hire	7,508,010	30,908,072	7,508,010	30,908,072
(Increase)/decrease in fixed deposits & repurchase agreements	(323,788,890)	173,113,680	(323,788,890)	173,113,680
(Increase)/decrease in other financial assets	(53,517,048)	(82,301,404)	(88,169,863)	(97,224,026)
(Increase)/decrease in other non financial assets	(219,182,358)	(102,166,888)	(219,657,677)	(101,719,371)
Increase/(decrease) in amounts due to depositors	(146,385,959)	(763,268,623)	(146,385,959)	(763,268,623)
Increase/(decrease) in derivative financial liabilities	(39,934,502)	60,532,390	(39,934,502)	60,532,390
Increase/(decrease) in other financial liabilities	9,770,675	325,670,462	28,816,338	307,848,373
Increase/(decrease) in other non financial liabilities	(30,265,169)	19,608,727	(30,265,169)	20,439,642
Cash generated from/(used in) Operations	(879,864,767)	**112,659,615**	(854,566,430)	**116,579,148**
Retirement benefit liabilities paid	(14,889,015)	(26,065,445)	(14,998,915)	(26,065,445)
Investment in gratuity fund	(33,714,921)	(31,843,394)	(33,714,921)	(31,843,394)
Taxes paid	(397,860,929)	(121,674,674)	(409,877,470)	(131,410,137)
Net cash generated from/(used in) operating activities	(1,326,329,632)	**(66,923,898)**	(1,313,157,736)	**(72,739,828)**

For the year ended 31st March	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
Cash Flows from Investing Activities				
Acquisition of property, plant & equipment	(78,139,072)	(198,964,496)	(78,139,072)	(199,054,496)
Acquisition of Right of use asset	(12,180,000)	-	(12,180,000)	-
Acquisition of intangible assets	(8,289,630)	(8,348,481)	(8,289,630)	(8,348,481)
Investment in unquoted equities	-	-	(12,545,020)	(17,214,060)
Proceeds from sales of property, plant & equipment	29,024,526	7,904,944	29,024,526	7,904,944
Net sales/ (purchases) of financial investments -FVTPL/FVOCI	78,007,252	(718,825,274)	78,007,249	(718,825,274)
Dividend received	4,317,948	5,635,045	4,317,948	5,635,045
Interest on fixed deposits & treasury bills	118,946,904	105,930,809	121,680,588	108,879,957
Net cash generated from investing activities	**131,687,928**	**(806,667,453)**	**121,876,589**	**(821,022,365)**
Cash flows from / (used in) financing activities				
Settlement of operating lease liabilities	(82,967,050)	-	(82,967,050)	-
Increase in borrowed funds	(819,062,771)	(826,737,147)	(819,062,771)	(826,737,147)
Net increase /(decrease) in other borrowings	2,837,253,658	1,554,607,570	2,865,528,794	1,542,725,052
Net increase /(decrease) in finance lease	(1,917,211)	(7,242,528)	(1,917,211)	(7,242,528)
Dividend paid	(33,696,000)	(75,816,000)	(33,696,000)	(75,816,000)
Net cash generated from/(used in) financing activities	**1,899,610,626**	**644,811,895**	**1,927,885,762**	**632,929,377**
Net increase/(decrease) in cash and cash equivalents	**704,968,923**	**(228,779,455)**	**736,604,615**	**(260,832,816)**
Cash and cash equivalents at the beginning of the year	281,584,736	510,364,191	290,719,999	551,552,815
Cash and cash equivalents at the end of the year	986,553,659	281,584,736	1,027,324,614	290,719,999
Movement in Cash and Cash Equivalents	**704,968,923**	**(228,779,455)**	**736,604,615**	**(260,832,816)**

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.

Certain industries are affected due to the COVID-19 and now being gradually recovering. End of the fourth quarter cash flows from operations have been reduced. Therefore, the group has reassessed and borrowed cash from banks to maintain sound liquidity position.

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 2020 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 2020 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, micro financing activities and other financial services.

1.3.2. Subsidiary

Ownership of Subsidiary as on 31st March 2020 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 Sri 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 2020, were approved and authorized for issue in accordance with a resolution of the Board of Directors on 29th June 2020.

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.

- Financial assets held at Fair Value Through Other Comprehensive Income (FVTOCI) (Note 26)
- Financial assets recognized Fair Value Through Profit or Loss (FVTPL) are measured at fair value (Note 22)
- Retirement benefit obligation measured at difference between present value of defined benefit plan asset and the present value of defined benefit plan liability (Note 43).
- 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 (Note 33).

- Investment property measured at fair value (Note 32).

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 Company 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 54.3.

2.7 Materiality & Aggregation and Offsetting

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 recognized 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 Consolidated Financial Statements provide comparative information in respect of the previous financial year. The presentation and classification of assets and liabilities in the Financial Statements of the previous financial year have been amended, where relevant for better presentation and to be comparable with those of the current year except in the following instance;

With the initial application of SLFRS – 16 ; "Leases"; the Group has adopted modified retrospective method from 1st April 2019, without restating comparatives for 2018/19 reporting period, as permitted under the specific transitional provisions in the standard.

Therefore, the Comparative information recorded under Sri Lanka Accounting Standard – LKAS 17 on "Leases" (LKAS 17) is not comparable to the information presented for 2018/19.

2.9 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', 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,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, balances with banks, placements with banks money at call and short notice.

2.10 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 recognized 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:

2.10.1 Going Concern

In determining the basis of preparing the financial statements for the year ended 31 March 2020, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Group and the appropriateness of the use of the going concern basis. Further management considers the effect of COVID-19 is short to medium term and has taken adequate measures to mitigate the possible effects. Detailed discussion is given in the notes to the financial statements.

Significant Accounting Policies

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.

2.10.2 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.

COVID – 19 pandemic has created a situation where the volume of activities for several assets and liabilities being curtailed resulting their values to significantly reduce along with the reduced market activities in an active manner. As per the guidelines issued by CA Sri Lanka and the provisions in SLFRS13–Fair value measurement, there is an impossibility to derive the fair value of financial assets as at 31 March 2020 due to unavailability of reliable information and distress prices.

As per the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak (updated on 11th May 2020) by CA Sri Lanka, It is permitted to apply an appropriate valuation technique to measure the fair value of financial assets. However, such values calculated and used as the fair value in the financial statements for the period 2019/2020 by using different valuation techniques are not expected to exceed the market value reported as at 31st December 2019

Accordingly Company has used the last traded market prices on 20th March 2020 for the fair valuation of quoted equity securities

2.10.3 Impairment Losses on Loans and Receivables

The measurement of impairment losses across the categories of financial assets under Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Statement of Profit & Loss In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- Groups of homogeneous loans and advances that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Groups' Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Groups' criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The above assumptions and judgements are discussed in detail under note 4.4.7 to the Financial Statements.

The accuracy of the provision depends on the model assumptions and parameters used in determining the ECL calculations.

CA Sri Lanka in its Guidance Notes on Accounting Considerations of the COVID-19 Outbreak (updated on 11th May 2020) has decided to provide certain temporary practical expedients in the application of certain provisions in SLFRS 9, considering the insufficiency of updated information, uncertainty relating to borrowers repayment ability, resource constraints and various government relief measures as a result of the outbreak, even though circumstances require reassessment of all the factors for the preparation of financial statements for the reporting on 31 March 2020 financial statements and thereon. Accordingly, an entity may continue using the information used for Probability of Default (PD), Loss Given Default (LGD), Economic Factor Adjustment (EFA) and cash flow assumptions in 31 December 2019 during the January to March period subject to appropriate adjustments being incorporated, when the information become available subsequently.

Accordingly, The Company continued the same staging that exist as of lower of 31st March 2020 and 29th February 2020 and Economic factor adjustment used in 31st December 2019 for the ECL Computations due to uncertainties and lack of sufficient information available to make any adjustments to factor the impact of COVID-19. Further, the Company has increased the weightage assigned to worst case scenario by transferring the weightage from base case to capture potential impact on COVID-19.

2.10.4 Taxation

The Group is subject to income taxes and other taxes including VAT on financial services, Debt repayment levy and Nations Building Tax. 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 recognized 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.

2.10.5 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.

2.10.6 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.

2.10.7 Revaluation of Property and Equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engages independent professional valuers to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on "Fair Value Measurement" (SLFRS 13).

2.10.8 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.

2.10.9 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 recognized 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. 49.

2.10.10 Impairment of Other Financial Assets

The Group reviews its debt securities classified as FVOCI / amortised cost, at each reporting date to assess whether they are impaired. From 1st April 2018, with the adoption of SLFRS 9 equity investments are not subjective for impairment assessment.

2.10.11 Classification and valuation of investment property

Management requires using its judgements to determine whether a property qualifies as an Investment Property. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyor, who has recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The key assumptions used to determine the fair value of investment property are provided in detail in Note 32.

2.11 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 authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 50 where necessary.

3. NEW AMENDMENTS TO ACCOUNTING STANDARDS APPLICABLE FROM 1ST APRIL 2019

In these Financial Statements, the Group has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after April 1, 2019 for the first time. The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

SLFRS 16 – Leases

With effect from April 1, 2019, the Group applies this standard to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4. For the contracts entered on or after the effective date of transition, the Group assesses at the inception of a contract, whether a contract is contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Group determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16.

3.1.1 As a Lessor

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessor will continue to classify leases as either operating lease or finance leases using similar approach as in LKAS 17.Therefore SLFRS 16 does not have an impact for leases where Group is the lessor.

3.1.2 As a Lessee

As a lessee Group previously classified operating lease and the finance lease based on its assessment of whether the assessment lease transferred significantly all risk and rewards incidental to ownership of the underlying assets to the Group. Under SLFRS 16, The Group determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application being April 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially identified in the statement of changes in equity. Accordingly the comparative information has not been restated and continued to be reported under LKAS 17.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The lessee shall measure that lease liability at the present value of the lease payments, discounted using the Company's cost of fund rate at the date of initial application date.

The Group recognises as right-of-use asset at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Group selected to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial application.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months.
- did not recognise right-of-use assets and liabilities for leases of low-value assets
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- Applied a single discount rate to a portfolio of leases with similar characteristics
- Used hindsight when determining the lease term if the contact contains option to extend or terminate the lease

The Group presents right-of-use assets and lease liabilities separately in the Statement of Financial Position.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

4. 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.

4.1 Basis of Consolidation

The Groups' Financial Statements comprise, Consolidated Financial Statements of the Company and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 on 'Consolidated Financial Statements' (SLFRS 10) and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" (LKAS 28).

4.1.1 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 recognized amount of any non-controlling interests in the acquire, less the net recognized 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 recognized immediately in Profit or Loss.

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 recognized 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 recognized 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.

4.1.2 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 all subsidiaries in the Group have a common financial year which ends on March, 31.

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 derecognized 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 recognized 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.

4.1.3 Associates and Jointly Control Entities

Associates

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 recognized 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 Groups' 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 years' 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

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.

4.1.4 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).

4.2 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.

4.3 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.

4.4 Financial Instruments – Initial recognition, Classification and Subsequent Measurement

4.4.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognizes balances due to customers when funds are transferred to the Group.

4.4.2 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.

4.4.2.1 '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'.

4.4.3 Financial Assets and Liabilities

Group only measures loans and advances to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

4.4.3.1 (a) Business Model Assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The business model assessment is based on reasonably expected scenarios without taking into account "worse case" or "stress case" scenarios. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.4.3.1 (b) The SPPI Test

As a second step of its classification process the Company assesses the contractual terms of the financial assets to identify whether they meet the SPPI test. "Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.4.4 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 2020.

4.4.5 Reclassification of financial assets

From 1st April 2018, with the adoption of SLFRS 9, the Group reclassifies its financial assets subsequent to the initial recognition when an only when the business model for managing such financial assets is changed. Such reclassifications is applied prospectively from the reclassification date. Financial liabilities are never reclassified.

If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in Statement of Profit or Loss. If the reclassification takes place out of the fair value through profit or loss category into the amortised cost measurement category, its fair value at the reclassification date becomes the new gross carrying amount.

If the reclassification takes place out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income.

The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

In terms of SLFRS 9.4.1.4, presenting subsequent changes in fair value in other comprehensive income for equity instruments that would otherwise be measured at fair value through profit or loss is an irrevocable election at initial recognition. However, as a result of COVID-19 if an entity decides to change its business model as at 1 January 2020, a one off option (no further reclassification thereon) is provided to reclassify equity portfolio. Accordingly, if the equity portfolio is reclassified to FVTOCI, the gain or loss on disposal will also be recognised in OCI. There will not be an option given for subsequent reclassifications.

In considering the significant volatility in the market conditions, the Company has decided to reclassify its Equity portfolio under Fair Value through Other Comprehensive Income w.e.f 01 January 2020.

4.4.6 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.

4.4.7 Impairment of Financial Assets

Overview of the ECL principles

SLFRS 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.

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 performed either individually or collectively.

Under SLFRS 9, loss allowances 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, 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.

Definition of default and cure

The Group considers a financial instrument as defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 180 days past due on its contractual payments.

As a part of a qualitative assessment of whether an individually significant customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.
It is the Group's policy to consider a financial instrument as "cured "and therefore reclassified out of Stage 3 when none of the default criteria have been present and the borrower is no longer considered as non performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the days past due, at the time of the cure. The Group's criterion for 'cure' for rescheduled / restructured loans is more stringent than ordinary loans.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in the credit risk since initial recognition. The Group considers an exposure to have a significantly increase in the credit risk when it is past due for more than 90 days.

Significant Accounting Policies

Calculation of ECL
The Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.
Key elements of the ECL calculations are outlined below:

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)
The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Loss Given Default (LGD)
The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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.

Calculation of ECLs for Individually significant loans
The Group first assesses ECLs individually for financial assets that are individually significant to the Group. In the event the Group determines that such assets are not impaired (Not in stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment 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 is only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession; and
- The likely deduction of any costs involved in recovery of amounts outstanding;

Grouping financial assets measured on collective basis
The Group calculates ECLs either on a collective or an individual basis. The Group categorise the collective impairment exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral
- Industry of the borrower

The PD estimation Process
PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Companies in the country at present.

Accordingly, exposures are categorised among 8 groups based on the DPD as follows.

- Zero days past due
- 1 – 30 days past due
- 31 - 60 days past due
- 61 – 90 days past due
- 91-120 days past due
- 121 – 150 days past due
- 151 – 180 days past due
- Above 180 days past due

Exposure at Default

The exposure at default (EAD) represents the gross carrying amount of the financial instrument subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and stage 3 financial assets and credit impaired assets at origination, events over the lifetime of the instruments are considered. The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

LGD values are assessed at least annually for each material collateral type. The Group segregates its customer loan book based on following major types of collaterals when calculating the LGD,

- Secured against immovable property
- Secured against motor vehicles and other movable properties
- Secured against gold
- Secured against lease receivables

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Interest rates
- Treasury bill rate
- Inflation rate

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. To ensure completeness and accuracy, the Group obtains the above data from third party sources (Central Bank, World Bank and etc).

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.

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.

Material Judgements and uncertainties

Company has made significant judgement as at period end to determine which events and circumstances relate and which do not. Typically, the shorter the period of time between period end and the information becoming available (e.g. a borrower defaulting on a loan shortly after period end), the more likely it is that the information confirms events and conditions as at period end, and therefore, ought to be reflected in ECL calculations.

A movement from stage 1 to either stage 2 or 3 will typically result in a higher ECL, as the probability of default ('PD') over the lifetime of a financial asset will be at least equal to or higher than the PD over the next 12 months. However, the

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assessment of whether there has been a significant increase in credit risk (SICR) for a financial asset is carried out on the basis of the expected life of the financial asset, the severe effects of COVID-19 will be during the second and third quarters of 2020 and that there will be significant initial government support followed by a significant economic recovery from late 2020/early2021 onwards, then there may not be a SICR for many financial asset.

Allowance for expected credit losses (ECL)

The effects of COVID-19 are generally a 'non-adjusting' subsequent event as at 31 March 2020. Significant government action and intervention began to take place on 15 March 2020 when the World Health Organization declared coronavirus to be a global health emergency, which generally triggers the recognition of the broad economic effects of the outbreak in financial statements. Hence the impairment calculations had prepared earlier than the financial year end date for operational and practical reasons. Company had prepared substantial amount of its impairment calculations as at 29 February 2020. Assuming that the delays in payment may occur due to government intervention, and depending on the circumstances, may not result in a significant increase in credit risk.

Forward Looking and Probability of Default

IFRS 9 recognizes that information relevance decreases as the forecast horizon increases and emphasizes the relevance of historical information. In this regard, the IFRS 9 provisions lead to the conclusion that where there is no reliable evidence for specific forecasts, long-term macroeconomic outlooks will provide the most relevant basis for estimation. Hence company has used available historical information as on 31st December 2019, but only as far as this information is representative for the long-term horizon and free of bias; where historical information depends on macroeconomic variables, consider information covering at least one or more full economic cycles or that is otherwise adjusted to avoid biases. And further, scenario based analysis has improved and Worst case has been given 1/3 of weighting when determine the forward looking and probability of default.

4.6.2 Repurchase Agreements

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'.

4.7 Non – Financial Asset

4.7.1 Investment Property

Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, based in the production or supply of goods or services or for administrative purposes. Investment properties are recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured. Where the Group provides ancillary services to the occupants of a property it holds, the Group treats such a property as investment property if the services are insignificant to the arrangement as a whole.

If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply LKAS 16 "Property, plant and equipment" up to the date of change in use. When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and classified as Investment Property. The entity shall treat any difference at that date between the carrying amount of the property in accordance with LKAS 16 "Property, plant and equipment "and its fair value in the same way as a revaluation in accordance with LKAS 16 "Property, plant and equipment ".The land is non-depreciated. Accordingly, land and building classified as investment properties are stated at fair value.

The Group obtains the services of independent valuers who are not connected with the Company, in order to determine the fair value of its investment properties annually, for disclosure purposes and such fair values have been disclosed as required by Sri Lanka Accounting Standard - LKAS 40 on "Investment Property".

De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from the use since no future economic benefits are expected. Gains or losses arising from de-recognition of an investment property are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss.

4.7.2 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 from 1st April 2016, 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	Expected useful life time in years
Building	20
Office Equipment	5
Plant & Machinery	5
Furniture & Fittings	8
Cutlery & Crockery	5
Motor Vehicles	5
Computers	3

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.

4.7.2 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.

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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. 34 only included computer software and cost of licences.

4.7.3 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.

4.7.4 Finance and operating leases

Operating Leases

With effect from April 1, 2019, the Group applies SLFRS 16 to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4, without reassessing whether a contract contains a lease at the date of initial application as a practical expedient. For the contracts entered on or after the effective date of transition, the Group assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Group determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

4.7.4.1 Group as a lessee

At the commencement date, the Group recognises right-of-use of an asset and a lease liability which is measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the cost of fund rate of the Group.

After initial recognition, the Group applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset. Where the right does not transfer the ownership of the asset, the Group depreciates it from commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. In addition, interest expense on the lease liability is recognised in the profit or loss.

Details of "Right-of-use asset" and "Lease liability" are given in Note no. 35 to the financial statements

4.7.4.2 Group as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The Group recognises lease payments from operating leases as income on straight-line basis. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

4.7.4.3 Application as per LKAS 17 (Applicable up to 31st March 2019)

Operating leases – Group as a lessee

As per LKAS 17, assets held under leases other than finance leases are classified as operating leases and are not recognised in the Group's SOFP. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rental payable is recognized as an expense in the period in which they are incurred.

Operating leases – Group as a lessor

Assets leased under leases other than finance leases are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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.

4.8 Financial Liabilities

4.8.1 Initial recognition and measurement

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
  - Held-for-trading; or
  - Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

4.8.1.1 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 recognized in the Statement of Profit or Loss.

Upon initial recognition, transaction costs are directly attributable to the acquisition, are recognized 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.

Changes in fair value are recorded in "Net fair value gains/ (losses) from financial instruments at fair value through profit or loss" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Companies' own credit risk. Interest paid/payable is accrued in "Interest expense", using the EIR. The Group has not designated any financial liabilities as at fair value through profit or loss as at the end of the reporting period.

4.8.1.2 Financial Liabilities at Amortised Cost

Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors" "Other borrowings" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or

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another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expense" in the Statement of Profit & Loss. Gains and losses too are recognised in the Statement of Profit & Loss when the liabilities are derecognised as well as through the EIR amortisation process.

4.8.2 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.

4.8.3 Reclassification of Financial Liabilities

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

4.9 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 as at that date. The expense relating to any provision, is presented in the Statement of Profit or Loss net of any reimbursement.

4.10 Retirement Benefit Obligations

4.10.1 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 2020 by M/s Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries based on the Projected Unit Credit 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 recognized 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 recognized 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 recognized immediately.

Management of the funds' 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 2020 fair value of plan assets is Rs. 297,000,040/- (2019 – Rs. 246,528,429/-).

4.10.2 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.

The Group operates an approved private fund to manage EPF and managed by the committee of management.

4.10.3 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.

4.11 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 the Statement of Changes in Equity or in OCI.

4.11.1 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. 27 of 2017 and the amendments thereto.

4.11.2 Changes proposed to Income Tax from Government Tax Proposals
As per the Notice to tax payers and withholding agents on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" dated February 12, 2020 issued by the Department of Inland Revenue, Income Tax rates of Corporates has been revised to 24% from 28% effective from January 1, 2020, pending formal amendments to be made to the Inland Revenue Act .

The Company's management having applied significant judgement to the said proposed revision of income tax rates, have determined that it is probable that formal amendments to the IRA will be made. The management concluded that Circular No. PN/IT/2020-03 (Revised) is more likely to be enacted in the near future and therefore, income tax rates and proposed basis of quantifying current income tax stipulated in the said Circular to be effective from 1 January 2020 have been used to calculate the last quarter income tax provision of the 2019/20 financial year of the Company. Accordingly, the Company has decided to apply the revised income tax rates with effective from 1 January 2020.

4.11.3 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 the 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.

Due to the end of owner occupation of the freehold land and building have been transferred to investment property, the

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differed tax impact on such adjustment has reversed to the statement of other comprehensive income.

4.11.4 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.

4.11.5 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.

4.11.6 Withholding Tax on Dividends

Dividend distributed out of taxable profit of the subsidiaries attracts WHT at source and is not available to set off against the tax liability of the Company. Thus, the WHT deducted at source, on the dividends distributed by the subsidiaries is charged to the Consolidated Statement of Profit or Loss as a consolidation adjustment.

Withholding tax that arises from the distribution of dividends by the Group is recognised at the time of the liability is payable.

4.11.7 Nation Building Tax (NBT) on Financial Services

With effect from 01st January 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. NBT has been abolished with effect from 1 December 2019 subject to Parliamentary approval for amendments to Nation Building Tax Act

4.11.8 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto. ESC paid on aggregate turnover of the Company at 0.5% and is deductible from income tax payable. Unclaimed ESC, if any, can be carried forward and set off against the income tax payable in the three subsequent years including the current year of assessment. ESC has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to ESC Act.

4.11.9 Debt Repayment Levy (DRL) on financial services

DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services. DRL has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to Finance Act.

4.12 Recognition of Income

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.

4.12.1 Interest income

Interest income is recorded using effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designed at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is also recorded by using the EIR method. EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset.

EIR (and therefore, the amortised cost of the assets) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycles (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial assets are revised for reasons other than credit risk, the adjustments is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction of interest income. The adjustment is subsequently amortised through interest and similar income in the Statement of Profit and Loss.

When a financial asset becomes credit-impaired, and is therefore regarded as "Stage 3", the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset, if the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognised using the contractual interest rate under net interest income.

Based on the Debt Moratoriums as per the Circular No.'s 4 and 5 of 2020 issues by Monetary Board, Central Bank of Sri Lanka extension of payment holidays granted to borrowers in specific industries.

Accordingly, for not credit impaired receivables, interest has to be accrued throughout the period applying the original Effective Interest Rate(EIR) in accordance with SLFRS 9.5.4.1 and SLFRS 9.5.4.2 applied the gross caring amount of the financial assets. Consequently, the modification gain or loss shall be charged to profit or loss immediately. This is on the basis that the modification is not substantial. If there is a substantial modification, that would result in recognition of the financial assets consequently a new asset would be recognized and the EIR would be restated based on the pre modification carrying value and revised cash flows.

For the credit impaired receivables, interest revenue shall be accrued in the financial statements for the credit impaired assets by applying the original EIR on the net carrying value, after adjusting for Expected Credit Loss.

Currently Company has accounted the interest income based on SLFRS 9 and in the process of finalizing the customer debt relief applications in order to identify whether the modification terms are substantial or not.

4.12.2 Net Fee and Commission Income

Service Income

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed

Fee and Commission Income

The Group earns fee and commission income from a diverse range of services, it provides to its customers. Fee and commission income relates mainly to transactions and services fees which are charged from customers to provide relevant financial services. It mainly include CRIB verification charges, Yard fees, Loan processing fees and vehicles transfer fees, income account on cash basis.

Fee and Commission Expense

Fee and commission expense mainly relates to transactions and services fees which are expensed to third parties on behalf of customers. These expenses mainly includes RMV expenses and Insurance expenses. Fee and commission expenses are recognised on an accrual basis.

4.12.3 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.

4.12.4 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.

4.12.5 Other Income

The recognition of other income is accounted based on accrual basis.

4.13 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.

4.14 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.

4.15 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 deferent 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 group accounting policies. 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.

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLICABLE AS AT 31ST MARCH 2020

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2020. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements. The following amended standards are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards.
- Definition of a business (Amendments to SLFRS 3)
- Interest rate benchmark reforms. (Amendments to SLFRS 9,LKAS 39, and SLFRS 7)

Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
6 GROSS INCOME				
Interest income (Note 7.1)	7,212,017,278	6,832,724,997	7,214,750,962	6,835,674,145
Fee & commission income (Note No. 8)	180,002,654	180,053,256	236,811,281	257,538,486
Net trading income (Note No 9)	49,512,493	(4,062,314)	49,512,493	(4,062,314)
Other operating income (Note No. 10)	237,685,236	234,882,430	237,689,640	234,909,873
	7,679,217,661	7,243,598,369	7,738,764,376	7,324,060,190
7 NET INTEREST INCOME				
7.1 Interest Income				
Financial investments - recognised through profit or loss	140,052,484	125,922,024	140,052,484	125,922,024
Loans and advances (Note No. 7.1.1)	1,409,951,283	1,931,855,938	1,409,951,283	1,931,855,938
Lease rentals receivable	5,364,574,730	4,529,533,148	5,364,574,730	4,529,533,148
Hire purchase & consumer durables	594,195	4,586,859	594,195	4,586,859
Repurchase agreements	15,174,804	13,542,238	15,174,804	13,542,238
Placements with banks & other financial institutions	80,374,300	63,526,721	83,107,984	66,475,869
Interest income accrued on impaired loans & receivables	201,295,482	163,758,069	201,295,482	163,758,069
Total interest income	7,212,017,278	6,832,724,997	7,214,750,962	6,835,674,145
7.1.1 Interest Income from Loans & Advances				
Interest income from loans	604,092,475	698,387,181	604,092,475	698,387,181
Interest income from pledge loan	184,276,033	239,402,225	184,276,033	239,402,225
Interest income from gold loan	467,743,660	369,534,321	467,743,660	369,534,321
Interest income from micro finance	153,839,115	624,532,211	153,839,115	624,532,211
	1,409,951,283	1,931,855,938	1,409,951,283	1,931,855,938

Interest Income recognized for the year ended as at 31st March 2020 based on the SLFRS 9.
Due to the COVID-19, considerable amount of moratorium applications were received and sorted based on eligibility criteria. The system will be modified by extending the tenure of contract. During the moratorium period concessionary interest will be charged. Management expects reduction in interest income for the next financial year due to this.

	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
7.2 Interest Expenses				
Due to banks	1,476,790,502	1,255,747,782	1,476,790,502	1,255,747,782
Due to depositors	1,551,265,288	1,642,290,238	1,551,265,288	1,642,290,238
Debt instruments issued and other borrowed funds	55,737,229	137,575,959	55,737,229	137,575,959
Other financial liabilities	237,376,298	208,420,190	237,376,298	208,420,190
Total interest expenses	3,321,169,317	3,244,034,169	3,321,169,317	3,244,034,169
Net interest income	3,890,847,961	3,588,690,828	3,893,581,645	3,591,639,976

Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
8 FEE AND COMMISSION INCOME				
8.1 Fee and Commission Income				
Commission income	-	-	56,808,627	87,985,749
Service charges	132,972,945	134,405,904	132,972,945	123,905,385
Transfer fees	33,537,623	35,504,261	33,537,623	35,504,261
Other fees	13,492,086	10,143,091	13,492,086	10,143,091
Total fee and commission income	180,002,654	180,053,256	236,811,281	257,538,486
8.2 Fee and Commission Expenses				
Brokerage	(124,510,580)	(89,245,684)	(124,510,580)	(89,245,684)
Credit related fees	(53,548,761)	(125,350,740)	(53,563,161)	(125,576,887)
Total fee and commission expenses	(178,059,341)	(214,596,424)	(178,073,741)	(214,822,571)
Net Fee and Commission Income / (Expense)	1,943,313	(34,543,168)	58,737,540	42,715,915
9 NET GAINS /(LOSSES) FROM TRADING				
Profit /(loss) on sale of financial investments - FVTPL	7,446,395	(4,076,301)	7,446,395	(4,076,301)
Profit /(loss) on sale of foreign currencies	9,127,480	3,690,318	9,127,480	3,690,318
Income from trust investment	32,938,618	-	32,938,618	-
Impairment adjustment on unquoted investment reclassified to profit or loss	-	(3,676,331)	-	(3,676,331)
	49,512,493	(4,062,314)	49,512,493	(4,062,314)
10 OTHER OPERATING INCOME				
Income from financial investments - FVTPL	4,317,948	5,635,045	4,317,948	5,635,045
Fair value gain/(loss) on financial investments - FVTPL	15,047,610	(40,281,703)	15,047,610	(40,281,703)
Fair value gain / (loss) on treasury bonds	(2,566,699)	-	(2,566,699)	-
Fair value gain on treasury bonds reclassified to profit or loss	-	9,539,227	-	9,539,227
Profit/(loss) on disposal of property, plant & equipment	21,293,820	912,208	21,293,820	912,208
Fair value gain on investment property	-	60,909,500	-	60,909,500
Profit on sale of vehicles	44,375,348	68,443,282	44,375,348	68,443,282
Rental income from hiring vehicles	28,138,105	27,463,131	28,138,105	27,463,131
Income from sale of tiles & furniture	5,994,624	3,413,430	5,994,624	3,413,430
Bad debt recoveries	38,462,446	33,790,120	38,462,446	33,790,120
Others	82,622,034	65,058,190	82,626,438	65,085,633
Total Other Operating Income	237,685,236	234,882,430	237,689,640	234,909,873

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.

11 IMPAIREMENT CHARGES FOR LOANS AND OTHER LOSSES

	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
Impairment Charges / (Write Back)				
Lease rentals receivable	484,102,848	134,982,865	484,102,848	134,982,865
Hire purchase rentals receivable	73,505	(24,993,983)	73,505	(24,993,983)
Loans and advances	166,868,314	326,866,464	166,868,314	326,866,464
	651,044,667	436,855,346	651,044,667	436,855,346
Bad Debts Written off				
Lease rentals receivable	418,702,558	292,046,622	418,702,558	292,046,622
Hire purchase rentals receivable	239,601	18,268,907	239,601	18,268,907
Loans and advances	42,370,502	66,323,935	42,370,502	66,323,935
	461,312,661	376,639,464	461,312,661	376,639,464
	1,112,357,328	813,494,810	1,112,357,328	813,494,810

11.1 Impairment Charge / (Reversal) to the Income Statement

31st March 2020 IFRS 09	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Loans and advances - at amortised cost				
- Collective impairment	78,744,798	(25,256,064)	45,633,312	99,122,046
- Individual impairment	-	-	67,746,268	67,746,268
Lease rentals receivable & stock out on hire - at amortised cost				
- Collective impairment	246,830,865	49,442,347	25,462,181	321,735,393
- Individual impairment	-	-	162,367,455	162,367,455
Hire purchase rentals receivable & stock out on hire - at amortised cost				
- Collective impairment	(103,833)	(74,135)	(336,350)	(514,318)
- Individual impairment	-	-	587,823	587,823
	325,471,830	24,112,148	301,460,689	651,044,667

12 PERSONNEL EXPENSES

	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
Salaries and bonus	616,246,985	570,406,203	623,561,408	591,105,743
Gratuity charge for the year	28,944,650	32,690,685	29,391,316	33,119,199
Employer's contribution to EPF	114,164,866	113,776,567	114,968,907	114,574,185
Employer's contribution to ETF	17,124,730	17,067,629	17,325,740	17,267,034
Staff welfare	27,875,896	30,863,068	28,366,277	31,328,469
Other allowances & staff related expenses	17,365,640	15,547,247	17,473,140	15,574,208
	821,722,767	780,351,399	831,086,788	802,968,838

Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.

13 OTHER OPERATING EXPENSES

13.1

Auditors' remuneration				
Audit fee	1,175,000	1,050,065	1,298,000	1,162,565
Non audit fees and expenses	225,000	253,000	283,000	305,500
Directors emoluments and other expenses (13.2)	64,425,475	59,293,719	66,025,475	60,893,719
Professional fees	27,025,926	8,981,274	27,025,926	8,981,274
Office administration & establishment expenses	397,071,733	392,279,805	398,714,418	398,874,142
Advertising & business promotion expenses	101,182,427	100,474,297	101,253,297	108,840,527
Motor vehicle running & maintenance	581,459,100	547,089,050	584,453,883	550,063,651
Others	111,080,775	115,260,874	111,080,775	115,260,874
	1,283,645,436	1,224,682,084	1,290,134,774	1,244,382,252

13.2 Directors emoluments and other expenses represent the fees, salaries, allowances and other expenses (except gratuity provision) of both Executive and Non-Executive Directors of the Company.

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.

14 DEPRECIATION AND AMORTIZATION

Depreciation of property, plant and equipment	122,791,253	127,514,906	122,926,845	127,641,913
Amortization of intangible assets	8,855,402	8,571,853	8,855,402	8,571,853
	131,646,655	136,086,759	131,782,247	136,213,766

15 TAXES ON FINANCIAL SERVICES

Value added tax	191,540,821	163,627,044	191,540,821	163,627,044
Nation building tax	16,507,076	19,235,821	16,507,076	19,235,821
Debt repayment levy	88,092,939	38,327,820	88,092,939	38,327,820
	296,140,836	221,190,685	296,140,836	221,190,685

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
16 TAXATION				
Income tax expense for the year	258,152,884	294,096,680	269,950,378	304,370,093
Provisons for contingent tax liabilities	64,847,116	-	64,847,116	-
Total Income Tax expense for the year	323,000,000	294,096,680	334,797,494	304,370,093
16.1 The Major Components of Income Tax Expense				
Current Income Tax Expenses				
Current tax on profit for the year (Note No. 16.2)	342,279,069	245,322,833	354,149,295	256,492,414
Under/ (over) provision of current taxes in respect of prior years	-	(5,788,748)	-	(6,619,664)
	342,279,069	239,534,085	354,149,295	249,872,750
Deferred Tax Expenses				
Deferred taxation charge/ (reversal) (Note No. 16.4)	(84,126,185)	54,562,595	(84,198,917)	54,497,343
	258,152,884	294,096,680	269,950,378	304,370,093
Current Tax on Profit for the Year - Subsidiary				
Alfinco Insurance Brokers (Pvt) Ltd			11,797,494	10,273,414
			11,797,494	10,273,414
16.2 Reconciliation of Accounting Profit and Taxable Income				
Accounting profit before income taxation	531,633,599	600,268,236	575,176,963	638,059,296
Tax effect of non deductible expenses	4,051,951,155	5,579,056,797	4,049,802,296	5,581,246,593
Tax effect of other allowable credits	(2,375,929,712)	(3,615,019,561)	(2,376,094,100)	(3,618,058,204)
Tax effect of exempt income	(303,691,111)	(940,363,640)	(300,957,427)	(937,414,492)
Tax effect of Tax losses claimed	(648,463,164)	(747,788,858)	(648,463,164)	(747,788,858)
	1,255,500,767	876,152,974	1,299,464,568	916,044,335
Income Tax for the first 09 months (2020 - 28 % , 2019 - 28 %)	263,655,161	-	272,887,559	-
Income Tax for the last 03 months (2020 - 24 % , 2019 - 28 %)	75,330,046	-	77,967,874	-
Income tax for the year	338,985,207	245,322,833	350,855,433	256,492,414
Tax on Unit Trust investment income	3,293,862	-	3,293,862	-
Total Income Tax for the year	342,279,069	245,322,833	354,149,295	256,492,414
16.3 Applicable Income Tax Rates				
Alfinco Insurance Brokers (Pvt) Ltd				
Income tax rate for the first 09 months			28%	28%
Income tax rate for the last 03 months			24%	28%
Macbertan (Pvt) Ltd				
Income tax rate for the first 09 months			28%	28%
Income tax rate for the last 03 months			18%	28%

Notes to the Financial Statements

16.4 Deferred Tax Expense/(Reversal)

Deferred tax expense recorded in the profit or loss due to changes in the deferred tax assets and liabilities;

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Deferred Tax Liabilities				
Defined benefit obligation - Profit or Loss	8,595,790	9,723,450	8,590,209	9,625,665
Other temporary differences	(20,516,677)	346,630,801	(20,516,677)	346,630,801
Accelerated depreciation - Leased assets	(4,724,133)	1,439,630	(4,724,133)	1,439,630
Accelerated depreciation - Own assets	(24,753,028)	27,674,701	(24,820,179)	27,707,234
	(41,398,048)	385,468,582	(41,470,780)	385,403,330
Deferred Tax Assets				
Lease rentals	39,827,341	328,475,187	39,827,341	328,475,187
	39,827,341	328,475,187	39,827,341	328,475,187
Total Deferred tax expense / (reversal)	(81,225,389)	56,993,395	(81,298,121)	56,928,143
Defined benefit obligation - other comprehensive income	(2,900,796)	(2,430,800)	(2,900,796)	(2,430,800)
Deferred tax expense adjusted through profit or loss	**(84,126,185)**	**54,562,595**	**(84,198,917)**	**54,497,343**

17 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.

For the year ended 31 st March	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Amounts Used as the Numerators:				
Net profit for the year attributable to equity shareholders for basic earnings per ordinary share	208,633,599	306,171,556	228,931,908	323,766,338
Number of Ordinary Shares Used as Denominators for Basic Earnings per share				
Weighted average number of ordinary shares in issue	33,696,000	33,696,000	33,696,000	33,696,000
Basic earnings per ordinary share (Rs.)	6.19	9.09	6.79	9.6

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.

For the year ended 31 st March	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
18 DIVIDENDS				
Dividends on ordinary shares:				
First and final dividend for 2019 Rs1/- per share	-	33,696,000	-	33,696,000
	-	33,696,000	-	33,696,000
Dividend Per Share (Rs.)	-	1.00	-	1.00
Dividend Yield	-	1.87	-	1.87

As at 31st March	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
19 NET ASSETS VALUE PER ORDINARY SHARE				
Amount used as the numerator				
Total equity attributable to equity holders of the Company	4,612,971,306	4,510,256,769	4,669,182,653	4,546,180,297
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	137	134	139	135

Notes to the Financial Statements

20 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 recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in SLFRS 9 on 'Financial Instrument Recognition & Measurement' under the headings of the Statement of Financial Position.

As at 31st March 2020	Fair Value Through Profit or Loss Rs.	Amortised Cost Rs.	Fair Value Through Other Comprehensive Income Rs.	Total Rs.
20.1 Company				
Financial Assets				
Cash and cash equivalents	-	986,553,659	-	986,553,659
Repurchase agreements	-	350,388,985	-	350,388,985
Placements with banks & financial institutions	-	915,617,034	-	915,617,034
Financial assets recognised through profit or loss -measured at fair value	1,550,282,902	-	-	1,550,282,902
Loans and advances - at amortised cost	-	6,184,304,979	-	6,184,304,979
Lease rentals receivable - at amortised cost	-	20,055,543,842	-	20,055,543,842
Hire purchase rentals receivable - at amortised cost	-	4,527,976	-	4,527,976
Financial assets - fair value through other comprehensive income	-	-	137,940,332	137,940,332
Other financial assets	-	459,367,873	-	459,367,873
Total Financial Assets	1,550,282,902	28,956,304,348	137,940,332	30,644,527,582

	Other Financial Liabilities at amortised cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	15,424,806,029	15,424,806,029
Due to depositors	12,347,296,849	12,347,296,849
Derivative financial liabilities	59,836,277	59,836,277
Other financial liabilities	791,703,913	791,703,913
Total Financial Liabilities	28,623,643,068	28,623,643,068

As at 31st March 2019	Fair Value Through Profit or Loss Rs.	Amortised Cost Rs.	Fair Value Through Other Comprehensive Income Rs.	Total Rs.
20.2 Company				
Financial Assets				
Cash and cash equivalents	-	281,584,736	-	281,584,736
Repurchase agreements	-	210,053,286	-	210,053,286
Placements with banks & financial institutions	-	732,163,843	-	732,163,843
Financial assets recognised through profit or loss -measured at fair value	1,807,179,090	-	-	1,807,179,090
Loans and advances - at amortised cost	-	6,512,027,536	-	6,512,027,536
Lease rentals receivable - at amortised cost	-	18,842,072,665	-	18,842,072,665
Hire purchase rentals receivable - at amortised cost	-	12,349,092	-	12,349,092
Financial assets - fair value through other comprehensive income	-	-	579,250	579,250
Other financial assets	-	405,850,825	-	405,850,825
Total Financial Assets	**1,807,179,090**	**26,996,101,983**	**579,250**	**28,803,860,322**

	Other Financial Liabilities at amortised cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	12,589,469,582	12,589,469,582
Due to depositors	12,493,682,808	12,493,682,808
Debt Instruments issued and other borrowed funds	819,062,771	819,062,771
Derivative financial liabilities	99,770,779	99,770,779
Other financial liabilities	781,933,240	781,933,240
Total Financial Liabilities	**26,783,919,180**	**26,783,919,180**

Notes to the Financial Statements

As at 31st March 2020 Financial Assets	Fair Value Through Profit or Loss Rs.	Amortised Cost Rs.	Fair Value Through Other Comprehensive Income Rs.	Total Rs.
20.3 Group				
Cash and cash equivalents	-	1,027,324,614	-	1,027,324,614
Repurchase agreements	-	350,388,985	-	350,388,985
Placements with banks & financial institutions	-	915,617,034	-	915,617,034
Financial assets recognised through profit or loss -measured at fair value	1,550,282,902	-	-	1,550,282,902
Loans and advances - at amortised cost	-	6,184,454,429	-	6,184,454,429
Lease rentals receivable - at amortised cost	-	20,055,543,842	-	20,055,543,842
Hire purchase rentals receivable - at amortised cost	-	4,527,976	-	4,527,976
Financial assets - fair value through other comprehensive income	-	-	137,940,332	137,940,332
Other financial assets	-	535,032,270	-	535,032,270
Total Financial Assets	1,550,282,902	29,072,889,150	137,940,332	30,761,112,384

Financial Liabilities	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Due to banks	15,453,081,167	15,453,081,167
Due to depositors	12,347,296,849	12,347,296,849
Derivative financial liabilities	59,836,277	59,836,277
Other financial liabilities	810,353,917	810,353,917
Total Financial Liabilities	28,670,568,210	28,670,568,210

As at 31st March 2019 Financial Assets	Fair Value Through Profit or Loss Rs.	Amortised Cost Rs.	Fair value through Other Comprehensive Income Rs.	Total Rs.
20.4 Group				
Cash and cash equivalents	-	290,719,999	-	290,719,999
Repurchase agreements	-	210,053,286	-	210,053,286
Placements with banks & financial institutions	-	732,163,843	-	732,163,843
Financial assets recognised through profit or loss -measured at fair value	1,807,179,087	-	-	1,807,179,087
Loans and advances - at amortised cost	-	6,512,165,856	-	6,512,165,856
Lease rentals receivable - at amortised cost	-	18,842,072,665	-	18,842,072,665
Hire purchase rentals receivable - at amortised cost	-	12,349,092	-	12,349,092
Financial assets - fair value through other comprehensive income	-	-	579,250	579,250
Other financial assets	-	217,142,819	-	217,142,819
Total Financial Assets	**1,807,179,087**	**26,816,667,560**	**579,250**	**28,624,425,896**

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	12,589,469,582	12,589,469,582
Due to depositors	12,493,682,808	12,493,682,808
Debt Instruments issued and other borrowed funds	819,062,771	819,062,771
Derivative financial liabilities	99,770,779	99,770,779
Other financial liabilities	781,537,579	781,537,579
Total Financial Liabilities	**26,783,523,519**	**26,783,523,519**

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
21 CASH AND CASH EQUIVALENTS				
Cash in hand	60,605,677	57,302,252	60,605,677	57,302,252
Balances with banks	925,947,982	224,282,484	966,718,937	233,417,747
	986,553,659	**281,584,736**	**1,027,324,614**	**290,719,999**

Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
22 FINANCIAL INVESTMENTS - RECOGNISED THROUGH PROFIT OR LOSS				
Government of Sri Lanka treasury bills	1,205,125,799	1,242,399,963	1,205,125,799	1,242,399,963
Government of Sri Lanka treasury bonds	287,807,781	400,476,681	287,807,781	400,476,681
Investments in Unit Trusts	57,349,322	-	57,349,322	-
Quoted equity securities (Note 26.1)	-	164,302,446	-	164,302,443
	1,550,282,902	1,807,179,090	1,550,282,902	1,807,179,087
23 LOANS AND ADVANCES				
Term loan receivable	3,365,959,121	3,109,714,400	3,365,959,121	3,109,714,400
Gold loans	2,103,646,725	1,315,671,113	2,103,646,725	1,315,671,113
Pledge loans	992,874,760	1,488,717,679	992,874,760	1,488,717,679
Micro finance loans	466,097,824	1,172,537,357	466,097,824	1,172,537,357
Loans against fixed deposits	136,228,278	137,312,571	136,228,278	137,312,571
Staff loans (Note 23.3)	3,073,747	3,100,447	3,223,197	3,238,767
	7,067,880,455	7,227,053,567	7,068,029,905	7,227,191,887
Less : Allowance for impairment losses (Note 23.1, 23.2 & 23.4)	(883,575,476)	(715,026,031)	(883,575,476)	(715,026,031)
Net loans and advances	6,184,304,979	6,512,027,536	6,184,454,429	6,512,165,856
23.1 Allowances for Impairment Losses				
As at 01st April	715,026,031	380,787,620	715,026,031	380,787,620
Impact on adoption of SLFRS 9 as at 1st April 2018	-	(35,493,437)	-	(35,493,437)
Charge / (Reversal) for the year	166,868,314	326,866,464	166,868,314	326,866,464
Interest income accrued on impaired loans and receivables	1,681,131	42,865,384	1,681,131	42,865,384
As at 31 st March	883,575,477	715,026,031	883,575,476	715,026,031
23.2 Loan Category wise Allowances for Impairment Losses				
Term loan receivable	259,092,977	158,350,817	259,092,977	158,350,817
Gold loans	24,678,304	4,789,329	24,678,304	4,789,328
Pledge loans	310,196,519	276,960,761	310,196,519	276,960,762
Micro finance loans	289,607,676	274,925,123	289,607,676	274,925,123
	883,575,476	715,026,030	883,575,476	715,026,030
23.3 Staff Loans				
23.3.1 Staff Loans include loans granted to company officers				
As at the beginning of the year	3,100,447	4,151,358	3,238,767	4,278,058
Loans granted during the year	22,996,445	20,314,385	23,493,845	20,722,385
Repayments during the year	(22,770,884)	(20,850,721)	(23,257,154)	(21,247,101)
Provision for staff loan	(252,261)	(514,575)	(252,261)	(514,575)
As at the end of the year	3,073,747	3,100,447	3,223,197	3,238,767

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
23.4 Analysis of the Impairment for Expected Credit Losses, Based on the Staging of the Underlying Loans				
Gross loans and advances 31st March 2020	4,935,205,314	571,413,594	1,561,261,548	7,067,880,456
Less: Provision for collective impairment	(194,438,700)	(60,937,974)	(291,864,689)	(547,241,363)
Less: Provision for individual impairment	-	-	(336,334,113)	(336,334,113)
	4,740,766,614	510,475,620	933,062,746	6,184,304,980
Gross loans and advances 31st March 2019	5,591,109,830	475,627,833	1,160,315,904	7,227,053,567
Less: Provision for collective impairment	(115,693,903)	(86,194,038)	(289,096,761)	(490,984,702)
Less: Provision for individual impairment	-	-	(224,041,329)	(224,041,329)
	5,475,415,927	389,433,795	647,177,814	6,512,027,536

Term loan receivables include receivables amounting to Rs. 242,228,632/- that have been assigned under a securitization funding arrangement.

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
24 LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE				
Gross rentals receivables				
- Lease rentals	27,053,348,434	25,664,367,129	27,053,348,434	25,664,367,129
- Amounts receivable from hirers	2,224,030,738	1,265,525,727	2,224,030,738	1,265,525,727
	29,277,379,172	26,929,892,856	29,277,379,172	26,929,892,856
Less: Unearned income	(8,159,455,679)	(7,552,650,617)	(8,159,455,679)	(7,552,650,617)
Net rentals receivables	21,117,923,493	19,377,242,239	21,117,923,493	19,377,242,239
Less : Allowance for impairment losses (Note 24.1 & 24.3)	(1,062,379,651)	(535,169,574)	(1,062,379,651)	(535,169,574)
Total net rentals receivable (Note 24.2 & 24.3)	20,055,543,842	18,842,072,665	20,055,543,842	18,842,072,665
24.1 Allowances for Impairment Losses				
As at 01st April	535,169,574	353,453,060	535,169,574	353,453,060
Impact on adoption of SLFRS 9 as at 1st April 2018	-	37,507,140	-	37,507,140
Charge / (Reversal) for the year	484,102,848	134,982,865	484,102,848	134,982,865
Interest income accrued on impaired loans and receivables	43,107,229	9,226,509	43,107,229	9,226,509
As at 31st March	1,062,379,651	535,169,574	1,062,379,651	535,169,574

Notes to the Financial Statements

Company & Group	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
24.2 Analysis of the impairment for expected credit losses, based on the staging of the underlying leases				
Gross lease and receivables 31st March 2020	17,646,655,647	2,242,457,374	1,228,810,472	21,117,923,493
Less: Provision for collective impairment	(353,782,304)	(172,265,335)	(174,620,124)	(700,667,763)
Less: Provision for individual impairment	-	-	(361,711,888)	(361,711,888)
	17,292,873,343	**2,070,192,039**	**692,478,460**	**20,055,543,842**
Gross lease and receivables 31st March 2019	16,420,209,600	1,982,777,416	974,255,223	19,377,242,239
Less: Provision for collective impairment	(106,951,439)	(122,822,988)	(158,384,452)	(388,158,879)
Less: Provision for individual impairment	-	-	(147,010,695)	(147,010,695)
	16,313,258,161	**1,859,954,428**	**668,860,076**	**18,842,072,665**

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
24.3 Company & Group				
As at 31st March 2020				
Gross rentals receivables				
- Lease rentals	10,834,020,705	16,219,053,169	274,560	27,053,348,434
- Amounts receivable from hirers	2,224,030,738	-	-	2,224,030,738
	13,058,051,443	16,219,053,169	274,560	29,277,379,172
Less: Unearned income	(4,155,500,912)	(4,003,934,076)	(20,691)	(8,159,455,679)
Net rentals receivables	8,902,550,531	12,215,119,093	253,869	21,117,923,493
Less : Allowance for impairment losses				(1,062,379,651)
Total net rentals receivables				**20,055,543,842**
Company & Group				
As at 31st March 2019				
Gross rentals receivables				
- Lease rentals	1,316,061,360	24,344,945,288	3,360,481	25,664,367,129
- Amounts receivable from hirers	322,966,856	942,603,770	(44,899)	1,265,525,727
	1,639,028,216	25,287,549,058	3,315,582	26,929,892,856
Less: Unearned income	(132,813,295)	(7,418,452,038)	(1,385,284)	(7,552,650,617)
Net rentals receivables	**1,506,214,921**	**17,869,097,020**	**1,930,298**	**19,377,242,239**
Less : Allowance for impairment losses				(535,169,574)
Total net rentals receivables				**18,842,072,665**

Lease rental receivables include receivables amounting to Rs. 11,372,057,544/- that have been assigned under a securitization funding arrangement.

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
25 HIRE PURCHASE RENTALS RECEIVABLE & STOCK OUT ON HIRE				
Gross Rentals Receivables	-	4,972,689	-	4,972,689
- Amounts receivable from hirers	4,707,961	7,928,525	4,707,961	7,928,525
	4,707,961	12,901,214	4,707,961	12,901,214
Less: Unearned income	-	(217,362)	-	(217,362)
Net rentals receivables	4,707,961	12,683,852	4,707,961	12,683,852
Less : Allowance for impairment losses (Note 25.1)	(179,985)	(334,760)	(179,985)	(334,760)
Total net rentals receivables (Note 25.2 & 25.3)	**4,527,976**	**12,349,092**	**4,527,976**	**12,349,092**
25.1 Allowance for Impairment Losses				
As at 01st April	334,760	4,545,386	334,760	4,545,386
Impact on adoption of SLFRS 9 as at 1st April 2018	-	25,856,747	-	25,856,747
Charge / (Reversal) for the year	73,505	(24,993,983)	73,505	(24,993,983)
Interest income accrued on impaired loans and receivables	(228,280)	(5,073,390)	(228,280)	(5,073,390)
As at 31 st March	**179,985**	**334,760**	**179,985**	**334,760**

	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
25.2 Analysis of the impairment for expected credit losses, based on the staging of the underlying leases;				
Gross lease rental receivables 31st March 2020	(773,694)	-	5,481,655	4,707,961
Less: Provision for collective impairment	-	-	-	-
Less: Provision for individual impairment	-	-	(179,985)	(179,985)
	(773,694)	**-**	**5,301,670**	**4,527,976**
Gross lease rental receivables 31 March 2019	3,470,016	1,231,640	7,982,196	12,683,852
Less: Provision for collective impairment	(103,833)	(74,135)	4,737,040	4,559,072
Less: Provision for individual impairment	-	-	(4,893,832)	(4,893,832)
	3,366,183	**1,157,505**	**7,825,404**	**12,349,092**

Notes to the Financial Statements

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
25.3 Company & Group				
Gross rentals receivables				
- Hire purchase rentals	-	-	-	-
- Amounts receivables from hirers	4,707,961	-	-	4,707,961
	4,707,961	-	-	4,707,961
Less: Unearned income	-	-	-	
Net rentals receivables	4,707,961	-	-	4,707,961
Less : Allowance for impairment losses				(179,985)
Total net rentals receivables	4,707,961			4,527,976
As at 31st March 2019				
Gross rentals receivables				
- Hire purchase rentals	4,972,689	-	-	4,972,689
- Amounts receivable from hirers	7,928,525	-	-	7,928,525
	12,901,214	-	-	12,901,214
Less: Unearned income	(217,362)	-	-	(217,362)
Net rentals receivables	12,683,852	-	-	12,683,852
Less : Allowance for impairment losses				(334,760)
Total net rentals receivables	12,683,852			12,349,092

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
26 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
Quoted equity securities (Note 26.1)	137,361,082	-	137,361,082	-
Unquoted equities (Note 26.2)	579,250	579,250	579,250	579,250
	137,940,332	579,250	137,940,332	579,250

As per the guidelines issued by CA SriLanka a one-off option is provided to reclassify equity portfolio as at 1, January 2020. Accordingly the Company has reclassified equity portfolio held under fair value through profit or loss to fair value through other comprehensive income.

	2020 Company & Group			2019 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
26.1 Quoted Equities						
Banks, Finance & Insurance						
Central Finance Co PLC	31,560	4,135,882	2,556,360	31,272	4,111,690	2,642,484
Ceylinco Insurance PLC - non voting	1,500	602,749	1,185,000	1,500	602,749	1,350,600
Commercial Bank PLC - non voting	81	9,513	4,739	81	9,513	6,804
Hatton National Bank PLC	30,226	6,742,309	3,176,753	29,783	6,652,663	5,212,025
Hatton National Bank PLC - non voting	6,260	895,180	627,878	-	-	-
Merchant Bank of Sri Lanka PLC	385	718,750	2,156	385	718,750	4,120
National Development Bank PLC	28,165	3,557,522	1,864,523	16,369	2,289,695	1,541,960
People's Leasing Company PLC	545,843	12,271,734	6,659,285	529,800	12,043,920	7,099,320
People's Insurance PLC	299,883	6,893,033	5,127,999	299,883	6,893,033	5,667,789
Sanasa Development Bank	39,836	6,046,150	1,872,292	39,836	6,046,150	2,390,160
Seylan Bank PLC	187,952	17,393,566	6,296,392	140,964	15,267,359	8,852,539
Seylan Bank PLC - non voting	73,113	4,220,294	1,615,797	52,773	3,772,483	1,974,060
Sinhaputhra Finance PLC - preference shares	50,000	125,000	120,000	50,000	125,000	335,000
LB Finance PLC	20,000	3,200,000	2,410,000	-	-	-
Union Bank PLC	296,680	5,146,220	2,403,108	91,764	2,366,190	1,009,404
		71,957,902	35,922,282		60,899,195	38,086,265
Land & Property						
East West Properties PLC	100,000	1,443,960	580,000	2,149,885	32,440,675	37,622,988
		1,443,960	580,000		32,440,675	37,622,988
Hotels & Travels						
Amaya Leisure PLC	24	1,121	600	24	1,121	893
Ceylon Hotels Corporation PLC	53,331	2,139,964	453,314	53,331	2,139,964	490,645
Dolphin Hotels PLC	135,000	7,245,218	2,470,500	135,000	7,245,218	3,577,500
Hotel Sigiriya PLC	35,000	3,539,200	1,274,000	35,000	3,539,200	2,065,000
Jetwing Symphony PLC	750,000	8,250,000	6,375,000	750,000	8,250,000	7,275,000
Mahaweli Reach Hotels PLC	71,928	2,970,734	863,136	71,928	2,970,734	978,221
The Nuwara Eliya Hotels Company PLC	327	455,040	273,078	327	455,040	408,750
Serendib Hotels PLC -non voting	14,510	334,376	159,610	14,510	334,376	182,826
Sigiriya Village Hotels PLC	64,902	6,779,287	1,706,923	64,902	6,779,287	3,030,923
Renuka City Hotel PLC	220	58,300	42,020	-	-	-
Tal Lanka Hotels PLC	17,800	997,893	137,060	17,800	997,893	167,320
Tangerine Beach Hotels PLC	7,516	630,813	263,812	7,516	630,813	305,150
		33,401,946	14,019,053		33,343,646	18,482,228

Notes to the Financial Statements

	2020 Company & Group			2019 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
26.1 Quoted Equities (Contd.)						
Manufacturing						
ACL Cables PLC	16,300	997,465	506,930	10,000	635,515	323,000
Central Industries PLC	200,000	11,764,452	6,560,000	200,000	11,764,452	5,640,000
Kelani Tyres PLC	20,000	1,000,000	662,000	-	-	-
Regnis Lanka PLC	29,410	3,622,634	1,758,718	29,410	3,622,634	1,841,066
Teejay Lanka PLC	77,296	3,401,024	1,800,997	-	-	-
Tokyo Cement PLC	6,550	353,700	147,375	-	-	-
Tokyo Cement PLC - non voting	56,124	1,806,175	1,122,480	26,400	498,319	472,560
		22,945,450	12,558,500		16,520,920	8,276,626
Trading						
Singer Sri Lanka PLC	91,215	3,675,127	1,842,543	91,215	3,675,127	2,371,590
		3,675,127	1,842,543		3,675,127	2,371,590
Investment Trusts						
Lee Hedges PLC	284,800	17,621,544	18,512,000	284,800	17,621,544	19,936,000
Renuka Holdings PLC	674,529	23,042,074	9,106,142	674,529	23,042,074	9,038,689
		40,663,618	27,618,142		40,663,618	28,974,689
Diversified Holdings						
Aitken Spence PLC	546,700	45,947,578	16,783,690	354,551	36,661,167	14,536,591
Hayleys PLC	35,000	12,386,795	4,326,000	35,000	12,386,795	5,880,000
John Keells Holdings PLC	105	19,025	12,117	105	19,025	16,380
		58,353,398	21,121,807		49,066,987	20,432,971
Plantations						
Horana Plantations PLC	25,000	1,873,625	425,000	25,000	1,873,625	425,000
Kegalle Plantations PLC	37,100	8,266,496	1,513,680	37,100	8,266,496	2,040,500
		10,140,121	1,938,680		10,140,121	2,465,500
Construction & Engineering						
Access Engineering PLC	731,723	16,863,025	9,658,744	21,500	500,038	288,100
Colombo Dockyard PLC	6,580	1,232,107	240,170	6,580	1,232,107	348,740
		18,095,132	9,898,914		1,732,145	636,840

	2020 Company & Group			2019 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
26.1 Quoted Equities (Contd.)						
Power & Energy						
Lanka IOC PLC	75,000	2,337,426	1,185,000	25,000	1,302,426	442,500
Mackwoods Energy PLC	100,000	1,399,997	120,000	100,000	1,399,997	-
		3,737,423	1,305,000		2,702,423	442,500
Motors						
C M Holding PLC	2,285	800,794	97,113	2,285	800,794	82,489
Diesel & Motor Engineering PLC	17,500	19,143,781	4,375,000	17,500	19,143,781	5,332,251
United Motors PLC	6,819	668,851	309,583	6,819	668,851	455,509
		20,613,426	4,781,696		20,613,426	5,870,249
Telecommunications						
Dialog Axiata PLC	200,000	2,660,000	1,700,000	-	-	-
		2,660,000	1,700,000		-	-
Chemicals & Pharmaceuticals						
CIC Holdings PLC	27,199	1,681,279	951,965	25,000	1,320,665	640,000
CIC Holdings PLC -non voting	25,000	1,320,665	722,500	-	-	-
Haycarb PLC	15,000	2,834,828	2,400,000	-	-	-
		5,836,772	4,074,465		1,320,665	640,000
Total Investment		**293,524,275**	**137,361,082**		**273,118,948**	**164,302,446**

As per the guidelines issued by CA Sri Lanka and the provisions in SLFRS13–Fair value measurement, there is a difficulty to compute the fair value of financial assets as at 31 March 2020 due to unavailability of reliable information and distress prices. Accordingly Company has used the 20th March 2020, the last traded market prices for the fair valuation of quoted equity securities.

Notes to the Financial Statements

Company & Group	Company 2020 Cost of Investment Rs.	Company 2020 Fair Value Rs.	Group 2019 Cost of Investment Rs.	Group 2019 Fair Value Rs.
26.2 Unquoted Equities				
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
Ranwelli Holiday Resorts Ltd	65,001	65,001	65,001	65,001
Nation Lanka Equities (Pvt) Ltd	8,785,740	1	8,785,740	1
Total	9,364,989	579,250	9,364,989	579,250

Directors of the Company assessed that fair value of the unquoted share investments held by the Company as at 31st March 2020 and concluded that the carrying value as at that date is a reasonable approximation of fair value.

Investments in equity are accounted carried at cost less any accumilated impairment losses. The Group has not determined an impairement as at the reporting date due to the COVID-19 pandemic.

	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
27 OTHER TRADING STOCKS				
Real estates	21,376,500	21,376,500	21,376,500	21,376,500
Vehicles stock	186,011,689	380,841,869	186,011,689	380,841,869
	207,388,189	402,218,369	207,388,189	402,218,369
28 OTHER FINANCIAL ASSETS				
Collaboration debtors	36,248,097	41,239,434	36,248,097	41,239,434
Deferred expenses	315,913,269	221,002,704	315,913,269	221,002,704
Other receivables	107,206,507	143,608,687	182,870,904	184,620,269
	459,367,873	405,850,825	535,032,270	446,862,407

	Company 2020 Rs.	Company 2019 Rs.	Group 2020 Rs.	Group 2019 Rs.
29 OTHER NON FINANCIAL ASSETS				
Pre-paid expenses	169,690,056	213,385,659	169,690,055	213,385,665
Stationary and welfare stock	2,619,961	3,757,166	2,619,952	3,757,154
Other tax receivables	4,214,147	-	4,689,470	-
	176,524,164	217,142,825	176,999,477	217,142,819

	% Holding	Carrying Value 01.04.2019 Rs.	Share of profit/(loss) Rs.	Change of Interest Rs.	Carrying Value 31.03.2020 Rs.
30 INVESTMENT IN ASSOCIATES					
a) Equity Method					
Company					
Macbertan (Pvt) Ltd	22.45%	48,469,100	(2,842,382)	-	45,626,718
		48,469,100	(2,842,382)	-	45,626,718
Group					
Macbertan (Pvt) Ltd	22.45%	84,731,550	(2,842,382)	12,545,020	94,434,188
		84,731,550	(2,842,382)	12,545,020	94,434,188

Alliance Finance Company PLC's shareholding of Macbertan (Pvt) Ltd has changed from 11.80% to 9.18% during the year 2019 due to issue of new shares to other investors. However Company remove remains and mention continues to have a significant influence over the associate. From 2018, the Company recognised its holding based on Group effective rate which is changed from 23.36% to 22.45%.

		2020 Rs.	2019 Rs.
	No. of Ordinary Shares	Cost of Investment Rs.	Cost of Investment Rs.
b) Cost Method			
Macbertan (Pvt) Ltd	1,720,000	17,200,000	17,200,000
		17,200,000	17,200,000

Notes to the Financial Statements

Summary of Financial Information of the Investment in Associates

	2020 Rs.	2019 Rs.
Total assets	613,716,826	749,459,558
Total liabilities	271,114,248	435,896,044
Net assets	342,602,578	313,563,514
Revenue	581,049,025	771,812,001
Loss	(12,660,946)	(38,069,502)

	Principal Activity	% Holding	Cost of Investment Rs.
31 INVESTMENT IN SUBSIDIARIES			
Alfinco Insurance Brokers (Pvt) Ltd	Insurance Brokering	63.94%	16,924,038

Alfinco Insurance Brokers (Pvt) Ltd is not quoted in Colombo Stock Exchange.

Summarized Financial Information of Subsidiary

As at 31st March	2020 Rs.	2019 Rs.
Alfinco Insurance Brokers (Pvt) Ltd		
Net operating income	92,071,524	91,798,090
Less: operating expenses	(51,841,728)	(54,007,026)
Profit before taxes	40,229,796	37,791,064
Less: Taxes	(14,375,254)	(10,273,414)
Profit after tax	**25,854,542**	**27,517,650**
Assets	146,416,670	126,450,612
Liabilities	26,962,047	35,238,581
Equity	119,454,623	91,212,031

Investments in subsidiaries are carried at cost less any accumulated impairment losses. The Group has not determined an impairment as at the reporting date due to the COVID-19 pandemic.

Company & Group Gross Carrying Amounts	Balance As at 01.04.2019 Rs.	Additions Rs.	Fairvalue gain Rs.	Balance As at 31.03.2020 Rs.

32 INVESTMENT PROPERTY

Land & buliding	549,000,000	-	-	549,000,000
	549,000,000	-	-	549,000,000

Company & Group Gross Carrying Amounts	Balance As at 01.04.2018 Rs.	Additions Rs.	Fairvalue gain Rs.	Balance As at 31.03.2019 Rs.
Land & buliding	488,090,500	-	60,909,500	549,000,000
	488,090,500	-	60,909,500	549,000,000

32.1 Revaluation of Investment property

The Company revalued its investment properties as at 31st March 2020, adopting an open market comparable basis of valuation by Mr. M.T.H Farook being independent, professional valuer with recent experience in the location category of the property being valued.

Details of investment properties stated at valuation

Location	Date of valuation	Net book Value at valuation Rs.	Revaluation amount Rs.	Revaluation Gain Recognised in P & L Rs.
No.199/11, Rajagiriya Road, Rajagiriya	31.03.2020	480,000,000	480,000,000	-
No.199/10, Rajagiriya Road, Rajagiriya	31.03.2020	69,000,000	69,000,000	-
		549,000,000	549,000,000	-

Location	Land extent (perches)	Value of investment property Rs.

32.2 Details of investment properties as at 31st March 2020

No.199/11, Rajagiriya Road, Rajagiriya	160	480,000,000
No.199/10, Rajagiriya Road, Rajagiriya	23	69,000,000
		549,000,000

Notes to the Financial Statements

Fair Value

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land value is based on the market prices of each land respectively.	Market value of Land (Price per Perch)	The estimated fair value would increase/ (decrease), when market value per perch was higher (lower)

As a result of the COVID-19 outbreak in Sri Lanka during the last part of the quarter ended 31st March 2020, a reassessment of the valuation was obtained by the same independent professional valuer who determined no significant change to the revalued carrying amount provided as at 31st March 2019.

Consequently, as at the reporting date, the value reflected represents the best estimate based on the market conditions that prevailed, which in values considered opinion, meets the requirements in SLFRS 13 Fair Value Measurements.

32.3 Title restriction on Investment properties

There were no restriction on the title of land and building categories as investment properties as at 31st March 2020.

Gross Carrying amounts	Balance As at 01.04.2019 Rs.	Additions Rs.	Disposals Rs.	Transfers Rs.	Balance As at 31.03.2020 Rs.

33 PROPERTY, PLANT AND EQUIPMENT

33.1 Company

Cost / Valuation

Freehold Assets

Land	1,179,529,965	-	-	-	1,179,529,965
Buildings	187,187,061	5,600,000	-	-	192,787,061
Furniture & fittings	77,038,616	4,720,107	-	-	81,758,723
Equipment	237,912,499	40,881,823	(4,321,602)	(37,100)	274,472,720
Motor vehicles & accessories	370,125,238	17,755,330	(35,396,408)	-	352,484,160
Computers	127,800,504	9,181,812	(2,304,521)	37,100	134,677,795
Antiques	25,580	-	-	-	25,580
	2,179,619,463	78,139,072	(42,022,531)	-	2,215,736,004

Gross Carrying amounts	Balance As at 01.04.2019 Rs.	Additions Rs.	Disposals Rs.	Transfers Rs.	Balance As at 31.03.2020 Rs.
33.1 Company (Contd.)					
Depreciation - Freehold Assets					
Land	-	-	-	-	-
Buildings	17,208,770	9,546,020	-	-	26,754,790
Furniture & fittings	27,867,455	9,954,322	-	-	37,821,777
Equipment	110,600,224	52,726,631	(1,623,859)	-	161,702,995
Motor vehicles & accessories	170,597,405	38,760,969	(30,363,443)	-	178,994,932
Computers	106,942,192	11,803,309	(2,304,521)	-	116,440,980
Antiques	-	-	-	-	-
	433,216,046	122,791,251	(34,291,823)	-	521,715,474
Net book value					
Land	1,179,529,965				1,179,529,965
Buildings	169,978,291				166,032,271
Furniture & fittings	49,171,161				43,936,946
Equipment	127,312,275				112,769,725
Motor vehicles & accessories	199,527,833				173,489,228
Computers	20,858,312				18,236,815
Antiques	25,580				25,580
	1,746,403,417				1,694,020,530

Gross Carrying Amounts	Balance As at 01.04.2019 Rs.	Additions Rs.	Disposals Rs.	Transfers Rs.	Balance As at 31.03.2020 Rs.
33.2 Group					
Cost/Valuation - Freehold Assets					
Land	1,179,529,965	-	-	-	1,179,529,965
Buildings	187,187,061	5,600,000	-	-	192,787,061
Furniture & fittings	78,027,770	4,720,107	-	-	82,747,877
Equipment	240,309,573	40,881,823	(4,321,602)	(37,100)	276,832,693
Motor vehicles & accessories	370,125,238	17,755,330	(35,396,408)	-	352,484,160
Computers	128,930,634	9,181,812	(2,304,521)	37,100	135,845,025
Antiques	25,580	-	-	-	25,580
	2,184,135,820	78,139,072	(42,022,531)	-	2,220,252,361

Notes to the Financial Statements

Gross Carrying Amounts	Balance As at 01.04.2019 Rs.	Additions Rs.	Disposals Rs.	Transfers Rs.	Balance As at 31.03.2020 Rs.

33 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

33.2 Group (Contd.)

Depreciation - Freehold Assets					
Land	-	-	-	-	-
Buildings	17,208,770	9,546,020	-	-	26,754,790
Furniture & fittings	28,828,980	9,976,705	-	-	38,805,685
Equipment	112,953,544	52,749,384	(1,623,859)	-	164,079,069
Motor Vehicles & accessories	170,597,404	38,760,969	(30,363,443)	-	178,994,931
Computers	107,886,912	11,893,767	(2,304,521)	-	117,476,158
Antiques	-	-	-	-	-
	437,475,610	122,926,845	(34,291,823)	-	526,110,633

Net book value					
Land	1,179,529,965				1,179,529,965
Buildings	169,978,291				166,032,271
Furniture & fittings	49,198,790				43,942,192
Equipment	127,356,028				112,753,624
Motor vehicles & accessories	199,527,834				173,489,229
Computers	21,043,722				18,368,867
Antiques	25,580				25,580
	1,746,660,210				1,694,141,728

33.3 Revaluation of Fixed Assets

Freehold land and buildings of the Group are revalued by independent professional valuers once in every three to five years or more frequently to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The Group revalued its entire class of freehold land and buildings as of 31st March 2017.

The Company revalued its land and buildings, adopting an 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.

Location	Date of valuation	Net book value at valuation Rs.	Revaluation amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.

33.3.1 Details of Companys' Land Stated at Valuation

Location	Date of valuation	Net book value at valuation Rs.	Revaluation amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.
No.84, Ward Place, Colombo 7	15.02.2017	275,000,000	708,500,000	433,500,000
No.98, Ward Place, Colombo 7	01.04.2017	83,105,564	224,770,000	141,664,436
		358,105,564	933,270,000	575,164,436

33.3.2 Details of Companys' Buildings Stated at Valuation

Location	Date of valuation	Net book value at valuation Rs.	Revaluation amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.
No.84, Ward Place, Colombo 7	15.02.2017	18,132,452	8,187,200	(9,945,252)
No.98, Ward Place, Colombo 7	01.04.2017	13,835,963	31,472,700	17,636,737
		31,968,415	39,659,900	7,691,485

33.3.3 Valuation Technique and Significant Unobservable Inputs

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used:

Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land value is based on the market prices of each land respectively.	Market value of Land (Price per Perch)	The estimated fair value would increase/ (decrease) if - Market value per perch was higher / (lower)

33.3.4 Carrying value at cost

The carrying amount of Company's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31st March 2020	Cost Rs.	Accumulated Depreciation Rs.	Net Book Value Rs.
Freehold lands	91,940,792	-	91,940,792
Freehold buildings	30,806,880	19,760,581	11,046,299
	122,747,672	19,760,581	102,987,091

Notes to the Financial Statements

33.3.5 Carrying value at revaluation

The carrying amount of Company's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation, would be as follows:

As at 31st March 2020	Revalued Amount Rs.	Accumulated Depreciation Rs.	Net Book Value Rs.
Land	933,270,000	-	933,270,000
Building	39,659,900	5,948,985	33,710,915
	972,929,900	**5,948,985**	**966,980,915**

33.4 Details of Freehold Land and Buildings as at 31st March 2020

Location	Land extent (Perches)	Cost or Revaluation of Land Rs.	Buildings (Square Feet)	Cost or Revaluation of Building Rs.	Total Value Rs.
No 84 Ward Place Colombo - 7	37.33	708,500,000	6,967	8,187,200	716,687,200
No.98, Ward Place, Colombo - 7	19.41	224,770,000	8,460	31,472,700	256,242,700
No.152, Batapadura Watta Road, Siyambalagoda	28.00	732,470	-	-	732,470
No.720, Kotte Road, Rajagiriya	33.85	130,253,800	-	-	130,253,800
No.722, Kotte Road, Rajagiriya	23.26	89,503,793	16,660	142,285,564	231,789,357
No.29, Kotugoda Road, Seeduwa	80.00	25,769,902	2,712	5,241,598	31,011,500
Freehold Land and Building		1,179,529,965		187,187,062	1,366,717,027

33.5 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs. 78,139,072/- (2018/19 - Rs. 198,964,496 /-) and payment made by cash.

33.6 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	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Motor vehicles	83,319,484	53,148,354	83,319,484	53,148,354
Office equipment		-	2,292,074	2,275,574
Furniture & fittings		-	869,794	2,800,459
Computers	99,988,068	84,070,450	100,899,748	84,964,631
Software - Intangible assets	9,141,825	6,808,933	9,141,825	8,361,933
	192,449,377	**144,027,737**	**196,522,925**	**151,550,951**

33.7 Title restriction on Property Plant and Equipment

There were no restriction on the title of property, plant and equipment as at 31st March 2020.

33.8 Property Plant and Equipment pledged as security for liabilities

Property	Mortgaged with	Value
No.722, Kotte Road, Rajagiriya	Public Bank	550 mn

33.9 Measurement of fair values

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.

33.10 The Group does not foresee indications of Impairment of Fixed assets as at the reporting date due to the COVID-19 pandemic and each business unit functions under the respective business continuity plans.

34 INTANGIBLE ASSETS

34.1 Company

Gross Carrying Amounts of Freehold and Leasehold Assets	Balance As at 31.03.2019 Rs.	Additions Rs.	Disposals / Transfers	Balance As at 31.03.2020 Rs.
Cost / Valuation				
Computer software - Freehold	70,044,017	8,655,331	25,812,658	104,512,006
Computer software - Leasehold	26,251,500	-	(26,251,500)	-
	96,295,517	8,655,331	(438,842)	104,512,006
Amortization				
Computer software - Freehold	32,334,097	6,230,252	9,989,936	48,554,284
Computer software - Leasehold	7,437,926	2,625,150	(10,063,076)	-
	39,772,023	8,855,402	(73,140)	48,554,284
Net book value				
Computer software - Freehold	37,709,920			55,957,723
Computer software - Leasehold	18,813,575			-
	56,523,495			**55,957,723**

Notes to the Financial Statements

Gross Carrying Amounts of Freehold and Leasehold Assets	Balance As at 31.03.2019 Rs.	Additions Rs.	Disposals / Transfers	Balance As at 31.03.2020 Rs.
34 INTANGIBLE ASSETS CONTD.				
34.2 Group				
Cost / Valuation				
Computer software - Freehold	70,044,017	8,655,331	25,812,658	104,512,007
Computer software - Leasehold	26,251,500	-	(26,251,500)	-
	96,295,517	8,655,331	-	104,512,007
Amortization				
Computer software - Freehold	32,334,097	6,230,252	9,989,936	48,554,284
Computer software - Leasehold	7,437,925	2,625,150	(10,063,076)	-
	39,772,022	8,855,402	(73,140)	48,554,284
Net book value				
Computer software - Freehold	37,709,920			55,957,723
Computer software - Leasehold	18,813,575			-
	56,523,495			**55,957,723**

	Company Rs.	Group Rs.
35 RIGHT TO USE ASSETS		
35.1 Carrying Value of Right to Use Assets		
Cost		
Balance as at 01st April 2019	-	-
Effects of adopting SLFRS 16	248,880,992	248,880,992
Restated balance as at 01st April 2019	248,880,992	248,880,992
Additions and improvements	86,740,219	86,740,219
Balance as at 31st March 2020	335,621,211	335,621,211
Accumulated Amortisation		
Balance as at 01st April 2019	-	-
Charge for the year	75,954,501	75,954,501
Impairement loss	626,900	626,900
Balance as at 31st March 2020	76,581,401	76,581,401
Net book value as at 31st March 2020	259,039,810	259,039,810

	Company Rs.	Group Rs.
35.2 Operating Lease Liability		
Balance as at 01st April 2019	-	-
Effects of adopting SLFRS 16	228,949,484	228,949,484
Restated balance as at 01st April 2019	228,949,484	228,949,484
Additions and improvements	74,560,219	74,560,219
Accretion of Interest	34,162,923	34,162,923
Payments made during the year	(82,967,050)	(82,967,050)
Balance as at 31st March 2020	254,705,576	254,705,576

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
36 DUE TO BANKS				
Bank overdrafts	274,242,117	147,877,806	302,517,255	147,877,806
Securitized borrowings and other facilities (Note 36.1)	15,150,563,912	12,439,674,565	15,150,563,912	12,439,674,567
Finance lease (36.2)	-	1,917,211	-	1,917,211
	15,424,806,029	12,589,469,582	15,453,081,167	12,589,469,582

Company and Group	As at 31.03.2019 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Rs.	As at 31.03.2020 Rs.	Period	Security
36.1 Securitized Borrowings and other facilities							
Securitized borrowings							
BOC Trust 01	-				-	30 Months	Lease receivables
Deutsche Bank Trust - 28	31,862,255		237,161	32,099,416	-	48 Months	Lease receivables
Deutsche Bank Trust - 30	361,611,032		16,997,051	378,608,083	-	48 Months	Lease receivables
HNB Securitization -02	-	583,000,000	56,531,614	21,858,205	617,673,409	24 months	Lease receivables
HNB Securitization -03	-	530,000,000	16,872,117	-	546,872,117	12 months	Lease receivables
HNB Securitization -03 - III	-	344,600,000	4,909,625	-	349,509,625	24 months	Lease receivables
HNB Securitization -03 -II	-	125,400,000	3,416,862	-	128,816,862	15 months	Lease receivables
HNB Securitization -04	-	500,000,000	10,177,645	-	510,177,645	36 months	Lease receivables
Peo-Trust 01 part 01	-	450,000,000	31,439,986	-	481,439,986	24 months	Lease receivables
Peo-Trust 01 part 02	-	478,000,000	19,306,254	20,683,123	476,623,131	24 months	Lease receivables
	393,473,287	3,011,000,000	159,888,316	453,248,827	3,111,112,776		

Notes to the Financial Statements

Company and Group	As at 31.03.2019 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Rs.	As at 31.03.2020 Rs.	Period	Security
Direct Bank Borrowings							
Term Loans							
BOC	518,974,305	672,700,000	102,010,590	458,656,424	835,028,470	24 Months	Lease receivables
Cargill's Bank PLC	91,898,155	-	9,545,796	56,768,016	44,675,935	60 Months	Lease receivables
Commercial Bank of Ceylon PLC	450,000,000	475,000,000	46,284,124	521,284,126	449,999,998	36 Months	Land & buildings
DFCC Bank	371,813,720	550,000,000	60,504,540	217,939,186	764,379,074	96 Months	Loan receivables
DFCC Bank - PCI Loan	69,641,542	-	5,764,676	10,519,631	64,886,587	180 Months	Nil
Hatton National Bank PLC	4,010,000	500,000,000	23,670,656	97,130,658	430,549,998	48 Months	Lease receivables
National Savings Bank	-	250,000,000	-	-	250,000,000		
Nations Trust Bank PLC	250,000,000	-	29,140,537	179,140,539	99,999,998	6 Months	Lease receivables
NDB Bank PLC	1,197,512,500	2,500,000,000	198,738,553	2,018,165,404	1,878,085,649	03 Months	Lease receivables
Public Bank	278,056,143	300,000,000	46,899,969	132,237,872	492,718,240	60 Months	Lease receivables
Reverse repo on treasury bills	183,284,372	463,510,974	3,657,312	580,328,482	70,124,176	7 Days	Treasury bonds
Sampath Bank PLC	1,438,300,000	900,000,000	161,701,642	1,512,901,644	987,099,998	36 Months	Lease receivables
Seylan Bank PLC	454,378,019	-	49,100,645	203,478,664	300,000,000	48 Months	Lease receivables
Syndication loan	-	-				48 Months	Lease receivables
Union Bank of Colombo PLC	1,120,833,338	2,825,000,000	147,448,475	2,636,719,511	1,456,562,302	03 Months	Lease receivables
	6,428,702,094	9,436,210,974	884,467,515	8,625,270,157	8,124,110,425		
Foreign Currency Borrowings							
DWM	559,336,213	66,516,850	56,117,042	60,505,549	621,464,556	36 Months	Lease receivables
FMO	1,843,292,636		100,098,056	93,992,592	1,849,398,100	60 Months	Lease receivables
IFC	819,053,973	-	220,474,298	320,950,217	718,578,054	60 Months	Lease receivables
Symbiotic - USD	891,050,216	-	57,382,111	948,432,327	-	36 Months	Nil
Symbiotic Index	770,804,673	-	95,547,250	866,351,923	-	36 Months	Nil
Tridos Investment Management	733,961,473	-	159,190,794	167,252,267	725,900,000	36 Months	Lease receivables
	5,617,499,184	66,516,850	688,809,551	2,457,484,875	3,915,340,710		
	12,439,674,565	12,513,727,824	1,733,165,382	11,536,003,859	15,150,563,912		

Company and Group	As at 31.03.2019 Rs.	Repayments Rs.	As at 31.03.2020 Rs.
36.2 Finance Lease			
Finance leases	1,917,211	(1,917,211)	-
	1,917,211	(1,917,211)	-

	2020 Rs.	2019 Rs.
36.2.1 Repayable with in one year		
Gross liability	-	1,941,671
Less: Finance charges allocated for future periods	-	(24,460)
Net liability	-	1,917,211

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.

37 DUE TO DEPOSITORS

Fixed deposits	11,978,777,299	11,954,633,010	11,978,777,299	11,954,633,010
Savings deposits	368,519,550	539,049,798	368,519,550	539,049,798
	12,347,296,849	12,493,682,808	12,347,296,849	12,493,682,808

38 DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

Unsecured Debentures				
Face value	-	800,000,000	-	800,000,000
Accrued interest	-	19,062,771	-	19,062,771
	-	819,062,771	-	819,062,771

38.1 Quoted - Debentures

Company and group

The debentures include 10,000,000 Unsecured Redeemable Listed Rated Debentures of Rs. 100/- each issued by the Company in December 2014. Debenture type B of LKR Rs.800,000,000 was redeemed on 29th December 2019 and redeemded debenture details are given below.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type ‘ B ‘	05 Years	8,000,000	800,000,000	Annually	9.35% per annum
		8,000,000	800,000,000		

	Company		Group	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.

39 OTHER FINANCIAL LIABILITIES

Accrued expenses	46,278,303	97,827,572	63,242,279	77,994,219
Trade creditors	280,657,989	549,608,436	280,657,989	549,608,436
Others	464,767,621	134,497,232	466,453,649	153,934,924
	791,703,913	781,933,240	810,353,917	781,537,579

Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
40 OTHER NON FINANCIAL LIABILITIES				
FVAT payable	9,996,165	29,239,871	9,996,165	29,239,871
Other taxes payables	16,270,418	27,291,881	16,270,418	27,291,881
	26,266,583	**56,531,752**	**26,266,583**	**56,531,752**

	Company		Group	
41 DERIVATIVE FINANCIAL LIABILITIES				
Foreign currency swaps	59,836,277	99,770,779	59,836,277	99,770,779
	59,836,277	**99,770,779**	**59,836,277**	**99,770,779**

	Company		Group	
42 INCOME TAX LIABILITY				
Receivables from Inland Revenue Department	(356,056,928)	(75,428,912)	(356,056,928)	(83,158,437)
ESC paid	(29,055,201)	(27,019,662)	(38,005,263)	(27,393,234)
Current tax liability	342,279,069	245,322,833	354,149,295	256,492,414
Provision for contingent tax liabilities	194,972,574	-	194,972,574	-
	152,139,514	**142,874,259**	**155,059,678**	**145,940,743**

42.1 Movement of Income Tax Liability

	Company 2020	Company 2019	Group 2020	Group 2019
Balance as at 01st April	142,874,259	25,004,302	145,940,743	26,636,671
Current tax based on profit for the year	342,279,069	245,322,833	354,149,295	256,492,414
Previous year WHT written-off	-	10,546	-	10,546
(Over)/under provision in respect of previous years	(130,125,458)	(5,788,748)	(130,125,458)	(5,788,748)
Provision for contingent liabilities	194,972,574	-	194,972,574	-
Payment of tax	(397,860,930)	(121,674,674)	(409,877,476)	(131,410,140)
Balance as at 31st March	**152,139,514**	**142,874,259**	**155,059,678**	**145,940,743**

43 RETIREMENT BENEFIT OBLIGATIONS

43.1 Liability Recognized in the Statement of Financial Position

Gratuity Liability

	Company 2020	Company 2019	Group 2020	Group 2019
Balance as at 01st April	30,699,249	64,596,330	32,643,265	66,191,109
Amount charged/(reversed) for the year (Note - 43.2)	16,858,000	24,011,758	17,315,155	24,360,995
Transfer to gratuity trust fund	(33,714,921)	(31,843,394)	(33,714,921)	(31,843,394)
Payments made during the year	(14,889,015)	(26,065,445)	(14,998,915)	(26,065,445)
Balance as at 31st March	(1,046,687)	30,699,249	1,244,584	32,643,265

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
43.2 Amount charged/(reversed) for the year				
Current service cost for the year	25,579,558	25,599,139	25,850,242	25,852,227
Interest cost for the year	30,483,220	28,674,750	30,659,202	28,850,176
Expected return on plan assets	(27,118,127)	(21,580,704)	(27,118,127)	(21,580,704)
	28,944,651	32,693,185	29,391,317	33,121,699
Amount Recognised in Other Comprehensive Income				
Net actuarial gains/ (losses)	(12,086,651)	(8,681,427)	(12,076,162)	(8,760,704)
Amount Charged for the year	16,858,000	24,011,758	17,315,155	24,360,995
43.3 Changes in the Present Value of Obligation				
Present value obligation as at 01st April	277,227,678	260,784,547	277,227,678	262,379,326
Interest cost	30,483,220	28,674,750	30,483,220	28,674,750
Current service cost	25,579,558	25,599,139	25,579,558	25,948,376
Benefits paid / payable	(14,889,015)	(26,065,445)	(14,889,015)	(26,065,445)
Actuarial (Gain) / Loss	(22,619,892)	(11,765,313)	(22,619,892)	(11,765,313)
Present value obligation as at 31st March	**295,781,549**	**277,227,678**	**295,781,549**	**279,171,694**
43.4 Movement in the Present Value of Plan Assets				
Value of plan assets as at 01st April	246,528,429	196,188,217	246,528,429	196,188,217
Expected return on the plan assets for the period	27,118,127	21,580,704	27,118,127	21,580,704
Contribution paid to the plan	33,714,921	31,843,394	33,714,921	31,843,394
Actuarial gain/(loss) on plan assets	(10,361,437)	(3,083,886)	(10,361,437)	(3,083,886)
Value of plan assets as at 31st March	297,000,040	246,528,429	297,000,040	246,528,429
43.5 Assumptions				
Discount rate	10%	11%	10%	11%
Salary scale	6.0%	8.5%	6.0%	8.5%
Mortality table	A 67/70	A 67/70	A 67/70	A 67/70
Staff turnover	18%	18%	18%	18%

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 2020 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.

Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs.	Rs.	Rs.	Rs.
44 DEFERRED TAX ASSETS AND LIABILITIES				
Deferred tax liability				
Balance as at 01st April	607,383,605	914,909,474	607,459,177	914,952,510
Recognised in profit & loss	(77,108,229)	(307,525,869)	(77,175,380)	(307,493,333)
Balance as at 31st March	530,275,376	607,383,605	530,283,797	607,459,177
Deferred tax asset				
Balance at 01st April	291,123,246	647,838,785	291,667,571	648,285,324
Deferred tax on SLFRS 9 transitional adjustments	-	7,803,726	-	7,803,726
Adjusted balance as at 01st April	291,123,246	655,642,511	291,667,571	656,089,050
Recognised in profit & loss	7,017,957	(362,088,465)	7,023,538	(361,990,679)
Recognised in other comprehensive income	(2,900,796)	(2,430,800)	(2,900,796)	(2,430,800)
Balance as at 31st March	295,240,407	291,123,246	295,790,313	291,667,571
Net Deferred tax liability / (asset)	235,034,969	316,260,359	234,493,484	315,791,606
44.1 Composition of Deferred Tax Assets and Liabilities				
Liabilities				
Accelerated depreciation - Own assets	(2,952,390)	21,800,638	(2,943,970)	21,876,210
- Leased assets	-	4,724,133	-	4,724,133
Lease rentals	274,231,725	321,862,792	274,231,725	321,862,792
Recognised in revalaution surplus	258,996,042	258,996,042	258,996,042	258,996,042
	530,275,377	607,383,605	530,283,797	607,459,177
Assets				
Defined benefit obligation	-	8,595,790	549,905	9,140,114
Others	295,240,407	274,723,730	295,240,407	274,723,731
Deferred tax on SLFRS 9 transitional adjustments	-	7,803,726	-	7,803,726
	295,240,407	291,123,246	295,790,312	291,667,571
45 STATED CAPITAL				
45.1 Issued and Fully Paid-Ordinary shares				
Ordinary shares	613,980,000	613,980,000	613,980,000	613,980,000
	613,980,000	613,980,000	613,980,000	613,980,000
45.2 Number of Shares				
Balance as at 01 April	33,696,000	33,696,000	33,696,000	33,696,000
	33,696,000	33,696,000	33,696,000	33,696,000

45.3 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled 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	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
46 RETAINED EARNINGS				
As at 01st April	1,655,299,368	1,499,994,909	1,691,251,482	1,518,272,964
Impact of adopting SLFRS 9	-	(20,066,724)	-	(20,066,724)
Impact of adopting SLFRS 16	(19,953,757)	-	(19,953,757)	-
Dividend paid	(33,696,000)	(75,816,000)	(33,696,000)	(75,816,000)
Profit for the year	208,633,599	306,171,556	228,931,908	323,766,338
Adjustment on actuarial gain / (losses) on defined benefit plan	9,185,855	6,250,627	9,175,366	6,329,904
Transfers to statutory reserve fund	(41,726,720)	(61,235,000)	(41,726,720)	(61,235,000)
As at 31st March	1,777,742,345	1,655,299,368	1,833,982,280	1,691,251,482

Retained Earnings represents 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.

As at 31st March	Company			Group		
	2019 Rs.	Transfers Rs.	2020 Rs.	2019 Rs.	Transfers Rs.	2020 Rs.
47 RESERVES						
Fair Value Through OCI	-	(61,455,160)	(61,455,160)	-	(61,455,160)	(61,455,160)
Capital reserve (Note 47.1)	1,018,409,546	-	1,018,409,546	1,018,409,546	-	1,018,409,546
General reserve	388,258,055	-	388,258,055	388,258,055	-	388,258,055
Statutory reserve fund (Note 47.2)	834,309,800	41,726,720	876,036,520	834,309,800	41,726,720	876,036,520
	2,240,977,401	(19,728,440)	2,221,248,961	2,240,977,401	(19,728,440)	2,221,248,961

47.1 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 Total 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.03 of 2018 on Capital Adequacy Requirements.

Notes to the Financial Statements

47.2 Statutory Reserve Fund

20% of profits after tax of 2020 is transferred to the Statutory Reserve Fund to fulfill 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.

48 COMPARATIVE FIGURES

The following comparative figures have been reclassified in 2019 financial statements to maintain comparability of financial statements in order to provide better presentation.

Company & Group

Nature	Previous year classified under	Current year classified under	Amount (Rs.)
Statement of Financial Position			
Eco Tuk project	Other non financial assets	Other trading stocks	562,543
Statement of Profit or Loss			
Fair value gain/(loss) on financial investments - FVTPL	Net Gains /(Losses) From Trading	Other Operating Income	(40,281,703)
Fair value gain on treasury bonds reclassified to profit or loss	Net Gains /(Losses) From Trading	Other Operating Income	9,539,227

49 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of the business, the Company makes various commitments and incurs certain contingent liabilities. The company has made a provision against contingent liabilities.

Financial guarantees	
Tax Appeal Commission	26,984,181
Sri Lankan Airlines	826,200
	27,810,381

No material losses are anticipated as a result of these commitments.

Tax assessments

Following tax assessments received by the Company are outstanding and have been duly appealed.

Income Tax 2014/15	123,000,000
Income Tax 2015/16	95,000,000
Income Tax 2016/17	50,200,000
FVAT, NBT 2016/17	43,900,000
	312,100,000

49.1 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 these transactions

There were no any other capital commitments or contingent liabilities as at the end of reporting date which requires separate disclosure to these financial statements.

50 EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 in the country during March 2020 resulted disruptions to the business operations of the Company. In support of government efforts to contain the spread of pandemic, the Company adopted to a work from home policy w.e.f 20th of March 2020.

With the relaxation of curfew in some parts of the country, operations of the Company was opened up for public ensuring measures for health and safety of employees and customers. With the lifting of curfew in the other parts of the country, the Company recommenced its normal business operations gradually with strict adherence to the social distancing and precautionary measures.

In terms of Central Bank Circular, No. 05 of 2O2O, the Company is in the process of providing a debt moratorium to the customers which includes waiving off accumulated overdue interest, restructuring and rescheduling of loans. The disruptions to the normal conduct of the business during the pandemic and availing of the debt moratorium by eligible customers is expected to have a negative impact on the revenue streams of the Company.

The Management has assessed the existing and anticipated effects of COVID-19 on the Group Companies and the appropriateness of the use of the going concern basis. The group has evaluated the resilience of its businesses considering a wide range of factors under multiple stress tested scenarios , relating to expected revenue streams, cash flow streams , cost management, profitability, the ability to defer non-essential capital expenditure, debt repayment schedules, potential sources of financing facilities if required and the ability to continue services to ensure businesses continuity. Having considered the outlook of the company and after due consideration of the range and likelihood of outcomes, the Directors are satisfied that the Company, its subsidiaries and associates have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements. In determining the above significant management judgements, estimates and assumptions the impact of the COVID-19 pandemic has been considered as of reporting date and specific considerations have been disclosed under the relevant notes.

Given the volatile and evolving landscape, the Group will continue to monitor the impacts on its operations and proactively take measures to ensure the business continuity as flawlessly as possible.

Other than that no circumstances have arisen which would required adjustment to or disclosure in the Financial Statements.

51 SEGMENT REPORT

	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loans	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
51.1 31st March 2020 - Group										
REVENUE										
External sales	15,402,838,706	9,265,813	1,115,365,293	487,475,177	31,522,368	53,830,441	153,599,731	11,466,694	311,224,805	17,576,589,028
Total revenue	15,402,838,706	9,265,813	1,115,365,293	487,475,177	31,522,368	53,830,441	153,599,731	11,466,694	311,224,805	17,576,589,028
Total income	5,591,963,071	5,461,447	1,114,704,987	487,475,177	31,522,368	25,872,811	186,538,349	16,939,978	278,286,187	7,738,764,375
RESULTS										
Segment results	3,550,013,243	4,202,130	558,552,300	325,753,542	11,490,778	(22,430,026)	133,891,227	16,939,978	192,195,764	4,770,608,938
Unallocated company expenses										(871,420,278)
Operating profit										3,899,188,661
Interest expenses	(2,188,655,836)	(494,137)	(448,030,529)	(226,877,237)	(10,596,286)	(30,106,778)	(216,151,447)	(3,955,745)	(196,301,322)	(3,321,169,317)
Share of profits of associates before tax										(2,842,382)
Income taxes										(334,797,494)
Net Profit										240,379,468
OTHER INFORMATION										
Segment assets	20,055,543,842	4,527,976	4,105,486,008	2,078,968,421	97,098,082	275,880,660	1,980,683,647	36,248,097	1,798,788,873	30,433,225,605
Investment in associates										94,434,188
Unallocated company assets										3,566,204,019
Total assets										34,093,863,812
Segment liabilities	17,779,410,213	3,889,289	3,526,392,530	1,785,722,493	83,402,050	236,966,706	1,701,301,138	31,135,173	1,545,063,272	26,693,282,865
Unallocated company liabilities										2,690,139,986
Total liabilities										29,383,422,851

51.2 31st March 2019 - Group

	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loans	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total Restated
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
REVENUE										
External sales	13,772,592,971	38,099,735	1,727,362,883	372,628,650	37,006,705	(29,169,745)	144,197,530	9,555,901	254,162,014	16,326,436,645
Total revenue	13,772,592,971	38,099,735	1,727,362,883	372,628,650	37,006,705	(29,169,745)	144,197,530	9,555,901	254,162,014	16,326,436,645
Total income	4,806,176,442	9,014,348	1,726,832,570	372,628,650	37,006,705	(37,593,331)	144,197,530	11,635,261	254,162,014	7,324,060,190
RESULTS										
Segment results	3,641,831,390	(6,239,725)	872,918,236	315,163,513	24,473,724	(70,988,967)	108,071,931	11,635,261	188,614,901	5,085,480,264
Unallocated company expenses										(1,194,492,996)
Operating profit										3,890,987,268
Interest expenses	(2,086,530,632)	(1,367,512)	(575,979,020)	(145,164,231)	(12,395,091)	(18,258,644)	(205,189,478)	(4,566,766)	(194,582,794)	(3,244,034,168)
Share of profits of associates before tax										(8,893,804)
Income taxes										(304,370,093)
Net Profit										333,689,203
OTHER INFORMATION										
Segment assets	18,842,072,665	12,349,092	5,201,284,072	1,310,881,784	111,931,839	164,881,693	1,852,929,930	41,239,434	1,757,148,004	29,294,718,513
Investment in associates										84,731,550
Unallocated company assets										2,822,639,436
Total assets										32,202,089,499
Segment liabilities	16,621,445,714	10,499,447	4,422,236,728	1,114,538,158	95,166,709	140,185,744	1,575,398,436	35,062,599	1,493,962,709	25,508,496,245
Unallocated company liabilities										2,117,602,210
Total liabilities										27,626,098,455

52 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.

52.1 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.

As at 31st March 2020 Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Company				
Financial assets- recognised through profit or loss				
Government of Sri Lanka treasury bills / bonds	-	1,492,933,580	-	1,492,933,580
Investments in Unit Trusts	57,349,322	-	-	57,349,322
Financial Investments - fair value through other comprehensive income				
Unquoted equities	-	-	579,250	579,250
Quoted equities	137,361,082	-	-	137,361,082
Total Financial Assets	194,710,404	1,492,933,580	579,250	1,688,223,234
Financial assets- recognised through profit or loss				
Government of Sri Lanka treasury bills / bonds	-	1,605,602,480	-	1,605,602,480
Quoted equities	137,361,082	-	-	137,361,082
Financial Investments - fair value through other comprehensive income				
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	137,361,082	1,605,602,480	579,250	1,743,542,812

As at 31st March 2020 Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Group				
Financial assets- recognised through profit or loss				
Government of Sri Lanka treasury bills /bonds	-	1,492,933,580	-	1,492,933,580
Investments in Unit Trusts	57,349,322	-	-	57,349,322
Financial Investments - fair value through other comprehensive income				
Unquoted equities	-	-	579,250	579,250
Quoted equities	137,361,082	-	-	137,361,082
Total Financial Assets	**194,710,404**	**1,492,933,580**	**579,250**	**1,688,223,234**
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	1,642,876,644	-	1,642,876,644
Quoted equities	164,302,443	-	-	164,302,443
Financial Investments - fair value through other comprehensive income				
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	**164,302,443**	**1,642,876,644**	**579,250**	**1,807,758,337**

52.2 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.

	2020		2019	
Financial Assets	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Company				
Cash and cash equivalents	986,553,659	986,553,659	281,584,736	281,584,736
Repurchase agreement	350,388,985	350,388,985	210,053,286	210,053,286
Placement with banks & other financial institutions	915,617,034	915,617,034	732,163,843	732,163,843
Loans and advances	6,184,304,979	6,068,718,518	6,512,027,536	7,380,980,222
Lease rentals receivables	20,055,543,842	18,634,820,905	18,842,072,665	17,958,902,651
Hire purchase receivables	4,527,976	4,527,976	12,349,092	12,349,092
Other financial assets	459,367,873	459,367,873	405,850,825	405,850,825
Total Financial Assets	**28,956,304,348**	**27,419,994,950**	**26,996,101,983**	**26,981,884,655**
Financial Liabilities				
Due to banks	15,424,806,029	15,424,806,029	12,589,469,582	12,589,469,582
Due to customers	12,347,296,849	12,372,197,246	12,493,682,808	12,470,005,460
Debt instruments issued and other borrowed funds	-	-	819,062,771	819,062,771
Financial liabilities	791,703,913	791,703,913	781,933,240	781,933,240
Total Financial Liabilities	**28,563,806,791**	**28,588,707,188**	**26,684,148,401**	**26,660,471,053**

Notes to the Financial Statements

	2020		2019	
Financial Assets	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Group				
Cash and cash equivalents	1,027,324,614	1,027,324,614	290,719,999	290,719,999
Repurchase agreement	350,388,985	350,388,985	210,053,286	210,053,286
Placement with banks & other financial institutions	915,617,034	915,617,034	732,163,843	732,163,843
Loans and advances	6,184,454,429	6,068,718,518	6,512,165,856	7,380,980,222
Lease rentals receivables	20,055,543,842	18,634,820,905	18,842,072,665	17,958,902,651
Hire purchase receivables	4,527,976	4,527,976	12,349,092	12,349,092
Other financial assets	535,032,270	535,032,270	446,862,407	446,862,407
Total Financial Assets	**29,072,889,150**	**27,536,430,302**	**27,046,387,147**	**27,032,031,500**
Financial Liabilities				
Due to banks	15,453,081,167	15,453,081,167	12,589,469,582	12,589,469,582
Due to customers	12,347,296,849	12,372,197,246	12,493,682,808	12,470,005,460
Debt instruments issued and other borrowed funds	-	-	819,062,771	819,062,771
Financial liabilities	810,353,917	810,353,917	781,537,579	781,537,579
Total Financial Liabilities	**28,610,731,933**	**28,635,632,330**	**26,683,752,740**	**26,660,075,392**

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 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.

53 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,

53.1 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 KMPs include the Board of Directors of the Company (include executive and Non-Executive directors), executives who directly report to Board sub committees and other key executives who meet the criteria described above.

	2020 Rs.	2019 Rs.
53.2 Compensation to Key Management Personnel		
KMP's Emoluments (other than directors)		
Short term	73,993,451	71,946,875
Long term	13,439,171	13,851,705
	87,432,622	85,798,580
Remuneration and other expenses of directors		
Short term	55,825,251	51,895,158
Long term & post employment benefits	17,189,896	9,974,815
	73,015,147	61,869,973

53.3 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

Close Family Members (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 of the KMP, the children of KMP's domestic partner and dependents of KMP and KMPs domestic partner.

53.4 Transactions involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Statement of Financial Position - Company and Group

Liabilities	2020 Rs.	2019 Rs.
Financial Liabilities measured at amortised cost - due to depositors		
Fixed deposits	158,827,805	118,323,703
Savings Deposits	11,278,094	6,868,045
Assets - Company and Group		
Financial assets measured at amortised cost - Loans and advances to customers	4,606,181	11,358,779
Financial assets measured at amortised cost - Lease rentals receivable & stock out of hire	-	-
Statement of Profit or Loss - Company & Group		
Interest income	756,479	1,844,436
Interest expenses	20,599,180	16,073,410
No of Shares held by KMPs		
Ordinary shares	8,952,925	8,950,033

Notes to the Financial Statements

53.5 Transaction, arrangements and agreements involving with Entities which are controlled, and /or jointly controlled by the KMP's and their CFMs .

	Nature of the Relationship	Nature of Transaction / Facility	Company 2020 Rs.	Company 2019 Rs.
Alfinco Insurance Brokers (Pvt) Ltd.	Subsidiary	Reimbursement of expenses	-	42,797,582
		Saving deposits	675,333	634,375
		Insurance referral income	48,915,399	10,500,519
Alliance Management Services (Pvt) Ltd	Other related parties	Fixed deposits	2,536,288	2,456,288
		Secretarial fees	812,368	918,940
		Saving deposits	41,552	85,366
Alliance Travel Services Ltd	Other related parties	Fixed deposits	3,788,064	3,788,064
		Saving deposits	299,119	155,807
Alliance Tech Trading (Pvt) Ltd.	Other related parties	Fixed deposits	13,675,092	11,955,033
Alliance Ventures Pvt Ltd	Other related parties	Fixed deposits	1,043,945	1,055,481
		Saving deposits	27,413	43,416
M/S.Alliance Graphic Services (PVT) Limited	Other related parties	Fixed deposits	4,464,788	-
Virtusa (Pvt) Ltd	Other related parties	Consultation fee	-	12,951,291
Destination CC Consultants (Pvt) Ltd	Other related parties	Consultation fee	-	5,200,000
		Reimbursements	-	640,297

53.6 Parent and Ultimate Controlling Party

The Company does not have an identifiable parent of its own.

54 FINANCIAL RISK MANAGEMENT

54.1 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.

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty to the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the Company has strictly adhered to the guidelines and directions issued by both Government and Central Bank of Sri Lanka (CBSL) when conducting its business operations. Accordingly, the Company is currently in the process of providing relief for the affected businesses and individuals in line with the directions issued by the CBSL. These relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products and waiving off certain fees and charges. The Company is continuously assessing possible disruptions to its operations due to COVID-19 pandemic. However, the Company is of the view that, it is too early to quantify the impact considering the fact that COVID-19 crisis is far from over and the Company is still processing applications for reliefs.

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, analysis, measurement and continuous monitoring, subject to the risk limits and their controls.

54.2 Credit Risk

Credit risk is the risk that the company will incur a loss because its customers or counterparties fail to discharge their contractual obligations and arises principally from the loans and advances to the customers. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentration and by monitoring exposures in relation to such limits.

54.2.1 Credit quality analysis

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 counterparty 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

Impairment Assessment

For accounting purposes, the Company uses an expected loss model for the recognition of losses on impaired financial assets. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. 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

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.

Company include macroeconomic factors within its expected credit loss assessments. The Company relies on a broad range of forward looking information as economic inputs, such as GDP growth, unemployment rates, interest rates , treasury bill rate, inflation rate and etc.

Credit quality by class of financial assets

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 180 days past due. Loans past due more than 180 days are not presented in this analysis.

As at 31st March 2020 Financial Assets	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Company				
Cash and cash equivalents	21	986,553,659	-	986,553,659
Repurchase agreements		350,388,985	-	350,388,985
Placements with banks & financial institutions		915,617,034	-	915,617,034
Financial assets recognised through profit or loss	22	1,550,282,902	-	1,550,282,902
Loans and advances - at amortised cost	23	2,544,519,705	2,962,385,428	5,506,905,133
Lease rentals receivable & stock out on hire - at amortised cost	24	7,156,181,142	12,732,936,410	19,889,117,552
Hire purchase rentals receivable & stock out on hire - at amortised cost	25	4,527,976	-	4,527,976
Financial assets- fair value through other comprehensive income	26	137,940,332	-	137,940,332
Other financial assets	28	459,367,873	-	459,367,873
Total Financial Assets		**14,105,379,608**	**15,695,321,838**	**29,800,701,446**

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	995,796,754	973,781,667	426,125,350	566,681,658	2,962,385,429
Lease rentals receivable & stock out on hire	3,695,281,253	4,828,732,850	1,966,464,932	2,242,457,374	12,732,936,409
	4,691,078,007	5,802,514,517	2,392,590,282	2,809,139,032	15,695,321,838

As at 31st March 2020	Notes	Neither Past Due Not Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Group				
Assets				
Cash and cash equivalents	21	1,027,324,614	-	1,027,324,614
Repurchase agreements		350,388,985	-	350,388,985
Placements with banks & financial institutions		915,617,034	-	915,617,034
Financial assets recognised through profit or loss	22	1,550,282,902	-	1,550,282,902
Loans and advances - at amortised cost	23	6,184,454,429	2,962,385,429	9,146,839,858
Lease rentals receivable & stock out on hire - at amortised cost	24	20,055,543,842	12,732,936,409	32,788,480,251
Hire purchase rentals receivable & stock out on hire - at amortised cost	25	4,527,976	-	4,527,976
Financial assets- fair value through other comprehensive income	26	137,940,332	-	137,940,332
Other financial assets	28	535,032,270	-	535,032,270
Total Financial Assets		30,761,112,384	15,695,321,838	46,456,434,222

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	995,796,754	973,781,667	426,125,350	566,681,658	2,962,385,429
Lease rentals receivable & stock out on hire	3,695,281,253	4,828,732,850	1,966,464,932	2,242,457,374	12,732,936,409
	4,691,078,007	5,802,514,517	2,392,590,282	2,809,139,032	15,695,321,838

Due to the proposed relief packages to affected customers from COVID-19, credit repayment periods will be extended to certain customer groups. However those indicators will not considered as significant increase in Credit Risk. Further, concessions under moratorium could enable affected borrowers to resume regular payments with the three to six months period.

Notes to the Financial Statements

54.2.2 Concentrations of Credit Risk

The Company monitors concentration of credit risk by sector exposures.

Industry wise concentration

The following table shows the risk of concentration by industry for the financial assets measured at amortised cost

Sector wise Breakdown	Cash and bank balances	Financial assets - fair value through profit or loss	Loans and advances	Financial assets - fair value through OCI	Other financial assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture & fishing	-	-	6,323,454,985	-	-	6,323,454,985
Construction	-	-	725,230,881	-	-	725,230,881
Food, beverages & tobacco	-	-	4,873,670,656	-	-	4,873,670,656
Financial services	986,553,659	-	242,212,693	-	915,617,034	2,144,383,386
Industry	-	-	17,082,471	-	-	17,082,471
Tourism	-	-	14,814,906	-	-	14,814,906
Government	-	1,492,933,580	2,222,819,194	-	350,388,985	4,066,141,759
Transport	-	-	2,180,206,783	-	-	2,180,206,783
Services	-	-	3,041,337,170	-	459,367,873	3,500,705,043
Consumption	-	-	761,806,391	-	-	761,806,391
Other	-	-	5,841,740,667	137,940,332	-	5,979,680,999
Total	**986,553,659**	**1,492,933,580**	**26,244,376,797**	**137,940,332**	**1,725,373,892**	**30,587,178,260**

Geographical concentration

Concentration of loans and advances by location is given below.

Province	Balance	%
Western	9,592,856,192	37%
Central	3,188,807,838	12%
North Western	2,523,336,380	10%
Sabaragamuwa	2,232,916,204	9%
Southern	2,119,210,672	8%
Northern	2,026,331,160	8%
Uva	1,751,834,100	7%
Eastern	1,608,855,247	6%
North Central	1,200,229,004	5%
	26,244,376,797	

Concentraion by location for loans and advances is measured based on the location of the customer centre that granted the facility, which has a high correlation with the location of the borrower.

COVID-19 adversly impacted to tourism, hospitalization and certain export industries. However exposure to such industries are comparatively low. Therefore the company will not expect significant imapct to financial assets.

54.2.3 Risk Limit Control and Mitigation Policies

The Company manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and geographical locations.

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 quarterly or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved monthly by the Credit Committee.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Collateral and other credit enhancements

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 counterparty 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.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The general creditworthiness of customer tends to be the most relevant indicator of the credit quality of a loan.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlining agreement. The company pursue timely realisation of the collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding claim.

54.3 Liquidity Risk

Liquidity risk refers to the unavailability 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, debt obligations associated with its financial liabilities due to lack of funds or having to meet these obligations at excessive cost. 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 counterparties 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.

COVID-19, distrupted the cash flows of the certain business segments. Due to the credit relief offered to customers by defering their payments and exsisting customers drawing additional facilities to manage their working capital it is evident to maintain excess liquidity to meet unexpected circumtances. Therefore mismatches of contractual cash flows are expected in financial services industry.

Management of Liquidity Risk

The objective of the Company liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Company's liquidity management process, as carried out within the Company and monitored by a separate team in Company Treasury, includes:

- 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.
- The Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.
- 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 gaps are reviewed at Assets and Liability Committee.
- 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.

To Manage the expected liquidity drains due to COVID-19 , the company closely monitor the funding and recovery plans on daily basis. The Central Bank of Sri Lanka relaxed the statutory liquid assets requirments untill 30th September 2020. Further, the company used unutilised credit line to manage the liquidity requirments, froze on all non-essential capital expenditure and implemented Stringent expense control measures.

54.3.1 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 2020, the Company maintained Statutory Liquid Asset ratio at 24.65% (2019 : 15.22%).

Regulatory measures were taken by the Central Bank of Sri Lanka to provide Flexibility to Licensed Finance Companies to support business and individuals affected by the outbreak of COVID-19.The CBSL reduced the requirement of maintenance of liquid asset for time deposits and nontransferable certificates of deposits to six percent, savings deposits to ten per cent, borrowings to five percent and approved government securities to five percent which shall be maintained by LFC until 30th September 2020.

54.3.2 Analysis o Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31st March 2020	On Demand Rs.	Less than 03 Months Rs.	3-12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5Years Rs.	Total Rs.
Financial Assets							
Cash and cash equivalents	986,553,659	-	-	-	-	-	986,553,659
Repurchase agreements	350,388,985	-	-	-	-	-	350,388,985
Placements with banks & financial institutions	-	721,335,674	194,281,360	-	-	-	915,617,034
Financial assets recognised through profit or loss	-	274,485,398	1,021,006,324	154,791,180	100,000,000	-	1,550,282,902
Loans and advances - at amortised cost	-	2,505,216,250	1,328,759,244	2,105,651,687	244,677,798	-	6,184,304,979
Lease rentals receivable & stock out on hire - at amortised cost	-	3,729,366,229	4,825,836,493	9,031,516,955	2,468,577,624	246,541	20,055,543,842
Hire purchase rentals receivable & stock out on hire - at amortised cost	-	4,527,976	-	-	-	-	4,527,976
Financial assets- fair value through other comprehensive income	-	137,940,332	-	-	-	-	137,940,332
Other financial assets	-	459,367,873	-	-	-	-	459,367,873
Total Financial Assets	**1,336,942,644**	**7,832,239,732**	**7,369,883,421**	**11,291,959,822**	**2,813,255,422**	**246,541**	**30,644,527,582**
Financial Liabilities							
Due to banks	-	2,568,484,478	5,394,360,277	5,633,626,046	1,781,392,612	46,942,616	15,424,806,029
Due to depositors - at amortised cost	-	3,398,609,306	5,639,724,447	2,990,713,376	318,249,720	-	12,347,296,849
Other financial liabilities	-	791,703,913	-	-	-	-	791,703,913
Derivative financial liabilities	-	35,867,792	23,968,485	-	-	-	59,836,277
Total Financial Liabilities	**-**	**6,794,665,489**	**11,058,053,209**	**8,624,339,422**	**2,099,642,332**	**46,942,616**	**28,623,643,068**
Total Net Financial Assets/(Liabilities)	**1,336,942,644**	**1,037,574,243**	**(3,688,169,788)**	**2,667,620,400**	**713,613,090**	**(46,696,075)**	**2,020,884,514**

Notes to the Financial Statements

As at 31st March 2019	On Demand Rs.	Less than 03 Months Rs.	3-12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets							
Cash and cash equivalents	281,584,736	-	-	-	-	-	281,584,736
Repurchase agreements	210,053,286	-	-	-	-	-	210,053,286
Placements with banks & financial institutions	-	411,040,880	321,122,963	-	-	-	732,163,843
Financial assets recognised through profit or loss	-	987,179,090	570,000,000	-	250,000,000	-	1,807,179,090
Loans and advances - at amortised cost	-	2,807,023,397	2,216,182,789	1,263,611,945	224,547,752	661,653	6,512,027,536
Lease rentals receivable & stock out on hire - at amortised cost	-	2,798,279,057	5,197,347,909	8,693,075,412	2,151,395,090	1,975,197	18,842,072,665
Hire purchase rentals receivable & stock out on hire - at amortised cost	-	11,317,300	1,031,792	-	-	-	12,349,092
Financial assets- fair value through other comprehensive income	-	-	-	-	-	579,250	579,250
Other financial assets	-	295,349,473	106,868,896	-	-	-	402,218,369
Total Financial Assets	**491,638,022**	**7,310,189,197**	**8,412,554,349**	**9,956,687,357**	**2,625,942,842**	**3,216,100**	**28,800,227,866**
Financial Liabilities							
Due to banks	147,877,803	2,150,432,699	3,198,084,942	4,410,483,846	2,594,508,742	88,081,550	12,589,469,582
Due to depositors - at amortised cost	539,049,798	2,912,622,945	4,783,906,910	3,118,977,000	1,139,126,155	-	12,493,682,808
Debt instruments issued and other borrowed funds	-	-	819,062,771	-	-	-	819,062,771
Other financial liabilities	-	781,933,240	-	-	-	-	781,933,240
Derivative financial liabilities	-	29,715,146	70,055,633	-	-	-	99,770,779
Total Financial Liabilities	**686,927,601**	**5,874,704,030**	**8,871,110,256**	**7,529,460,846**	**3,733,634,897**	**88,081,550**	**26,783,919,180**
Total Net Financial Assets/(Liabilities)	**(195,289,579)**	**1,435,485,167**	**(458,555,907)**	**2,427,226,511**	**(1,107,692,055)**	**(84,865,450)**	**2,016,308,686**

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

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.

54.4 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. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. Non trading portfolio is managed in accordence with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

54.4.1 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.

To manage the interest rate risk, company 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. Which is supplimented by monitoring the sensitivity of the company's financial assets and liabilities to various rate senarios. Net interest yeilds are also calculated for each product to ensure adequate margins are kept.

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. Impact on Net Interest Income due to a parallel rate shock of 100 basis points (bps) on the rate sensitive assets and liabilities is shown below.

Currency of Borrowings/ Advance	Increase (Decrease) in 100 basis points	Sensitivity of Net Interest Income	
		2020 Rs.000	2019 Rs.000
Long term loans linked to AWPLR	+100/ (-100)	(62,296) / 62,296	(52,294)/52,294

54.4.2 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.

Notes to the Financial Statements

As at 31st March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Assets						
Cash and cash equivalents	925,947,982	-	-	-	60,605,677	986,553,659
Financial assets recognised through profit or loss	274,485,398	1,021,006,324	254,791,180	-	-	1,550,282,902
Loans and advances - at amortised cost	2,505,216,250	1,328,759,244	2,350,329,485	-	-	6,184,304,979
Lease rentals receivable & stock out on hire - at amortised cost	3,729,366,229	4,825,836,493	11,500,094,579	246,541	-	20,055,543,842
Hire purchase rentals receivable & stock out on hire - at amortised cost	4,527,976	-	-	-	-	4,527,976
Financial assets - fair value through other comprehensive income	1	-	-	-	137,940,331	137,940,332
Other financial assets	315,913,269	-	-	-	143,454,604	459,367,873
Total Financial Assets	7,755,457,105	7,175,602,061	14,105,215,244	246,541	342,000,612	29,378,521,563
Financial Liabilities						
Due to banks	2,568,484,478	5,394,360,277	7,415,018,658	46,942,616	-	15,424,806,029
Due to depositors - at amortised cost	3,398,609,306	5,639,724,447	3,308,963,096	-	-	12,347,296,849
Other financial liabilities	-	-	-	-	791,703,913	791,703,913
Derivative financial liabilities	-	23,968,485	-	-	35,867,792	59,836,277
Total Financial Liabilities	5,967,093,784	11,058,053,209	10,723,981,754	46,942,616	827,571,705	28,623,643,068
Interest Sensitivity Gap	1,788,363,321	(3,882,451,148)	3,381,233,490	(46,696,075)	(485,571,093)	754,878,495

54.4.3 Exchange rate risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local exchange rate with other major currencies The following significant exchange rates were applied during the year.

	Average Rate 2020	Reporting date spot rate 2020	2019
USD/ LKR	179.26	192.75	175.25

The Company's exposure to foreign currency risk is as follows;

As at 31st March 2020

	Rs.	Rs. Converted to USD	Total US$
Cash & cash equivalents	23,770,238	192.75	123,322
Borrowings	25,642,246	192.75	133,034
	49,412,484	-	256,356

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 2020.

	Effect on profit or loss Rs.	Effect on equity Rs.
USD depreciated against LKR by 5%	2,470,624	2,470,624
USD appreciated against LKR by 5%	(2,470,624)	(2,470,624)

Driven by the volatility surrounding the COVID-19 outbreak, the exchange rate depreciated by 4.5 percent in March 2020. However the volatility of exchange rate managed though currency swap engaged with a commercial bank.

54.4.4 Commodity price risk

Commodity price risk refers to the uncertainties of future market values and of the size of future income , caused by the fluctuation in the prices of commodoties. Given the significance of the gold loans business to the Company's overall loan book, sharp fluctuations to the gold prices could have an adverse impact to earnings. Gold price fluctuations lead to market risk is the primary source of credit risk associated with this product. The company manage gold commodity risk by concentrating short term products and revise LTV on routine intervels.

54.4.5 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

54.5 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.

Due to the COVID-19 pandemic from mid-March 2020 government announced work from home for general public. Based on the Company business continuity plan, required resources allocated to staff resources were allocated to facilitate work from home. When the curfew gradually eased off in many parts of the country, branch network started its operations. The Company fully functioned by 01st June 2020 with respect to individual health guidelines issued by the Government. Further, suitable working arrangements provided to employees, customers and other stakeholders.

Notes to the Financial Statements

Stress Testing was carried out with multiple operating scenarios to ascertain the impact on the ability to sustain its operations with liquidity reserves in place. With the assumptions and different levels of operations, the company satisfied of the ability of the business to manage its operations even an extreme tested scenarios.

The key focus of the Company will be to manage the liquidity, particularly given the debt moratorium announced by the Central Bank.

54.6 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.

Capital adequacy and the use of regulatory capital are monitored monthly by the Company's management, employing techniques based on the guidelines developed by the Central Bank of Sri Lanka, for supervisory purposes. The required returns is filed with the Authority on a monthly 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:

Capital Management

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses which asserts the Company's ability to continue operations in to the foreseeable future. The more capital the company has relative to the risks it takes, the more confident the stakeholders are that it will meet its obligations to them. Company's capital management process is steered with the aim of holding sufficient capital to support the Company's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

Tire 1' Capital is capital which is permanently and freely available to absorb losses without a finance company being obliged to cease trading. Tier 1' Capital consists of paid up ordinary share capital, free reserves, statutory reserve fund and audited retained earnings. Tier 1' Capital is important because it safeguards both the survival of a finance company and stability of the financial system.

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.

Credit Risk

Total Amount of on balance sheet items, risk weighted CRMs and total amount of credit equivalent of off balance sheet items after applying the specific risk weight assigned is considered as credit risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
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.

Measures taken to consider capital adequacy requirements of the Company;

1 The Company prepares the Corporate Plan and Budget on a rolling basis covering a period of 5 years which includes the computation of Capital Adequacy ratios (CARs).
2 The Company carefully analyses the CARs against increases in risk-weighted assets underlying the budgeted expansion of business volumes.
3 The Company has set up an internal guideline on minimum CARs and ensures that appropriate measures are employed to improve the CARs are also built into the budget. Budgeting process of the Company encapsulates all future capital requirements and this process invariably captures estimated capital expenditure and the business growth in determining the optimum level of capital to be maintained.
4 The Company has addressed all material risk exposures when formulating strategic plan and has a well-diversified assets portfolio which is neither overly exposed to any counterparty nor to any sector. Ways and means of improving the CARs are being monitored on an ongoing basis.
5 The Company always strives to achieve a reasonable growth in profit and is ever mindful to pay a consistent stream of dividends to the shareholders. Part of the profit generated is retained for future business expansion. Given the size of the Company, capital generated through retained profits over the years could be considered as one of the primary sources of internal capital to the Company.

Capital management objectives

The objectives of the Company's Capital Management efforts include:

- Compliance with the regulatory requirements
- Maintaining internal capital targets which are more stringent than the regulatory requirements
- Optimum capital usage for maximum profitability (which meets investor expectations)
- 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.

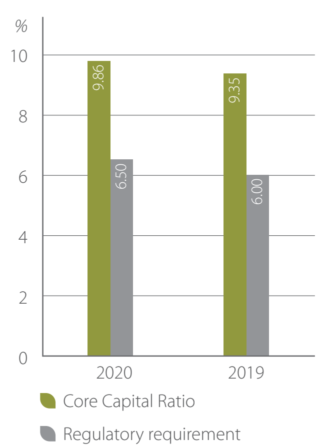
The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 March 2020 and 2019. During those two years, the Company has complied with all of the externally imposed capital requirements to which they are subject.

Notes to the Financial Statements

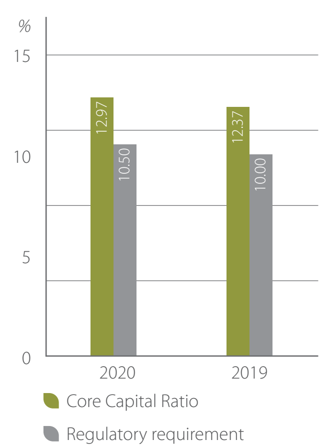
Capital Adequacy Ratios

As at 31st March	2020 Rs.'000	2019 Rs.'000
Tier 1 Capital	3,406,821	3,121,021
Total Capital	4,481,251	4,129,546
Total Risk Weighted Amount	34,539,731	33,375,360
Risk Weighted Amount for Credit Risk	29,208,432	28,996,052
Risk Weighted Amount for Operational Risk	5,331,259	4,379,308
Core Capital Ratio, %	9.86	9.35
Regulatory requirement, %	6.50	6.00
Total Capital Ratio, %	12.97	12.37
Regulatory requirement, %	10.50	10.00

Core Capital Ratio



Total Core Capital Ratio



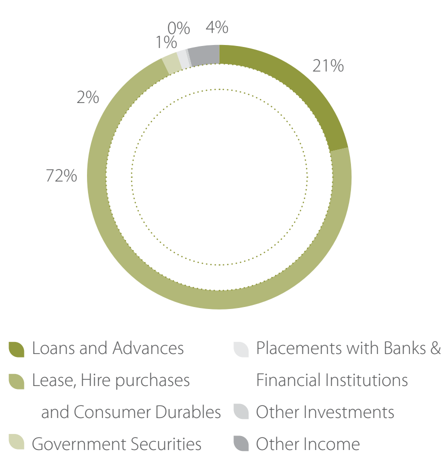
Regulatory measures taken by the Central Bank of Sri Lanka to provide flexibility to Licensed Finance Companies to support business and individuals affected by the outbreak of COVID-19. The CBSL defer the maintenance of Capital Adequacy requirement by LFCs, which will be to meet the minimum Capital Adequacy Requirement by 01.07.2020 and 01.07.2021 in terms of the Finance Business Act Direction No.03 of 2018 – Capital Adequacy requirements until 01.07.2021 and 01.07.2022 respectively.

Contribution to National Economy

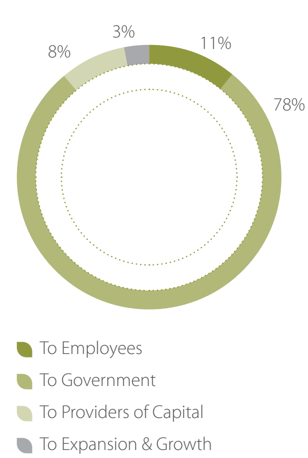
SOURCES AND UTILISATION OF INCOME - COMPANY

For the year ended 31st March	2020 Rs. '000	%	2019 Rs. '000	%
Sources of Income				
Loans and Advances	1,611,246,765	21%	2,095,614,007	30%
Leases, Hire purchases and Consumer Durables	5,365,168,925	72%	4,534,120,007	64%
Government Securities	140,052,484	2%	125,922,024	2%
Placements with Banks & Financial Institutions	80,374,300	1%	63,526,722	1%
Other Investments	15,174,804	0%	13,542,238	0%
Other Income	289,141,042	4%	196,276,948	3%
Total Income	7,501,158,320	100%	7,029,001,946	100%
To Employees				
Personnel Expenses	821,722,767	11%	780,351,399	12%
To suppliers				
Accrued interest expenses	3,321,169,317	44%	3,244,034,169	46%
Other Expenses	1,283,645,436	17%	1,224,682,083	17%
Depreciation	131,646,655	2%	136,086,759	2%
Impairment for loans and other losses	1,112,357,328	15%	813,494,810	12%
	5,848,818,736	78%	5,418,297,822	77%
To Government				
Value added Tax & Other Taxes	296,140,836	4%	221,190,685	3%
Income Tax	323,000,000	4%	294,096,680	4%
	619,140,836	8%	515,287,365	7%
To Shareholders				
Dividends	33,696,000	0%	75,816,000	1%
Invested in the business	177,779,981	3%	239,249,360	3%
	211,475,981	3%	315,065,360	4%
	7,501,158,320	100%	7,029,001,946	100%

Sources of Income 2019/20



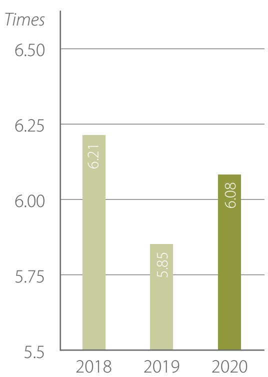
Value Distribution 2019/20



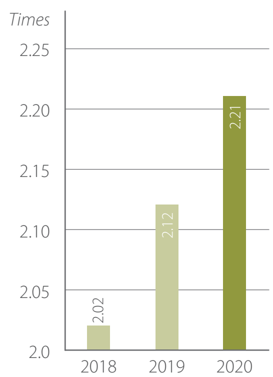
Debenture Investor Indicators

	2018	2019	2020
Debt/equity ratio (times)	6.21	5.85	6.08
Interest cover times	2.02	2.12	2.21
Liquid assets ratio (%)	14.70	17.85	24.65
Quick assets ratio (times)	0.79	1.00	0.88

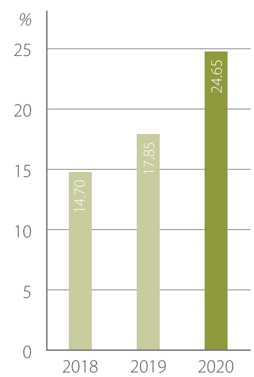
Debt/Equity Ratio



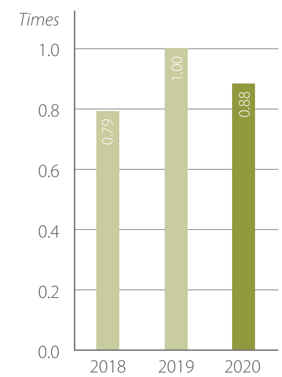
Interest Cover



Liquid Assets Ratio



Quick Assets Ratio



Market Value Per Debenture

Debenture 2014-2019 Market Price (Rs.)	Min	Max	Last Traded
4 Years - 9.00% p.a payable annually	N/A	N/A	N/A
5 Years - 9.35% p.a payable annually	N/A	N/A	N/A

Interest Rates of Comparable Government Securities %	31/03/2020
03 Year Treasury Bonds	9.00
04 Year Treasury Bonds	9.15
05 Year Treasury Bonds	9.30

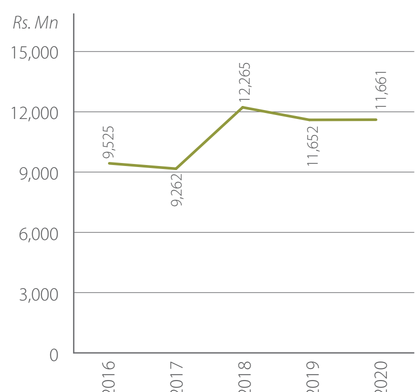
Depositors Information

ANALYSIS OF DEPOSIT BASE

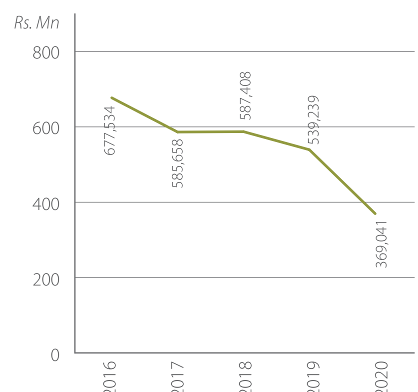
a) Value of Deposit Base

Value of Deposits	2016 Rs.'000	2017 Rs.'000	2018 Rs.'000	2019 Rs.'000	2020 Rs.'000
Value of Term Deposits	9,524,814	9,261,992	12,265,237	11,651,749	11,660,695
Value of Savings Deposits	677,534	585,658	587,408	539,239	369,041
	10,202,348	9,847,650	12,852,645	12,190,988	12,029,736

Value of Term Deposits



Value of Savings Deposits

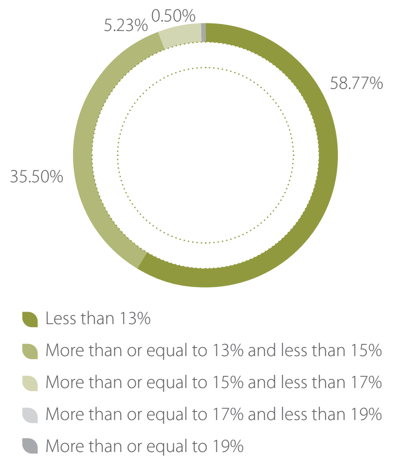


Depositors Information

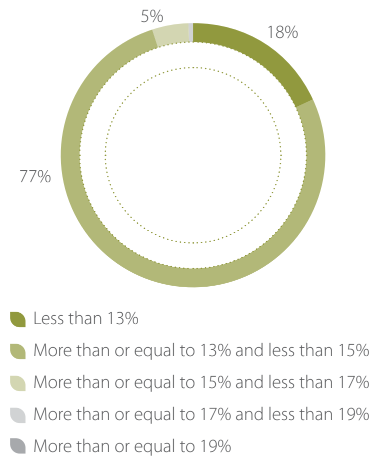
b) Rate of Interest on Term Deposits

	As at 31st March 2020			As at 31st March 2019		
	No. of Deposits	Value Rs.'000	% of Total	No .of Deposits	Value Rs.'000	% of Total
Less than 13%	5,825	6,852,499	59%	2,776	2,124,355	18%
More than or equal to 13% and less than 15%	2,845	4,139,823	36%	6,191	8,946,738	77%
More than or equal to 15% and less than 17%	447	610,131	5%	411	522,414	5%
More than or equal to 17% and less than 19%	16	58,242	0%	16	58,242	0%
Total	9,133	11,660,695	100%	9,394	11,651,749	100%

Rate of Interest on Term Deposits 2019/20



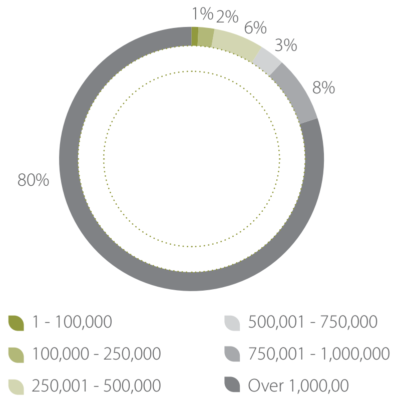
Rate of Interest on Term Deposits 2018/19



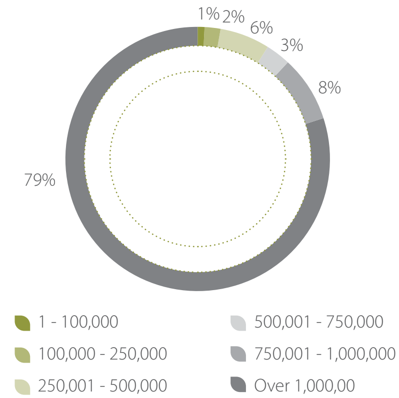
c) Capital Range on Term Deposits

	As at 31st March 2020			As at 31st March 2019		
	No. of Deposits	Total Deposits Rs.'000	% Deposits	No. of Deposits	Total Deposits Rs.'000	%
1 - 100,000	2,063	116,725	1%	2,211	122,943	1%
100,000 - 250,000	1,466	264,617	2%	1,561	282,061	2%
250,001 - 500,000	1,624	654,596	6%	1,669	675,398	6%
500,001 - 750,000	604	380,834	3%	601	378,554	3%
750,001 - 1,000,000	988	942,250	8%	989	941,377	8%
Over 1,000,000	2,388	9,301,672	80%	2,363	9,251,417	79%
	9,133	11,660,695	100%	9,394	11,651,749	100%

Capital Range of Term Deposits - 2019/20



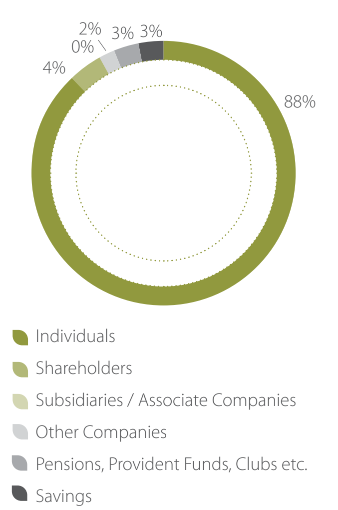
Capital Range of Term Deposits - 2018/19



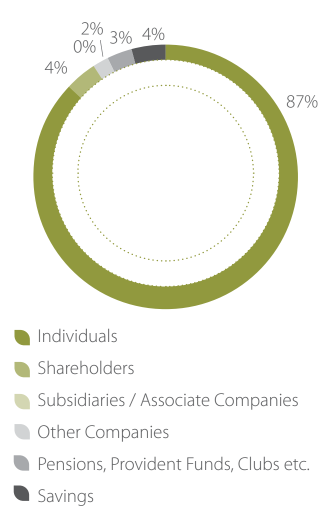
d) Deposit Holders' Analysis

	As at 31st March 2020		As at 31st March 2019	
	Rs.'000	%	Rs.'000	%
Individuals	10,636,720	88%	10,578,275	87%
Shareholders	434,182	4%	447,529	4%
Subsidiaries / Associate Companies	39,322	0%	35,663	0%
Other Companies	226,590	2%	265,749	2%
Pensions, Provident Funds, Clubs etc.	323,881	3%	324,533	3%
Savings	369,041	3%	539,239	4%
	12,029,736	100%	12,190,988	100%

Deposit Holders' Analysis 2019/20



Deposit Holders' Analysis 2019/20



Ten Year Summary - Company

(In Rupees Million)

For Year Ended 31 March	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING RESULTS										
Income	1,869.41	2,270.91	3,487.97	3,837.89	4,175.93	4,473.44	5,331.34	6,730.65	7,029.00	7,501.16
Profit before Tax	234.79	492.72	586.18	261.27	277.45	530.31	834.13	810.10	600.27	531.63
Income Tax	50.00	36.98	75.06	(35.22)	74.54	111.12	184.67	81.60	294.10	323.00
Profit after Tax	184.79	455.74	511.12	296.49	202.91	419.19	649.46	728.50	306.17	208.63
BALANCE SHEET										
Assets										
Cash,Cash Equivalent & Deposits	467.29	527.37	1,043.08	1,248.20	1,111.75	2,713.93	1,644.84	1,625.70	1,223.80	2,252.56
Receivables	705.37	1,220.85	1,126.05	1,350.21	1,101.92	595.04	1,306.76	1,435.38	3,278.64	4,137.95
Stocks	5,775.25	9,366.68	13,477.41	12,997.64	14,440.63	19,293.67	22,866.23	25,019.13	24,862.57	24,789.84
Investments	1,035.80	785.08	770.74	2,010.06	2,122.07	1,795.53	2,081.21	2,018.71	1,020.24	1,070.92
Property,Plant & Equipment	623.25	754.01	1,074.24	1,120.35	1,133.33	1,446.54	2,122.91	1,681.95	1,746.40	1,694.02
Total Assets	8,606.96	12,653.99	17,491.52	18,726.46	19,909.70	25,844.70	30,021.95	31,780.87	32,131.65	33,945.29
Liabilities										
Term Deposit	5,001.75	6,732.81	9,001.88	11,201.59	10,344.07	10,464.15	10,087.82	13,256.95	12,493.68	12,347.30
Bank Overdraft/Loans	2,269.00	4,213.29	6,013.19	4,945.87	6,833.37	12,275.60	15,154.16	13,144.17	14,190.47	16,216.51
Provisions & Other Liabilities	171.76	240.20	357.37	187.70	282.91	382.89	715.18	1,080.67	937.26	768.52
Total Liabilities	7,442.51	11,186.30	15,372.44	16,335.16	17,460.35	23,122.64	25,957.16	27,481.79	27,621.41	29,332.33
Shareholders' Funds	1,164.45	1,467.69	2,119.08	2,391.31	2,449.34	2,722.05	4,064.80	4,299.08	4,510.26	4,612.97
CHANGES IN FINANCIAL POSITION										
Sources of Funds										
Operations	635.37	717.93	820.61	(904.12)	541.03	876.95	795.93	1,534.11	37.99	782.21
Sale of Fixed Assets	69.87	59.98	36.01	21.44	8.06	47.62	25.23	39.95	6.99	7.73
Term Deposits	830.05	1,731.05	2,269.07	2,199.70	(857.52)	120.08	(376.33)	3,169.13	(763.27)	(146.39)
Bank Overdraft/Loans	715.26	2,168.21	1,812.02	(1,103.21)	1,547.46	5,258.86	2,890.35	(1,571.60)	727.87	1,935.23
Others	(44.93)	(50.95)	(105.27)	(165.36)	(108.48)	(153.38)	(101.67)	(119.67)	(105.93)	(118.95)
Grand Total	2,205.62	4,626.22	4,832.44	48.45	1,130.55	6,150.13	3,233.51	3,051.92	(96.35)	2,459.83
Application of Funds										
Capital Expenditure	84.86	237.85	158.35	137.36	106.74	450.67	70.49	208.09	207.31	98.61
Portfolio Disbursements	2,190.98	4,169.62	4,654.30	20.34	1,071.33	5,952.84	2,848.00	2,179.29	191.25	704.94
Deposits	3.72	(110.79)	10.17	66.37	400.92	(73.28)	37.27	(334.01)	(94.58)	477.54
Income Tax	64.63	42.56	1.89	1.14	0.93	19.57	180.12	125.60	147.74	412.75
Dividends	5.67	105.30	109.35	36.45	48.60	126.36	183.00	213.97	75.82	33.70
Other	(16.81)	164.93	(130.93)	(199.30)	(479.01)	(351.44)	(191.58)	398.81	(395.11)	27.32
Changes in available resources	(127.43)	16.75	29.31	(13.93)	(18.96)	25.41	106.21	260.17	(228.78)	704.97
Grand Total	2,205.62	4,626.22	4,832.44	48.45	1,130.55	6,150.13	3,233.51	3,051.92	(96.35)	2,459.83
No. of Shares	1,620,000	2,430,000	2,430,000	2,430,000	2,430,000	2,430,000	33,696,000	33,696,000	33,696,000	33,696,000

(In Rupees Million)

For Year Ended 31 March	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
INDICATORS OF PERFORMANCE										
Return on Shareholders Funds % (After Tax)	21.68	34.63	28.50	13.15	8.38	16.21	19.14	17.42	6.95	4.57
Return on Total Assets % (After Tax)	2.52	4.29	3.39	1.64	1.05	1.83	2.33	2.36	0.96	0.63
Earnings per Share Rs.	76.05	187.55	210.33	122.01	83.50	172.51	19.85	21.62	9.09	6.19
Market Value per Share (Rs.)	850.10	630.00	800.10	769.80	770.00	740.00	55.00	65.70	53.60	34.40
Price Earning Ratio	11.18	3.36	3.80	6.31	9.22	4.29	2.77	3.04	5.90	5.56
Rate of Dividend %	275.00	450.00	400.00	200.00	230.00	530.00	32.38	35.12	5.49	-
Dividend per Share (Rs.)	27.50	45.00	40.00	20.00	23.00	53.00	5.90	6.40	1.00	-
Gross Dividend	44.55	109.35	97.20	48.60	55.89	128.79	198.81	215.65	33.70	-
Dividend cover (times)	2.77	4.17	5.26	6.10	3.63	3.25	3.36	3.38	9.09	-
Dividend Payout %	36.16	23.99	19.02	16.39	27.55	30.72	29.73	29.60	11.01	0.00
Net Assets per share (Rs.)	581.34	603.99	872.05	984.08	1,007.96	1,120.19	120.63	127.58	133.85	136.90
MARKET VALUE PER SHARE DURING THE YEAR ENDED										
Highest Value Recorded During the Year (Rs.)	1,100.00	824.90	702.00	820.00	929.00	1,000.00	1,300.00	79.40	72.50	54.50
Lowest Value Recorded During the Year (Rs.)	700.00	516.00	849.00	730.00	810.00	732.00	52.30	53.00	50.00	30.00
Market Value as at 31st March (Rs.)	850.10	630.00	800.10	769.80	770.00	740.00	55.00	65.70	53.60	34.40

FINANCIAL HIGHLIGHTS

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets	8,607	12,654	17,492	18,726	19,910	25,845	30,022	31,781	32,132	33,945
Liabilities	7,443	11,186	15,372	16,335	17,460	23,123	25,957	27,482	27,621	29,332
Shareholders Funds	1,164	1,468	2,119	2,391	2,449	2,722	4,065	4,299	4,510	4,613

Shareholder Information

20 Major Shareholders

No.	Name of Shareholder	31st March 2020 No. of Shares	%	Name of Shareholder	31st March 2019 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	Mrs. D.M.E.P. Perera	2,501,443	7.42	Mrs. 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.E. Canekeratne	612,268	1.82	Mrs. S.J. Amarasinghe	804,718	2.39
8	Mr. D.L.S.R. Perera	553,556	1.64	Mrs. S.E. Canekeratne	612,268	1.82
9	Mr. S. Vasudevan	515,000	1.53	Mr. D.L.S.R. Perera	553,556	1.64
10	Mrs. C.R. de Silva	374,400	1.11	Mrs. S.R.L. Marcelline	492,480	1.46
11	Elgin Investments Ltd.	311,877	0.93	Mrs. C.R. de Silva	374,400	1.11
12	Mr. D.F.W. Perera	310,560	0.92	Elgin Investments Ltd.	311,877	0.93
13	Ms. D.D.P.T. Perera	309,384	0.92	Mr. D.F.W. Perera	310,560	0.92
14	Mrs. P. Weththasinghe	299,975	0.89	Ms. D.D.P.T. Perera	309,384	0.92
15	Mrs.S.J. Amarasinghe	264,728	0.79	Mrs. P. Weththasinghe	299,975	0.89
16	Mrs.A.S. Wijewardena	259,200	0.77	Mrs. A.S. Wijewardena	259,200	0.77
17	Miss S. Marcelline	246,240	0.73	Mr. Y.H. Abdulhussein	245,161	0.73
18	Miss Z. Marcelline	246,240	0.73	Ms. D.C.M.A. Perera	236,632	0.70
19	Ms. D.C.M.A. Perera	236,632	0.70	Mrs. L.S. Semage	232,560	0.69
20	Mrs. K.G.G.S.L. Perera	201,066	0.60	Miss R.H. Abdulhussein	232,378	0.69
		25,559,939	75.86		26,093,962	77.44

Distribution of Shareholding

Holdings	31st March 2020 No. of Holders	Total	%	31st March 2019 No. of Holders	Total	%
1 - 1,000	840	195,375	0.58	755	183,657	0.55
1,001 - 10,000	373	1,332,489	3.95	342	1,195,221	3.55
10,001 - 100,000	143	4,194,580	12.45	144	4,232,080	12.56
100,001 - 1,000,000	29	7,154,743	21.23	28	7,266,229	21.56
Over 1,000,000	6	20,818,813	61.79	6	20,818,813	61.78
	1,391	33,696,000	100.00	1,275	33,696,000	100.00

The shares in the hands of the public 31.3.2020 were 18,088,299 representing 53.68% of the Issued Share Capital of the Company and as at 31.3.2019 were 18,091,251 representing 53.69% of the Issued Share Capital of the Company. Number of Public Shareholders as at 31st March 2020 was 1,380 (As at 31st March 2019 it was 1,264).

Composition of Shareholding

	31st March 2020			31st March 2019		
	No. of Holders	No. of Shares	%	No. of Holders	No. of Shares	%
Institution	31	6,757,998	20.06	30	6,783,509	20.13
Individual	1260	26,938,002	79.94	1,245	26,912,491	79.87
	1,291	33,696,000	100.00	1,275	33,696,000	100.00

Float Adjusted Market Capitalization

The float adjusted market capitalization as at 31st March 2020 - Rs. 622,227,640/- and the Company falls under the Option 5 Rule 7.13.1(a) of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

GRI Index Table

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Organizational Profile	GRI 102-1	Name of the organization	7	
	GRI 102-2	Activities, brands, products, and services	7,8,57,63,65	
	GRI 102-3	Location of headquarters	inner back cover	
	GRI 102-4	Location of operations	inner back cover	
	GRI 102-5	Ownership and legal form	8	
	GRI 102-6	Markets served	7	
	GRI 102-7	Scale of the organization	7	
	GRI 102-8	Information on employees and other workers		
	GRI 102-41	Collective bargaining agreements	-	The Company does not have any collective bargaining agreements
	GRI 102-9	Supply chain		
	GRI 102-10	Significant changes to the organization and its supply chain	-	There have been no significant changes to the organization and our supply chain
	GRI 102-11	Precautionary Principle or approach	75,91,96,99	
	GRI 102-12	External initiatives	5	
	GRI 102-13	Membership of associations	Inner back cover	

GRI 102-8 — Information on employees and other workers:

Status	2019/20	2018/19	Change %
Own employees			
Permenant	963	875	10.06
Trainees	283	493	-42.60
Fixed term contract	36	32	12.50
Total	1,282	1,400	(8.43)
Interns and apprentices	12	13	-7.69
Service providers (3rd parties)			
Permenant	0	0	0
Temporary	0	0	0

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Strategy and Analysis	GRI 102-14	Statement from senior decision-maker	20-23	
	GRI 102-15	Key impacts, risks, and opportunities	46-47	
Material Aspects and Boundaries	GRI 102-45	Entities included in the consolidated financial statements	4	
	GRI 102-46	Defining report content and topic Boundaries	4	
	GRI 102-47	List of material topics	41-43	
	GRI 103-1	Explanation of the material topic and its Boundary	41-43	
	GRI 102-48	Restatements of information	4	
	GRI 102-49	Changes in reporting	4	
Stakeholder Engagement	GRI 102-40	List of stakeholder groups	37-39	
	GRI 102-42	Identifying and selecting stakeholders	37-39	
	GRI 102-43	Approach to stakeholder engagement	36-39	
	GRI 102-44	Key topics and concerns raised	37-39	
Report Profile	GRI 102-50	Reporting period	4	
	GRI 102-51	Date of most recent report	4	
	GRI 102-52	Reporting cycle	4	
	GRI 102-53	Contact point for questions regarding the report	5	
	GRI 102-54	Claims of reporting in accordance with the GRI Standards	5	
	GRI 102-55	GRI content index	270-274	
	GRI 102-56	External assurance	-	External assurance was not obtained for the report this time.
Governance	GRI 102-18	Governance structure	105	
	GRI 102-19	Delegating authority	105	
	GRI 102-20	Executive-level responsibility for economic, environmental, and social topics	30	
	GRI 102-21	Consulting stakeholders on economic, environmental, and social topics	30	
	GRI 102-22	Composition of the highest governance body and its committees	105-106	
	GRI 102-23	Chair of the highest governance body	24	
	GRI 102-24	Nominating and selecting the highest governance body	127-128	
	GRI 102-25	Conflicts of interest	110	

GRI Index Table

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
	GRI 102-26	Role of highest governance body in setting purpose, values, and strategy	30	
	GRI 102-27	Collective knowledge of highest governance body	105	
	GRI 102-28	Evaluating the highest governance body's performance	128	
	GRI 102-29	Identifying and managing economic, environmental, and social impacts	104, 107	
	GRI 102-30	Effectiveness of risk management processes	154-162	
	GRI 102-31	Review of economic, environmental, and social topics	30	
	GRI 102-32	Highest governance body's role in sustainability reporting	109	
	GRI 102-33	Communicating critical concerns		No significant critical concerns were reported or recorded during the financial year under review
	GRI 102-34	Nature and total number of critical concerns		No significant critical concerns were reported or recorded during the financial year under review
	GRI 102-35	Remuneration policies	129-131	
	GRI 102-36	Process for determining remuneration	129-131	
	GRI 102-37	Stakeholders' involvement in remuneration	129-131	
Ethics and Integrity	GRI 102-16	Values, principles, standards, and norms of behavior	6,75,76	
	GRI 102-17	Mechanisms for advice and concerns about ethics	84, 109, 110	
Management Approach	GRI 103-1	Explanation of the material topic and its Boundary	41-43	
	GRI 103-2	The management approach and its components	41-43	
	GRI 103-3	Evaluation of the management approach	57-102	
Economic Performance	GRI 201-1	Direct economic value generated and distributed	9	
	GRI 201-2	Financial implications and other risks and opportunities due to climate change	46	
	GRI 201-3	Defined benefit plan obligations and other retirement plans	192, 230-231	

<table>
<tr><th>Section title</th><th>GRI Standard No.</th><th>Disclosure title</th><th>Page reference</th><th>Remarks</th></tr>
<tr><td></td><td>GRI 201-4</td><td>Financial assistance received from government</td><td>-</td><td>The company has not received any financial assistance from the Government during the year under review.</td></tr>
<tr><td>Materials</td><td>GRI 301-1</td><td>Materials used by weight or volume</td><td></td><td></td></tr>
<tr><td></td><td></td><td><table><tr><th>Material type</th><th>2019/20</th><th>2018/19</th><th>Change %</th></tr><tr><td>A4 papers (T)</td><td>13.62</td><td>12.93</td><td>5.3%</td></tr></table></td><td></td><td></td></tr>
<tr><td></td><td>GRI 301-2</td><td>Recycled input materials used</td><td>-</td><td>The Company has not used any recycled materials during the financial year.</td></tr>
<tr><td>Energy</td><td>GRI 302-1</td><td>Energy consumption within the organization</td><td></td><td></td></tr>
<tr><td></td><td></td><td><table><tr><th>Electricity</th><th>2019/20</th><th>2018/19</th><th>Change %</th></tr><tr><td>Unit (Kwh)</td><td>356,483</td><td>403,603</td><td>-11.7</td></tr><tr><td>Cost (Rs.)</td><td>9,367,452</td><td>10,473,423</td><td>-10.6</td></tr><tr><td>Fuel</td><td>2019/20</td><td>2018/19</td><td>Change %</td></tr><tr><td>Unit (Litres)</td><td>14,996</td><td>14,458</td><td>3.7</td></tr><tr><td>Cost (Rs.)</td><td>1,932,084</td><td>1,785,120</td><td>8.2</td></tr></table></td><td></td><td></td></tr>
<tr><td></td><td>GRI 302-2</td><td>Energy consumption outside of the organization</td><td>-</td><td>The company does not use energy outside the organization.</td></tr>
<tr><td></td><td>GRI 302-3</td><td>Energy intensity</td><td></td><td></td></tr>
<tr><td></td><td></td><td><table><tr><th>Electricity</th><th>2019/20</th><th>2018/19</th><th>Change %</th></tr><tr><td>Unit intensity</td><td>938</td><td>1,315</td><td>-28.7%</td></tr><tr><td>Cost inensity</td><td>24,651</td><td>34,115</td><td>-27.7</td></tr><tr><td>Fuel</td><td>2019/20</td><td>2018/19</td><td>Change %</td></tr><tr><td>Unit intensity</td><td>39</td><td>47</td><td>-17.0</td></tr><tr><td>Cost inensity</td><td>5,084</td><td>5,815</td><td>-12.6</td></tr></table></td><td></td><td></td></tr>
<tr><td></td><td>GRI 302-5</td><td>Reductions in energy requirements of products and services</td><td></td><td>Not reported since there are no products or services that has significant energy requirement.</td></tr>
<tr><td></td><td>GRI 302-4</td><td>Reduction of energy consumption</td><td></td><td></td></tr>
</table>

GRI Index Table

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
		Electricity / 2019/20 / 2018/19 / Change % Unit (%) / -11.7 / 13.6 / (186) Cost (%) / -10.6 / 15.4 / (169) **Fuel** Unit (%) / 3.7 / 31.2 / (88) Cost (%) / 8.2 / 40.5 / (80)		
Water	GRI 303-1	Interactions with water as a shared resource	-	The company does not use water from a shared source.
	GRI 303-2	Management of water discharge-related impacts	-	Considering the nature of the business this is not significantly related to the Company.
	GRI 303-3	Water withdrawal	100	
Water	GRI 303-4	Water discharge	-	Considering the nature of the business this is not significantly material to the Company.
	GRI 303-5	Water consumption		
		/ 2019/20 / 2018/19 / Change % Unit (Litres) / 9,078,355 / 8,626,948 / 5.23 Cost (Rs.) / 1,520,070 / 1,556,127 / (2.32)		
Emissions	GRI 305-1	Direct (Scope 1) GHG emissions	35, 100	Measured and reported CO2 emission only.
Emissions	GRI 305-2	Energy indirect (Scope 2) GHG emissions	-	This was not measured or quantified.
Emissions	GRI 305-3	Other indirect (Scope 3) GHG emissions	-	This was not measured or quantified.
Emissions	GRI 305-4	GHG emissions intensity	35	Measured and reported CO2 emission only.
Emissions	GRI 305-5	Reduction of GHG emissions	35	Measured and reported CO2 emission only.
Emissions	GRI 305-6	Emissions of ozone-depleting substances (ODS)	-	Not measured or quantified since the business functions have no significant direct impact on the same.

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Emissions	GRI 305-7	Nitrogen oxides (Nox), sulfur oxides (Sox), and other significant air emissions	-	Not measured or quantified since the business functions have no significant direct impact on the same.
Biodiversity	GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	-	There are no such operational sites owned by the Company.
	GRI 304-2	Significant impacts of activities, products, and services on biodiversity	101	
	GRI 304-3	Habitats protected or restored	101	
	GRI 304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	101	
Compliance	GRI 307-1	Non-compliance with environmental laws and regulations		There were no incidents of non compliance with environmental laws and regulations were recorded during the year under review.94
Supplier Environmental Assessment	GRI 308-1	New suppliers that were screened using environmental criteria	93-94	
	GRI 308-2	Negative environmental impacts in the supply chain and actions taken	-	There were none during the reporting year.
Employment	GRI 401-1	New employee hires and employee turnover	80-81	
	GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	85-86	
	GRI 401-3	Parental leave		

GRI Index Table

<table>
<tr><th>Section title</th><th>GRI Standard No.</th><th>Disclosure title</th><th>Page reference</th><th>Remarks</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Return to work and retention rates after parental leave</th><th>2019/20</th><th>2018/19</th><th>Change (%)</th></tr>
<tr><td>Total number of employees entitled to maternity leave</td><td>369</td><td>378</td><td>-2</td></tr>
<tr><td>Total number of employees that look maternity leave</td><td>22</td><td>16</td><td>38</td></tr>
<tr><td>Number of employees who returned to work after maternity leave ended</td><td>15</td><td>8</td><td>88</td></tr>
<tr><td>Number of employees who returned to work after maternity leave ended and still employed twelve months aftre their return to work</td><td>6</td><td>3</td><td>100</td></tr>
<tr><td>Return to work rate</td><td>68%</td><td>50%</td><td>36</td></tr>
<tr><td>Retention rate</td><td>75%</td><td>60%</td><td>25</td></tr>
</table>
</td><td></td><td></td></tr>
<tr><td>Training and Education</td><td>GRI 404-1</td><td>Average hours of training per year per employee</td><td></td><td></td></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Summary</th><th>2019/20</th><th>2018/19</th><th>Change (%)</th></tr>
<tr><td>Total number of participants</td><td>1,281</td><td>1,089</td><td>18</td></tr>
<tr><td>Total number of training conducted</td><td>125</td><td>113</td><td>11</td></tr>
<tr><td>Total Investments (Rs.)</td><td>5,123,779</td><td>7,788,525</td><td>-34</td></tr>
<tr><td>Total number of training hours(Internal/External)</td><td>19,132</td><td>17,786</td><td>8</td></tr>
<tr><td>Average training hours per employee</td><td>14.9</td><td>12.7</td><td>17</td></tr>
</table>
</td><td></td><td></td></tr>
<tr><td></td><td>GRI 404-2</td><td>Programs for upgrading employee skills and transition assistance programs</td><td>83</td><td></td></tr>
<tr><td></td><td>GRI 404-3</td><td>Percentage of employees receiving regular performance and career development reviews</td><td>84</td><td></td></tr>
<tr><td>Diversity and Equal Opportunity</td><td>GRI 405-1</td><td>Diversity of governance bodies and employees</td><td>78-80</td><td></td></tr>
<tr><td></td><td>GRI 405-2</td><td>Equal remuneration for men and women - Ratio of basic salary and remuneration of women to men</td><td>86</td><td></td></tr>
</table>

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Supplier Assessment for Labor Practices	GRI 414-1	New suppliers that were screened using social criteria	93-94	
	GRI 414-2	Negative social impacts in the supply chain and actions taken	-	There were no negative social impacts resulted due to the activities of the company during the year under purview.
Non-discrimination	GRI 406-1	Incidents of discrimination and corrective actions taken	-	There were no incidents of discrimination reported during the year under review.
Child Labor	GRI 408-1	Operations and suppliers at significant risk for incidents of child labor	-	There are no operations or suppliers at significant risk for incidents of child labor.
Forced or Compulsory Labor	GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	-	There are no operations and suppliers at significant risk for incidents of forced or compulsory labor.
Supplier Human Rights Assessment	GRI 414-1	New suppliers that were screened using social criteria	-	All new suppliers were screened using our E&S declaration from for social creiteria.
	GRI 414-2	Negative social impacts in the supply chain and actions taken	-	There were no negative social impacts in the supply chain identified or reported as resulted during the year under purview.
Local Communities	GRI 413-1	Operations with local community engagement, impact assessments, and development programs	95-97	
	GRI 413-2	Operations with significant actual and potential negative impacts on local communities	-	There were no operations with significant actual and potential negative impacts on local communities
Anti-competitive Behavior	GRI 206	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	-	There were no legal actions taken against AFC for anti-competitive behavior, anti-trust, and monopoly practices during the year under review.

GRI Index Table

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Customer Health and Safety	GRI 416-1	Assessment of the health and safety impacts of product and service categories	91	
	GRI 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	91	
Marketing Communications	GRI 102-2	Activities, brands, products, and services	7,8,57,63,65	
	GRI 417-3	Incidents of non-compliance concerning marketing communications	-	There were no indicents of non-compliance concerning marketing communications, Substantiated complaints concerning breaches of customer privacy and losses of customer data or non-compliance with laws and regulations in the social and economic area during the year under review.
Customer Privacy	GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	-	
Compliance	GRI 419-1	Non-compliance with laws and regulations in the social and economic area	-	

Abbreviations

AADFI	Association of African Development Finance Institutions
ADFIAF	Association of Development Finance Institutions in Asian and the Pacific
AFC	Alliance Finance Company
AGM	Assistant General Manager
BCMS	Business Continuity Management System
CA	Charted Accountants
CBSL	Central Bank of Sri Lanka
CCA	Customer Care Agents
CCPI	Colombo Consumer Price Index
CITES	Convention on International Trade in Endangered Species
CMA	Charted Management Accountants
CRM	Customer Relationship Management
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
CXO	Chief Executive Officer
DF	Development Finance
DR SITE	Disaster Recovery Site
EA	Enterprise Asia
EDS	Entrepreneur Development Services
EOSD	European Organisation for Sustainable Development
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESMS	Environmental and Social Management System
ESG	Environmental, Social, and Governance
EVP	Employee Value Proposition
FHASL	Finance Houses Association of Sri Lanka
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
H/Os	Head Office
HP	Hire Purchase
HR	Human Resource
HRIS	Human Resource Information System
IFC	International Finance Corporation
IIRC	International Integrated Reporting council
IUCN	International Union for Conservation of Nature
KMP	Key Management Personnel
KPI	Key Performance Indicator
LINN	Lanka Impact Investing Network
NBFI	Non Banking Financial Institutions
NPL	Non Performing Loan
PCB	Polychlorinated biphenyl
RAC	Risk-Acceptance-Criteria
RFS	Regional Financial Services
SDG	Sustainable Development Goals
SLICM	Sri Lanka Institute of Credit Management
SSCI	Sustainability Standards and certification Initiative
USP	Unique Selling Proposition
COVID-19	Corona Virus Disease 2019

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

ALLOWANCE FOR IMPAIRMENT
A provision held on the Statement of Financial Position as a result of a raising of a charge against profit for the incurred loss.

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

COLLECTIVE IMPAIRMENT
Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at a reporting date.

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 sum of 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)

G

GENERAL RESERVES
Reserves set aside for future

GROSS NPA (NPL) RATIO
Total non-performing accommodations (loans) after deducting for initial rentals received and unearned income, divided by gross accommodations (loans) after deducting for initial rentals received and unearned income.

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

INDIVIDUAL IMPAIRMENT
Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

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 and provision for loan losses, divided by gross loans after deducting for initial rentals received, unearned income 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

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 before 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 before 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

Glossary

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 Fourth Annual General Meeting of Alliance Finance Company PLC, will be held on Friday, 21st August 2020 at 9.30 a.m., at the Sri Lanka Foundation, No. 100, Padanam Mawatha, Independence Square, Colombo 07.

The business to be brought before the Meeting will be:-

1. To receive and consider the Annual Report and the Financial Statements for the Financial year ended 31st March 2020, with the Report of the Auditors thereon.
2. To re-elect a Director
   Mr. Athula Ranmal Samarasinghe retires under Articles numbered 130 and 131
3. To re-elect a Director
   Mr. Lloyd John Hiran De Silva retires under Article number 135
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 in terms of the relevant laws and regulations.

Notes :

1. HEALTH AND SAFETY

The meeting will be held in compliance with the Health and Safety guidelines issued by the Ministry of Health and Indigenous Medical Services (Ministry of Health) and standards imposed by the venue to ensure the safety and well-being of all Meeting attendees. Please note that in compliance with such guidelines and standards:

a. All attendees will have to undergo a temperature check and sign a declaration form including contact details, historical and current health status, recent oversees travel history and exposure.
b. Persons who record temperatures in excess of norms prescribed by the Ministry of Health will not be permitted into the Meeting.
c. Persons with respiratory infections of any type including cough, cold, sore throat or exhibiting any other similar symptoms will not be permitted into the Meeting.
d. Physical contact such as shaking hands will not be permitted and attendees will not be permitted to linger or remain after the conclusion of the Meeting.
e. Any person not adhering to the health and safety guidelines and standards, including wearing a mask and maintaining the minimum social distance required, will be requested, to leave the Meeting.
f. Food and beverage offerings are not guaranteed and may be limited in keeping with health and safety standards and regulations.
g. As social distancing measures will be implemented, once the hall capacity is reached as per the relevant Government guidelines, Members may not be permitted to enter.

2. VOTING BY PROXY

Given that the health and well-being of our Members is paramount to us, Members are encouraged to vote by Proxy through the appointment of a member of the Board of Directors to represent them and vote on their behalf. Members are advised to complete the Form of Proxy and their voting preferences on the specified resolutions to be taken up at the Meeting and submit the same to the Company Secretaries in accordance with the instructions given on the reverse of the Form of Proxy.

3. ATTENDING THE MEETING

Should a Member wish to attend the Meeting in person or through a proxy (who is not a Director of the Company), such Member or their Proxy is request to:

a. Complete and return the pre-registration Form
b. Arrive early in order to register, carry out mandatory health checks, and fill in the required forms and avoid crowding;
c. Wear a suitable face mask when attending the Meeting; and
d. Co-operate with the health and Safety Measures, implemented by the Company, details of which are outlined in section 1 – Health and Safety Measures, to be implemented at the Meeting as they are done in the best interests of all Meeting attendees.

Members and/or their Proxies are requested not to attend the Meeting if they are feeling unwell, exhibiting any signs or symptoms of COVID-19 or have been placed on quarantine or stay-at-home notice.

In the event the Company is required to take any further action in relation to the Meeting, in the best interests of the Meeting attendees due to the COVID-19 pandemic; and/or any communications, guidelines, directives or orders issued by the Government of Sri Lanka, Notice of such action shall be communicated through an announcement in the newspapers.

By Order of the Board of Directors
ALLIANCE FINANCE CO.PLC

(Sgd.)
Alliance Management Services (Private) Limited
Secretaries

29th June 2020

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 7, 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 Cards 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 holders on the Form of Proxy. Only registered proxy holder will be permitted to attend the Annual General Meeting.

NOTES

NOTES

FORM OF PROXY

I/We ....

(in block letters)

of ....

being a member/members of the above-named Company hereby appoint Ramani Nelun Ponnambalam or failing her, Romani Kumar Eardley Patrick de Silva or failing him, Jalathge Mahinda Gunasekera or failing him, Wickramasinghe Pathiranage Kusal Jayawardana or failing him,. Ravindra Erle Rambukwelle or failing him, Athula Ranmal Samarasinghe or failing him, Priyanthi de Silva or failing her Lloyd John Hiran de Silva 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 Sixty Fourth Annual General Meeting of the Company to be held on 21st August 2020 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

*Right to speak

	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 ....2020.

....

Shareholder N.I.C. No./Co. Reg. No./P.P. No. Signature

Instructions as to completion of Form of Proxy given overleaf

Form of Proxy

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 the Address of the Proxy holder and of the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy. Please perfect the Form of Proxy, by signing in the space provided and filling in the date.
3. To be valid, the completed Form of Proxy should be deposited at the Office of the Company Secretaries, No.84, Ward Place, Colombo 7, 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 which should be affixed and attested in the manner prescribed by its Articles of Association.
5. If the Form of Proxy has been signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
6. If there is any doubt as to how the vote is to be exercised by reason of the manner in which the Form of Proxy has been completed, the Proxy holder will vote as thought fit.

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 GRI 102-3 GRI 102-13

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

DATE OF INCORPORATION
18th July 1956

COMPANY REGISTRATION NUMBER
PQ 93

PRINCIPAL ACTIVITIES
Providing finance lease, gold loans, Vehicle Trade-In, acceptance of fixed deposits, savings mobilization, other credit facilities and services.

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

WEBSITE
www.alliancefinance.lk

CREDIT RATING
[SL]BBB- with a negative outlook assigned by ICRA Lanka Limited.

BOARD OF DIRECTORS
Mrs. R.N. Ponnambalam - Chairperson
Mr. Romani de Silva - Deputy Chairman & Managing Director
Mr. J.M. Gunasekera – Executive Director Sustainability
Mr. W.K.P. Jayawardana – Executive Director Finance and Operationss
Mr. R.E. Rambukwelle – Executive Director Credit Marketing and Operations
Lt. Col. (Retd) A.R. Samarasinghe- Independent Non-Executive - Senior Director
Ms. Priyanthi de Silva - Independent Non-Executive Director
Mr. L.J.H de Silva - Independent Non-Executive Director

ADVISORY COUNCIL
Mr. B. Ponnambalam
Mrs. K.S.K. de Silva
Mr. K. Kanag Isvaran LLB (London)
Inn Barrister - (President's Counsel)

REMUNERATION COMMITTEE
Mrs. R.N. Ponnambalam– Chairperson
Ms. Priyanthi de Silva
Mr. L.J.H. de Silva

AUDIT COMMITTEE
Ms. Priyanthi de Silva - Chairperson
Lt. Col. (Retd) A.R. Samarasinghe

RELATED PARTY TRANSACTIONS COMMITTEE
Ms. Priyanthi de Silva - Chairperson
Mrs. R.N. Ponnambalam
Mr. L.J.H. de Silva

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

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
Cargills Bank
DFCC Bank PLC
National Savings Banks

CORPORATE MEMBERSHIPS AND ASSOCIATIONS
- The Finance Houses Association of Sri Lanka
- Leasing Association of Sri Lanka
- Credit Information Bureau of Sri Lanka
- Financial Ombudsman-Sri Lanka
- Biodiversity Sri Lanka (Patron Member)
- {Business and Bio diversity platform}
- CSR Sri Lanka
- Association for Development Finance Institutions in Asia and the Pacific (ADFIAP), The Philippines

Concept & Designed by
Copyline a great equation