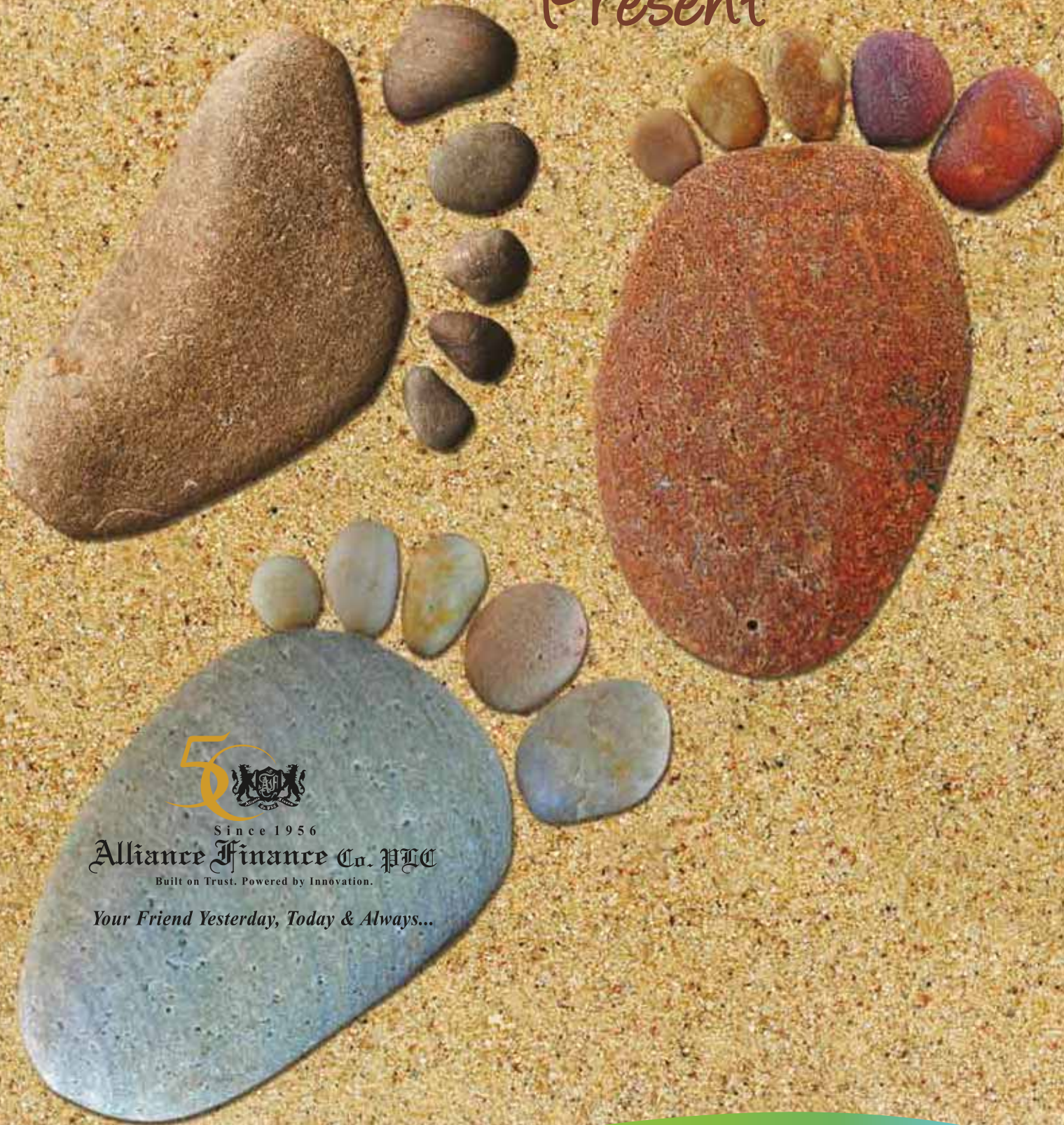


*A vision
beyond the
Present*



Since 1956

Alliance Finance Co. PTC

Built on Trust. Powered by Innovation.

Your Friend Yesterday, Today & Always...

A vision beyond the Present

For Alliance Finance, the current year was one of the consolidations in the face of market turbulence. While industry default rates trended upwards, at Alliance Finance, we enhanced our defenses to strengthen our balance sheet and inject stability into our business model. Instead of chasing short term profits, we invested in the long term, by balancing risks with returns, to safeguard the best interests of all our stakeholders. In line with our triple bottom line principles, we continued to incorporate social and environmental responsibilities into our decision making, even when venturing into the new field of microfinance. We are confident time will vindicate our long term strategy of sustainable growth.

Our Vision and Business Philosophy

To play a key role in the development of post-war Sri Lanka by being a leading provider in innovative finance, investment and transport solutions to the community and thereby contribute to the economic growth of the country, with particular emphasis on enabling financial inclusion and equitable wealth creation outside the Western Province whilst maintaining focus on building a truly sustainable Triple Bottom Line business.

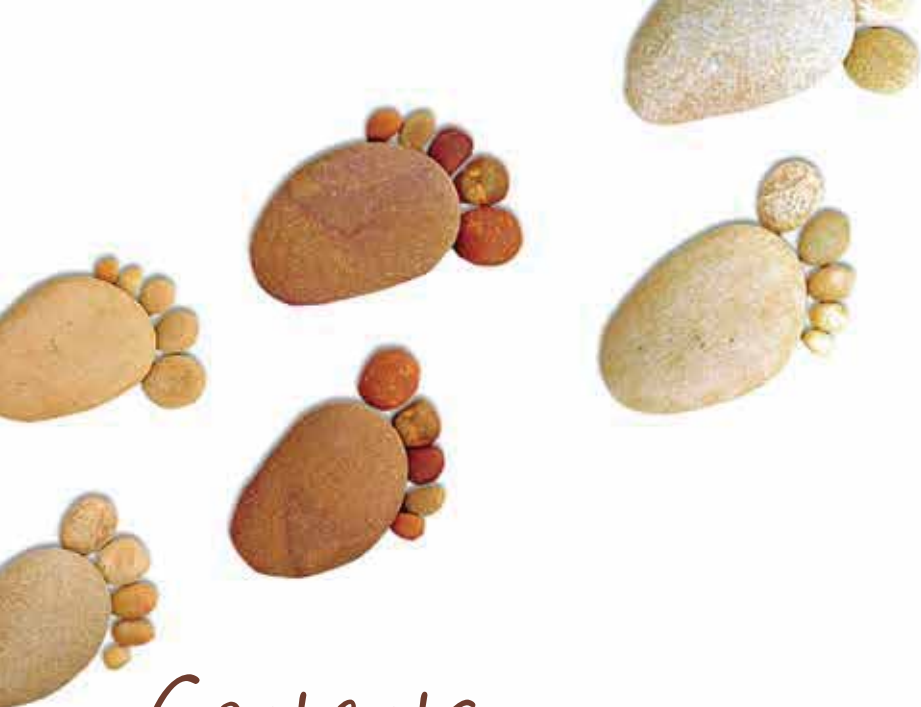
Our Mission and Values

We will strive to develop relationships with all our stakeholders and build an organisation that is based on a foundation of trust whilst being powered by innovation and driven to excellence in every sphere of our activity.

We will offer our customers financial products and services which will help them create wealth and increase their standard of living. Whilst,

- Assisting the unemployed to find livelihoods through self-employment and small and medium scale enterprises.
- Facilitating the creation of a sustainable agro-economy through the provision of transport solutions.
- Enabling the social wellbeing of our people
- Promoting business practices that respect and enhance the wellbeing of the earth and the environment.

Our activities will be guided by our business philosophy which has evolved over five decades and has spanned four generations, enabling us to achieve growth by supporting financial inclusion and environmental sustainability.



Contents

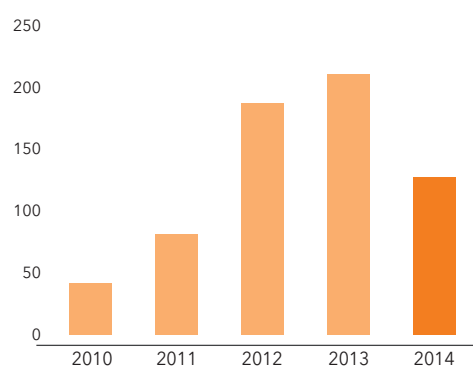
Financial Highlights	3
Chairman's Review	8
Deputy Chairman / Managing Director's Review	12
Board of Directors	16
Corporate Management	20
Senior Management	22
Management Discussion and Analysis	26
Sustainability Review	42
Risk Management Report	70
Corporate Governance Report	78
Annual Report of the Directors	90
Report By the Board on Internal Control	93
Directors' Responsibility for Financial Reporting	94
Report of the Audit Committee	95
Independent Auditor's Report	97
Income Statement	98
Statement of Comprehensive Income	99
Statement of Financial Position	100
Statement of Changes in Equity	101
Cash Flow Statement	102
Significant Accounting Policies	103
Notes to the Financial Statements	122
Capital Adequacy Ratio	167
Contribution to National Economy	169
Depositor's Information	170
Debenture Investor Indicators	173
Ten Year Summary	174
Shareholders' Information	175
Glossary of Financial Terms	176
Notice of Meeting	179



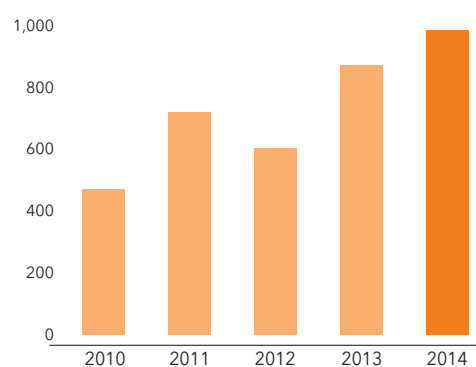
Financial Highlights

For Year Ended 31st March	2010	2011	2012	2013	2014
Return on Shareholders' Funds % (After Tax)	9.27	19.18	34.63	28.50	13.68
Return on Total Assets % (After Tax)	1.12	2.48	4.29	3.39	1.70
Earnings per Share (Rs.)	41.88	81.05	187.55	210.33	127.00
Net Assets per Share (Rs.)	470.77	718.80	603.99	872.05	986.41
Rate of Dividend %	35	275	450	400	200
Dividend Cover (Times)	11.97	4.42	4.17	5.26	6.35
Gross Dividend (Rs. Mn)	5.67	44.55	109.35	97.2	48.60
Dividend per Share (Rs.)	3.50	27.50	45.00	40.00	20.00
Turnover (Rs. Mn)	3,494	4,902	5,686	7,407	8,689

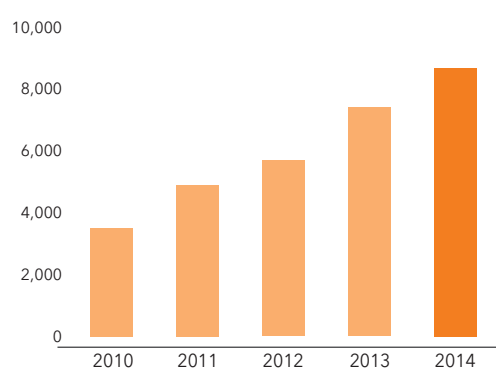
Earnings per Share (Rs.)



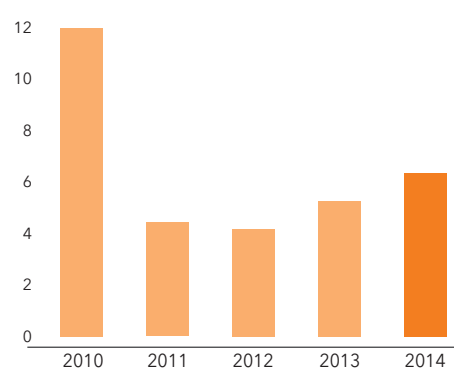
Net Assets per Share (Rs.)



Turnover (Rs. Mn)



Dividend Cover (Times)



287 mn

Profit before Tax

2.2 bn

Deposit Growth

Milestones

1959 - quoted in the
CBA (Colombo Brokers
Association)

1969 - Purchase of
Land and Buildings
at No.84 Ward
Place, Colombo 7

1981 - Company's
Silver Jubilee was
commemorated

1994 - AFC
constructed its
new three storied
building

2000 - Became
the first Financial
Institution in Sri Lanka
to be awarded the
ISO 9001:1994 status
by DNV

1956 - Alliance
Finance incorporated
on 18th July 1956
at No. 43, Campbell
Place, Colombo 08
by Founder Chairman
Mr. Eardley de Silva
and Co-founder
Mr. D. F. W. Perera

1967-Acquired
Arpico Finance

1975 - Managing Director
Mr. Pratakumar de Silva
appointed as Chairman

1993 - Deposit base
surpasses Rs.100 Million

1995 - Pioneers
the concept of
Collaboration
Finance and forms
the Alliance Excel
collaboration

2002 - Both Turn
over and Deposit
Base surpasses
Rs. 1 Billion

2003 - Opened the 1st collection center in Kurunagala, launched the Speed Cash loan plan and became the first Financial Institution in Sri Lanka to upgrade to ISO 9001:2000

2005 - First Finance company to introduce Savings Accounts in Sri Lanka

2008 - Added Gold Loans to the AFC Product portfolio

2011 - Mrs. Sonali de Silva was appointed as Chairperson
AFC won the silver award in the Specialised Banking and Financial Services sector at the National Business Excellence Awards

2013 - AFC became the 1st organization to receive the BCMS Certification standard of ISO 222301:2012 in the Banking and Non-Banking Financial sector in Sri Lanka.

- Received a merit award at the Global Sustainable Finance conference held in Germany for the best innovation in financial services.
- Mr. Sunil Karunanayke was appointed as the Chairman
- AFC Achieved the Highest profit to date and also the Branch network increased to 32 branches
- Launched the Micro Finance to its product portfolio.

2010 - Mr. Pratapkumar de Silva retires from the post of joint Managing Director and was succeeded by Mr. Romani de Silva

2014 - AFC was awarded the Green Leadership award for the Ezy Taxi project at the Asia Responsible Entrepreneurship Awards organised by Enterprise Asia in New Delhi

2006 - Celebrated AFC Golden Anniversary and launched a deposit scheme for senior citizens named "Pride of Priority".

2012 - AFC becomes the joint winner of the Gold Award at the National Business Excellence Awards and also won the Silver award for the "Best Performance Management Practices".

2004 - Both Turnover and deposit base exceed Rs. 1.5 Billion

- First Sri Lankan company in the banking and Non-Banking sector to receive the BCMS Certification in the Business Continuity Management Systems.
- AFC launches its first TV commercial with the motto of "A friend yesterday, today and always".

Management Information



While we place our feet in the present, we are conscious that we must sustain ourselves to place our footprint into the future. Our footprint spans the past, the present and the future.

Chairman's Review



"The Company has faced many market challenges in the year under review in a commendable manner. With its strong financial base, Alliance Finance has the capacity to face any further threats, or any new opportunities that the new financial year may bring. "

I present this annual report at the conclusion of a challenging year that saw increased volatility in markets and a rising risk of default.

External Environment

Overall, the national economy recorded a higher GDP growth rate of 7.3% in 2013, compared to 6.3% in 2012, with all three productive sectors of agriculture, industry and services, showing growth. The industrial sector expanded by 9.9%, although at a slower pace than the rate of 10.3% growth seen in 2012. The agriculture sector grew by 4.7% compared to the faster pace of 5.2% growth in 2012. Services sector growth however, increased to 6.4% from 4.6% in 2012. Despite this positive picture, licensed finance companies faced a number of obstacles to growth in 2013. Your Company responded to these market challenges by focusing on long term financial sustainability, instead of short term profit growth and by placing depositors' interests at the top of the list of priorities.

The easing of monetary policy that commenced in December 2012, continued in 2013, which resulted in continuous downward adjustments in market interest rates. The volatile interest rates increased market risks for licensed finance companies, narrowing net interest margins further. Despite lower interest rates, demand for credit continued to decline sharply. The Central Bank noted that credit to the private sector slowed to 7.3% in November 2013 from 17.6% at end 2012, before accelerating marginally to 7.5% by end 2013. Another side effect of the easing of monetary policy was the high liquidity in the market throughout 2013. The Central Bank reported excess rupee liquidity averaging around Rs. 23 billion during the year. In addition, finance companies were directly impacted by the sharp decline in gold prices and the downturn in the leasing market that saw a rising trend of defaults in the gold loan and leasing portfolios. During the year, gold prices fell by about 28%, causing default rates to rise and affecting bottom lines. According to Central Bank data, exposure to NPAs, relative to the total accommodations outstanding, increased to 6.7%, by end 2013 from 5% in 2012, in the licensed finance company and specialised leasing company category. Licensed finance companies accounted for 92% of the NPAs, with the restructured companies being the main contributors.

Company Performance

Your Company responded to these market developments by shifting from a growth strategy, to a consolidation mode. Instead of pushing credit in a rising default risk market, the Company focused on recoveries and maintaining the portfolios to contain bad debt provisioning to a minimum. Due to these focused efforts at containing the NPAs, I am happy to announce that your Company has closed the year with lower NPAs than the industry average. The gross accommodation for non performing loans was 5.6% compared to the industry average of 6.7%. The Company has adequate reserves to cover losses from gold loans and is currently considering options for part disposal of its gold holdings. During the year, the Company terminated a number of gold loan service centres to reduce costs. Given the market unpredictability, your Company maintained high liquidity levels throughout the year, to ensure adequate funds to meet any increased obligations towards depositors. However, instead of a rapid rise in withdrawals, Alliance Finance experienced the opposite, that of a rapid influx of deposits. Nevertheless, we believe maintaining higher liquidity levels were an ethical and obligatory duty, despite its negative impacts on the bottom line.

Due to the decision to rein in growth momentum, the profitability reduced by 39.6%, compared to the previous year to record a profit after tax of Rs. 309 million. The lower bottom line was also a result of the higher liquidity and bad debt provisioning and higher operating costs. The Net Interest margin dropped to 7% compared to 9% in the previous year, but was higher than the industry average of 6.6%. The deposit base meanwhile saw a 24.4% growth.

Second listed Debenture

The Company returned to the debt market with a second listed debenture of Rs 1 billion. This time too, the debenture was fully subscribed, supporting the Company's long term funding strategy. In addition, your Company diversified into the growing microfinance sector with great success. Based on market reactions, we are confident of expanding our footprint within the microfinance markets in the country. We have long term plans to develop the sector and support grassroots level growth, in line with our sustainable business philosophy.

Chairman's Review

Compliance

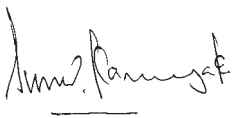
The Company's stringent governance and risk assessment measures have helped maintain the sensitive balance between profits and prudence and ensured long term financial stability. In addition to Central Bank regulations, Alliance Finance complies with the CA Sri Lanka Code of Best Practices on Corporate Governance together with the guidelines of the Securities and Exchange Commission.

Facing Market Challenges

The Company has faced many market challenges in the year under review in a commendable manner. With its strong financial base, Alliance Finance has the capacity to face any further threats or any new opportunities that the new financial year may bring. We will continue to develop our human resource base with new skills and competencies in the new financial year. We will also continue to invest in strengthening internal structures, systems, controls, processes and human resource procedures. These changes will equip the Company to face the new operating environment that will emerge in the wake of the national financial sector consolidation.

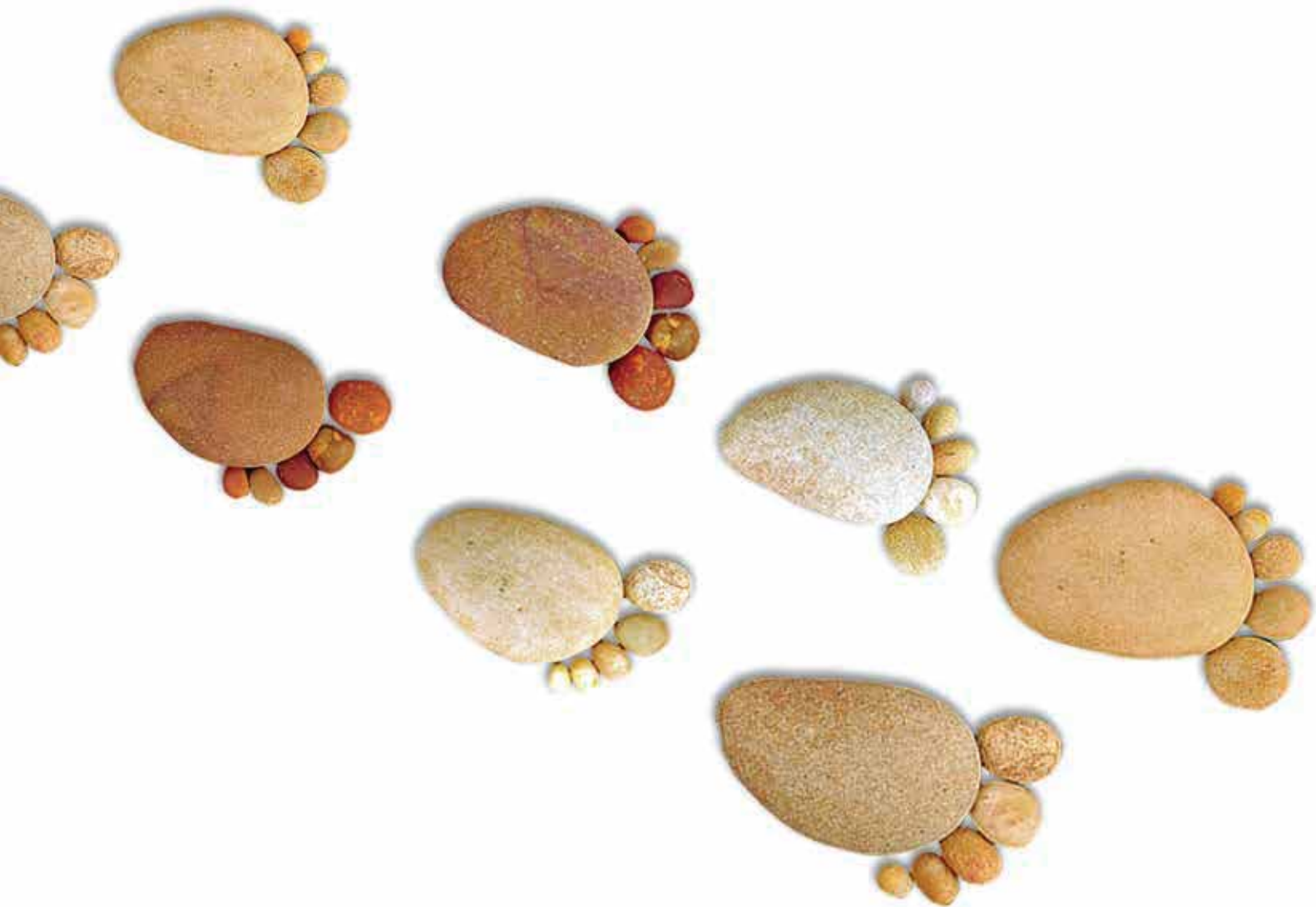
Acknowledgements

I would like to conclude by thanking the retiring chairperson, Mrs. K S K de Silva, for her contributions over the years and the Board of Directors for their commitment and advice. I acknowledge with gratitude the guidance by national regulatory agencies that contribute towards the financial welfare of the Company. I thank our shareholders and would like to assure them of higher returns with better market conditions in the near future. I take this opportunity to thank our loyal customers for their continuing patronage and I assure them of our commitment to fulfil their best interests. Finally, I extend a warm thank you to all management and staff for their contribution during a difficult year and look forward to their continued co-operation in helping the Board achieve its objectives in the coming year.



Sunil Karunanayake

Chairman



*Deputy Chairman / Managing
Director's Review*



"Despite the present unfavourable market conditions for our core lending products, the company remained focused on planning ahead and continued to lay the foundation for future growth by commencing the business of microfinance which is in alignment with our strategy of sustainability and that of servicing many small customers in underserved communities."

Dear shareholders,

The year 2013/14, was one of consolidation for Alliance Finance, with the Company taking precautionary measures in response to external market conditions. In a market where credit growth was weak, the industry saw its NPA ratio rising to 6.7% by December 2013, from 5% in December 2012. Credit growth has also continued to decelerate despite the lower interest rates. We believe that an aggressive expansion of credit under these circumstances could result in the build up of a high risk portfolio and a significant increase in bad debts, over the medium term. Therefore with a view to protecting the interests of our depositors who are among the Company's main stakeholders and ensuring long term financial sustainability, your Company adopted a strategy of consolidation, focusing on securing existing portfolios and containing NPAs as opposed to aggressively pushing for growth. We have taken this weakness in the market as an opportunity to strengthen the business processes of the Company by introducing new systems and controls which we are confident will create a solid platform for the next stage of expansion that would commence with the recovery of the credit market on the back of strong economic fundamentals.

Performance and Asset Quality

The conservative business strategy adopted by the company in the year under review resulted in a comparatively lower rate of growth in lending. Accommodations declined by 0.8% against the previous year, and despite a 7.1% growth in assets, and a 10% income growth over the previous year, profits after tax declined by 39.6% due to the increased bad debt provision that occurred as a result of the declining repayment capacity of Leasing & Hire Purchase customers which was prominent in the entire LFC sector. During the year under review, the company has provided against the impairment of the Gold Loan portfolio and is fully compliant with accounting regulations and guidelines. Given the market volatilities experienced during the year, the Company maintained higher than required liquidity levels to meet possible contingencies. However, I am happy to report that instead of an outflow of deposits, the Company saw a significant inflow, resulting in a 24.4% growth in deposits, which is testimony to the faith and trust that our depositors have in the financial sustainability of your company. We hope to lower liquidity levels with market improvements, which will support higher profitability in the future. The sudden downturn in gold prices also resulted in a significant reduction of interest income for the company. Given the negative market perception for

gold, we are proactively planning for prudent provisioning against impairment in the current financial year. The gross Non-Performing Accommodations (NPA's) of the company increased from 2% as at 31/03/13 to 5.6% in 31/03/14. The net NPA ratio also increased accordingly from 0.7% as at 31/03/13 to 2.7% as at 31/03/14. The latest available industry gross and net NPA ratio stood at 6.7% and 2.5% respectively at the end of December 2013. It is noteworthy that despite low credit growth, the company was able to maintain gross and net NPA ratios of 4.7% and 2.2% respectively as at December 2013 which were below industry levels.

Strengthening our Foundations

Despite weak industry sentiments, it is noteworthy that the company was able to retain its long term rating of BBB with a positive outlook, from RAM Rating Lanka. Alliance Finance was one of the first companies in Sri Lanka to tap into the emerging debt market with a debenture issue of 1 billion in November 2012 which was oversubscribed. The company also issued a further 1 billion listed debenture in September 2013 which was also fully subscribed. Both debenture issues have resulted in a significant improvement to our capital adequacy ratios in tandem with the growth of our portfolio. The Core Capital ratio now stands at 12.84% (required minimum 5%) and the Total Risk Weighted Capital ratio at 20.74% (required minimum 10%) reflecting our proactive approach to strengthening our Capital Adequacy Ratio in keeping with the demands of the business.

New Ventures

Despite the present unfavourable market conditions for our core lending products, the company remained focused on planning ahead and continued to lay the foundation for future growth by commencing the business of microfinance which is in alignment with our strategy of sustainability and that of servicing many small customers in underserved communities. Initial market responses have been highly encouraging, with the microfinance portfolio growing to 19,494 customers and Rs. 605 million, within a span of seven months. During the financial year, as a part of this expansion process, three new branches were added to our network along with four Micro Finance collection centres, increasing our customer touch points to seventy one. The microfinance venture is currently delivered through a Strategic Business Unit with approximately 140 new recruits.

Deputy Chairman / Managing Director's Review

Looking ahead.....

The Company plans to grow this business very conservatively, by introducing industry best practices under the guidance of an Indian based global consultancy, to ensure that all business and social ethics and entrepreneur development services are incorporated into the product. The entire microfinance team will be given specialised training at the Sri Lanka Institute of Credit Management and already 30 microfinance officers are attending this Diploma programme. We believe our timely diversification into microfinance will provide an avenue of sustainable income growth for the Company as leasing markets continue to become more crowded and competitive. The microfinance sector represents a much wider market and is also less prone to default, as local and village economies are better insulated from cyclical negative trends. In line with our long term plans for the sector, we plan to apply for a licence to operate our microfinance business as a separate entity. This would facilitate specialisation whilst allowing us to rationalise cost structures and more importantly invite other strategic partners who could add value and create long term synergies.

Facing up to challenges

While the Company adopted a cautious approach to growing the leasing portfolio this year, we hope to be more aggressive in our marketing strategies, no sooner the market conditions and credit growth improves. Marketing strategies have already been formulated in anticipation and are ready for implementation at the right time. The Company will continue to monitor the leasing and hire purchase markets closely and will roll out its expansion plans when credit growth takes off. Meanwhile, we will continue to give priority to accommodating deposits from our longstanding individual depositors with an emphasis on encouraging smaller value deposits, as lower market interest rates have caused a sharp reduction in interest income for many of our senior citizens. We will also continue to offer a 'plus one' interest rate for depositors over the age of 55 years. This unique feature introduced by Alliance many years ago has now been adopted by many of our competitors.

Preparing for a new financial sector landscape

We are hopeful that the financial sector consolidation would generate positive results in the longer term with lower downside risk to depositors. However, we hope the Government will facilitate a level playing field for finance companies in this new era. Currently, finance companies are being crowded out of the leasing market by banks, as banks have the superior advantages of reduced funding costs and benefits arising from lower cost structures.

Looking ahead.....

Therefore, a level playing field, if created, would ensure that Finance companies could flourish in the post-consolidation era and play their increasingly important role of facilitating financial inclusion at grassroots level. The industry may also benefit if a specific medium term development plan is formulated in line with the CBSL road map. Such a plan would facilitate more consistent strategies and policies which would bring about a higher level sustainability for the industry.

In line with the national consolidation plans, Alliance Finance, which is a 'category A Company,' is exploring acquisition and divestment options. Despite market expectations of a merger with our associate, Arpico Finance, we do not view this as an option that would create optimum value since both companies enjoy similar brand strengths and pedigree of license in terms of unblemished track records spanning six decades. We are also considering the option of unlocking greater value by divesting our holding in Arpico Finance Co. PLC and would consider acquiring another 'Category B' company that would offer more synergistic benefits. In doing so, we would also be meeting our industry obligations in terms of the consolidation initiative whilst allowing Arpico Finance PLC to prosper and flourish by developing its inherent brand strength of being the oldest profitable NBFi in Sri Lanka.

In anticipation of the new competitive landscape that will soon emerge following consolidation, Alliance Finance has commenced an internal restructuring process. The restructuring would result in a flatter, more customer-centric organisation, supported by improved systems and controls, and a stronger management team with new expertise. Senior management of the Company will be given training to face new challenges in the post consolidation era, where competition will enter a new dimension not experienced by the financial sector to date.

Another significant improvement to the Company's operations during the year, was the establishment of an Integrated Risk Management system. In the last year the need for an independent Risk Management system was highlighted in the wake of higher than normal risks being encountered in the Gold Loan and the Regional Financial Services Strategic Business Units. To improve this critical area, the Board decided to build an Integrated Risk Management system, by appointing a Chief Credit Risk Officer along with a designated team. It is envisaged that these steps to better manage our risks, will result in lower but more sustainable growth, in a world where volatility and risk continues to rise.

Long term sustainability

As one of the first financial Institutions to adopt a triple bottom line approach to business, you will be happy to note that today Alliance Finance is facing up to the challenges of the future



by integrating sustainable business practices from top to bottom, from formulation of strategy to operationalisation of same. During the current year, this philosophy was extended into our new microfinance venture, which is designed to empower people from the grassroots level through a range of products and services creating a pipeline for our upstream financial products and services.

Performance of Associate Companies Macbertan (Pvt) Ltd.

Orders for ABL (Aluminum Barrier Laminate) tubes manufactured by Macbertan (Pvt) Ltd faced higher competition during the year due to an imported, low cost finished product that entered the domestic market following changes to import tariffs. However, revenues remained fairly stable despite the market disruption, with the Company introducing a range of new products to the market, such as roofing sheets, glass wool and tap ware which contributed to the sales growth. The distribution of new products mainly caused overall distribution expenses to increase by 33% from Rs. 60 million, to Rs. 80 million. Due to the higher costs, overall profitability declined by 59% to Rs. 23 million in 2013/14, from Rs. 56 million in 2012/13. The Company made a dividend payout of Rs. 24.5 million which consisted of a final dividend for the financial year 2012/13 and an interim dividend for the financial year 2013/14.

Looking ahead....

Due to the intense competition in its core business, the company is exploring the possibilities of diversifying its product range in the construction and related sectors. Whilst it is yet too premature to comment on the outcome of such initiatives the trading products introduced in the last year has shown excellent potential in terms of increased revenues and profits. In the core business of manufacturing, intense lobbying is being carried out to get duty and tariffs increased for imports in order to make our locally manufactured products more competitive in the market. Though up to now we have not received any positive indications from the relevant ministries in this regard, the company will continue to aggressively canvas for better policies for local pioneering industries such as ours.

Alfinco Insurance Brokers (Pvt) Ltd.

The downturn in lending of the Licensed Finance Companies sector during the year under review, created a challenging environment for our brokering company. This resulted in a reduction of 13% and 14% in revenue and net profit respectively. During the year the Company paid a total dividend of Rs. 7.5 million.

Looking ahead...

The company has now been restructured with a greater emphasis being placed on marketing. Strategic

collaborations with Insurers are also being established. Possibilities of establishing links with overseas Insurance brokering companies are also being explored. It is envisaged that these steps will have a positive impact of approximately 30% on the bottom line of the Insurance brokering company in the medium term.

Acknowledgements

I would like to extend my appreciations to the former Chairperson Mrs. Sonali de Silva for her valuable contributions from the year 2011 to 2013 where her foresight and guidance helped the company to achieve significant milestones. I am also pleased to inform of her new role as a member of the advisory council where we will continue to benefit from her contributions and guidance. I would also like to acknowledge the achievement of our former Chairperson, Mrs. Sonali de Silva and Mrs. Ramani Ponnambalam (Non-Executive Director), for being selected as Founder Members of the Commonwealth Business Sri Lanka Leadership Group, in November 2013. I extend my warmest congratulations to them on their achievement of being selected to this exclusive group of only twenty distinguished ladies. I warmly welcome our new Chairman Mr. Sunil Karunanayake for taking on the job of steering the Company at a crucial time. I have no doubt that his vast experience in many different spheres of business will benefit the Company immensely whilst improving the overall quality of the decisions taken by the Board. I also take this opportunity to thank the Head of the Advisory Council Mr. Pratapkumar de Silva and other members for their continued guidance and advice on numerous matters. I would like to say a special thank you to our Finance Director Mr. Rohan Perera whose invaluable assistance has helped me significantly, especially in making the more difficult decisions. I extend my appreciation to the Governor, Directors and officials of the Central Bank of Sri Lanka, for their valuable feedback. Through their Annual Audits they have helped us strengthen our operations, improve operational efficiencies and integrate compliance enabling us to deliver enhanced value to all our stakeholders. We are deeply thankful to them for their committed efforts in the greater interest of all stakeholders. I would also like to thank the Board of Directors for their immense support and expert guidance and I thank all our dedicated employees for their hard work during a trying year. In conclusion, I thank our customers and shareholders for their loyalty and look forward to their continuing support and confidence as we enter an exciting new chapter in our history in the post-consolidation era.

Romani de Silva
Deputy Chairman/Managing Director

Board of Directors



Left to right:
Lt. Col. (Retd) A.R. Samarasinghe
Mrs. R.N. Ponnambalam
Mr. Sunil Karunanayake
Mr. Romani de Silva
Mr. D.L.S.R. Perera



Board of Directors

Mr. Sunil Karunanayake

Chairman

He joined the Board on 26th January 2012 as an Independent Non-Executive Director and was appointed as the Chairman with effect from 1st June 2013. He is also the Chairman of the Audit Committee. Mr. Karunanayake is a Fellow Member of the Institute of Chartered Accountants (FCA), Chartered Institute of Management Accountants (FCMA) and also holds an MBA from the Postgraduate Institute of Management at the University of Sri Jayawardenapura. He counts over 30 years of experience in a leading multinational company. Mr. Karunanayake also serves as a Non-Executive Director on the Boards of Ceylon Grain Elevators PLC, Orient Garments PLC and Three Acre Farms PLC. He also functions as the Chairman of the Audit Committee in the said listed companies.

Mr. Romani de Silva

Deputy Chairman & Managing Director

A fellow member of the Institute of Credit Management, Sri Lanka, Mr. Romani de Silva holds Directorates in many companies. He counts over 28 years of Experience in the finance industry. He is the pioneer of Collaboration Financing, a unique financing concept designed to provide finance for entrepreneurs to expand their businesses. The creation of this concept resulted in Alliance Finance becoming the first and only finance company in Sri Lanka to be awarded the ISO 9001 Certification for designing business-specific financial solutions. He was also awarded two Bronze Awards for this innovation at Provincial and National levels at the Sri Lanka Entrepreneur of the year 2001 contest. He is a Life Member of the Sri Lankan Institute of Directors and a member of the Chamber of Young Lankan Entrepreneurs.

Mr. D.L.S.R. Perera

Finance Director

He has served on our Board for 32 years, and has wide experience in the field of finance and corporate management. A successful businessman, he manages family-owned businesses and is on the Boards of several companies. He is a fellow Member of the Institute of Chartered Accountants.

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

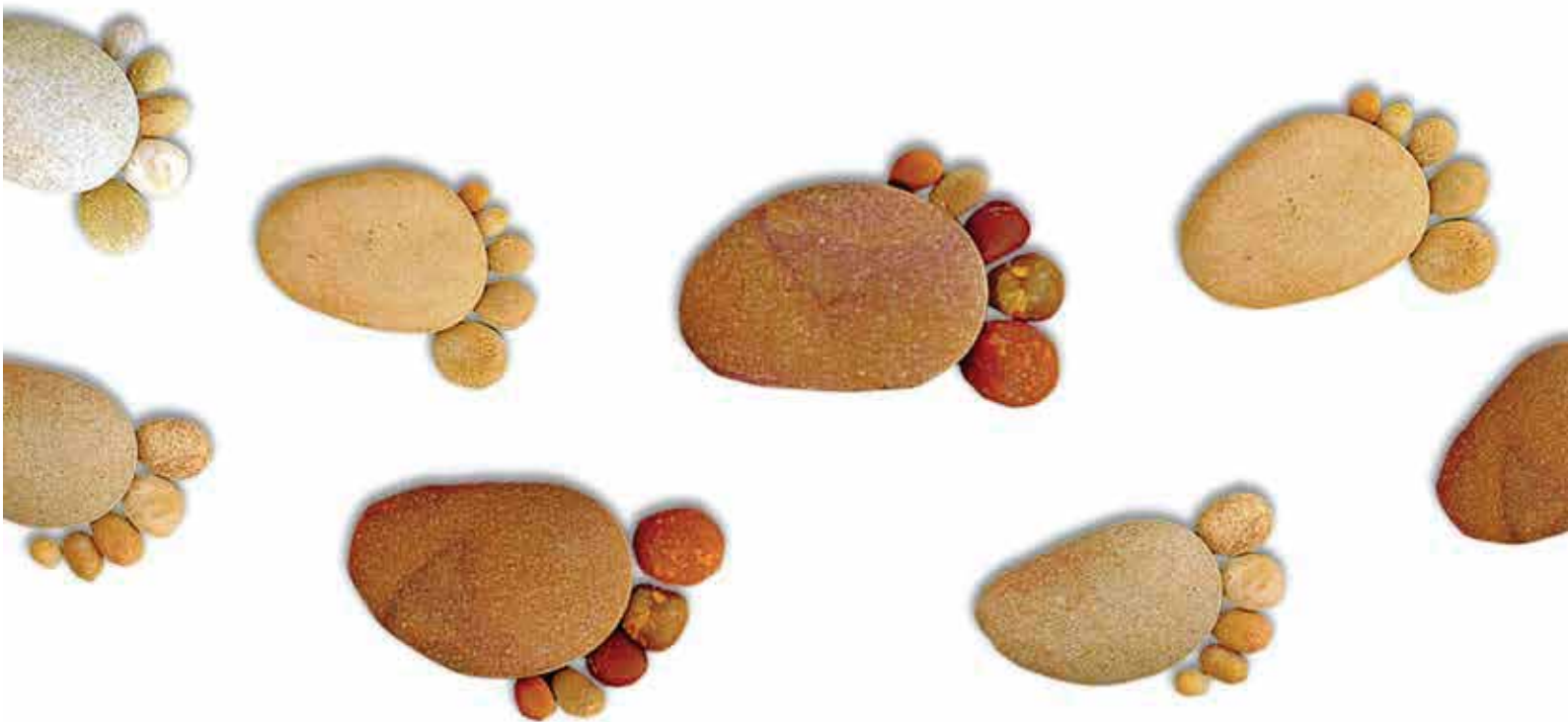
Independent Non-Executive Director

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

Mrs. R.N. Ponnambalam

Non-Executive Director

She has held several senior management positions in large private sector entities. She has served as a Director of McLaren Holdings Ltd. And currently serves as the CEO/ Managing Director of Macbertan (Pvt) Ltd. and as a Non-Executive Director of Hotel Services (Ceylon) PLC & Amaya Leisure PLC. She has served in key roles in negotiating and securing international and local businesses and its development locally.



Corporate Management



Mr. Pradeep De Silva
Assistant General Manager
Gold Loan




Mr. Chamindra De Silva
Chief Financial Officer




Mr. Dharshan Silva
Assistant General Manager
Regional Financial Services



Mr. Andrew Samuel
Head of Micro Finance/
Chief Continuous Improvement Officer



Mrs. Champa Nakandala
Assistant General Manager
Deposit



Mr. Michael Benedict
Assistant General Manager
Metropolitan Financial Services



Mr. Ali Ahlam Nawaz
Group Head
Business Development



Mr. Sujith Fernando
Deputy Financial Controller

Senior Management



Mrs. Rose Peiris
Manager
Finance



Mrs. Chrishanthi Wevita
Manager
Deposit



Mr. Sujan Cooray
Senior Manager - Marketing
Regional Financial Services



Mr. Suranjith Ahangama
Senior Manager
Regional Financial Services



Ms. Lolita Papalie
Manager
Deposit



Ms. Asoki Ferdinands
Manager
Metropolitan Financial Services



Mr. Lionel Lakshakanth
Senior Manager
Regional Financial Services



Mr. Lakmal Maniksagara
Manager
Quality Management
and Customer Care



Mr. Wasantha Maldeniya
Senior Manager
Regional Financial Services



Mr. Priyananda Goonawardena
Senior Manager
Regional Financial Services



Mr. G. Matheswarann
Manager
MIS



Mr. Rohan Silva
Assistant Manager
Administration

Senior Management



Mrs. Ayanthi Wettasinghe
Assistant Manager
Human Resource



Mr. Nirmal Hettiarachchi
Assistant Manager
Human Resource




Mr. Lalith Dissanayake
Regional Manager
Micro Finance



Mr. Saman Medagoda
Manager
Regional Financial Services



Mrs. Thejani Kudagoda
Manager
Legal



Lt. Col. (Rtd) Thilak Banagoda
Manager
Recoveries

Mr. Roshan Ratnayake
Senior Manager
Metropolitan Financial Services

Mr. Chamara Asela
Manager
Regional Financial Services

Mr. Janith Perumathanthri
Manager MIS
Micro Finance

Mr. Roshan Faris Carrim
Manager
Recoveries

Management Discussion and Analysis

External environment

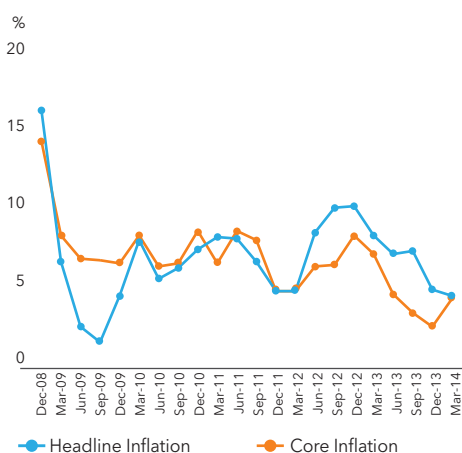
Macroeconomic development

Regulatory and policy changes influence the macro economy, market behaviour and demand trends, which in turn, have an impact on Company performance and profitability. Some salient macro-economic developments affecting the company are discussed below:

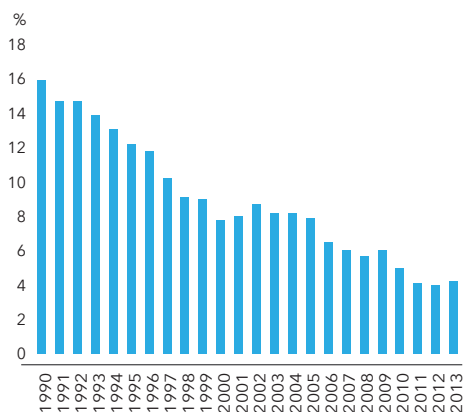
During the year, policy interest rates were cut by 100 basis points and the Central Bank also reduced its Statutory Reserve Ratio (SRR) by two percentage points to 6%, to complement the reduction in policy interest rates and to reduce the spread between deposit and lending rates. This was followed by the Standing Lending Facility Rate (SLFR) being reduced by 50 basis points in January 2014. In response to these monetary policy measures, market lending rates entered a declining trend. However, the pace of credit growth remained slow, resulting in high market liquidity.

Meanwhile, according to the Colombo Consumer Price Index, consumer price inflation (year-on-year), which is an indicator of cost of living, continued to decline during the year. Year-on-year inflation, which was 9.8% in January and February 2013, declined to 4.7% in December 2013, its lowest level during the year, while annual average headline inflation decelerated to 6.9% at end 2013, compared to 7.6% at end 2012. However, the country's unemployment rate increased to 4.4% in 2013 from 4.0% in the previous year, with unemployment among females and males increasing to 6.6% and 3.2%, respectively, from 6.2% and 2.9%.

Inflation



Unemployment



Financial sector development

In the backdrop of the above macroeconomic developments, the domestic finance and leasing industry faced a challenging year. The competitive market of the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) comprised of 48 LFCs and 10 SLCs by end December 2013.

The industry was affected by not only a sluggish vehicle market but also a sharp increase in NPAs in both the vehicle portfolio and gold loan business. Demand for leasing remained lacklustre due to high costs stemming from the higher vehicle import duties and relatively high interest rates. Meanwhile, the sharp downturn in gold prices caused NPAs to increase in the gold market. These developments resulted in the industry experiencing lower growth rates of assets, accommodations and investments during the year. Overall, industry profitability and capital base decreased, while operating costs increased.

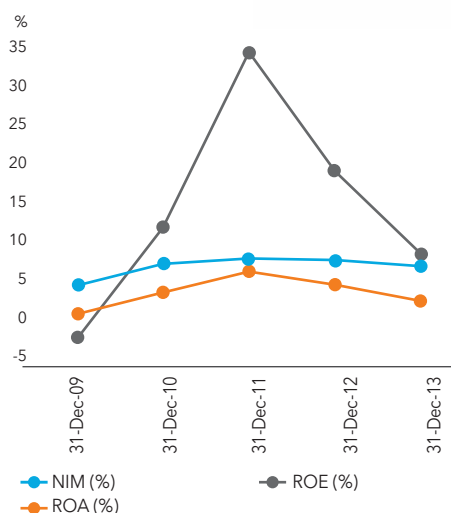
The total value of industry assets reached Rs. 717 billion during the year. However, asset growth slowed to 20% by end December 2013 compared to the growth rate of 22% recorded by end December 2012. Lending rates decelerated to 17% from 21% in 2012, while the accommodation portfolio grew to Rs. 553 billion, as at end of 2013. Among the accommodation products, other secured loans, loans against deposits and finance leases recorded high growth rates of 63%, 26% and 16% respectively. Investments of the sector grew only marginally by 3%, compared to the growth of 14% recorded for 2012. Deposits of finance companies grew by 33% to Rs.337 billion as at end of 2013, compared to a 37% growth in 2012, where fixed deposits accounted for 98% of the total deposits. Total borrowings by the industry reached



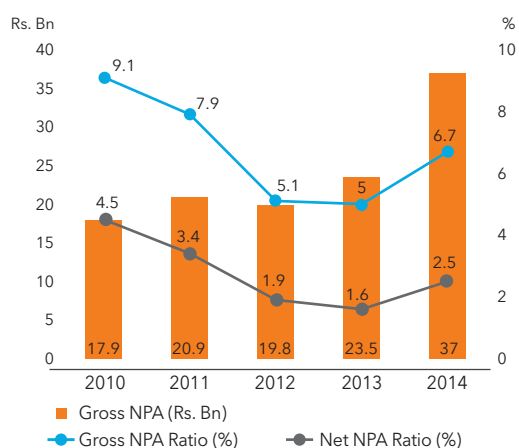
Rs. 192 billion, an increase of 9% as at end 2013, and 11 LFCs and SLCs also issued listed debentures, valued at Rs. 21.9 billion, to raise funds. The accommodation to deposits and borrowings ratio decreased from 110% in 2012 to 104% in 2013, indicating a deceleration in demand for lending activities of the sector. The capital base of the sector increased marginally by 3% in 2013 to Rs. 97 billion, compared to an increase of 23% in 2012, mainly due to a decrease in the profitability of the sector.

The total amount of industry NPAs increased to Rs. 37 billion, from Rs. 23 billion in 2012. Exposure to NPAs relative to the total accommodations outstanding increased to 6.7% by end 2013 from 5% in 2012. The interest margin declined to 6.6% for 2013 from 7.4% in the previous year. The liquid assets to total assets ratio increased from 6% in 2012, to 8% in 2013, due to reduced lending, coupled with the growth in deposits. Liquid assets of the sector increased by Rs. 24 billion in 2013, in comparison to the increase of Rs.11 billion in 2012, mainly due to increased investments in Treasury bills and deposits with licensed banks.

Sector NIM / ROA / ROE



Sector NPA Trend

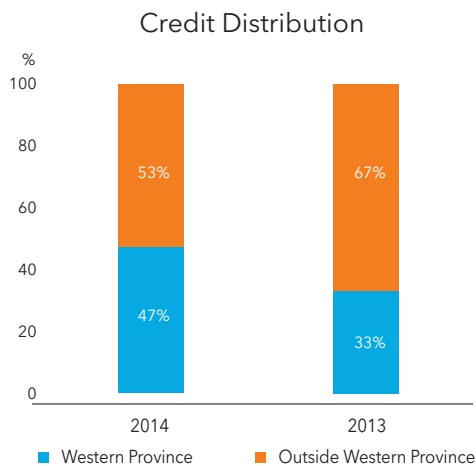


About the Company

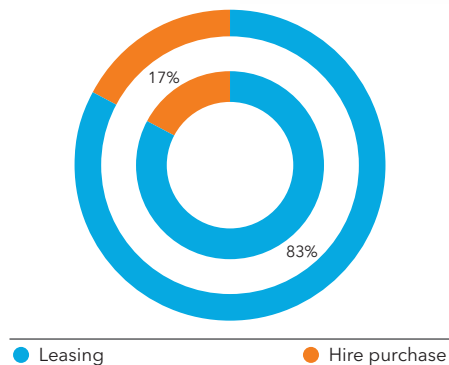
Alliance Finance Company PLC is a registered finance company licensed by, the national financial sector regulatory body (the Central Bank of Sri Lanka). The Company is a pioneer in the domestic non-bank and finance services sector with an immaculate reputation spanning over 57 years of business activity. The Company's long term existence and steady growth, coupled with an unblemished reputation, is proof of the effectiveness of the Alliance Finance sustainable business model. During the current year, the company continued to invest on its long term vision of promoting equitable growth, by consolidating its existing markets and building the foundation for a new market in microfinance that would support long term growth.

Associates

The AFC Group comprises the Alliance Finance Company PLC, the holding company that owns investments in Macbertan (Pvt) Ltd and Alfinco Insurance Brokers (Pvt) Ltd. Alliance Finance holds a 30% stake in Macbertan and a 39% share of Alfinco. Macbertan is a strategic collaboration between the MacLarens Group and Cars R US, involved in the manufacture of thermal insulation products. Alfinco, which is ranked among the top 10 insurance brokers in the island by the IBSL, is a strategic alliance with Arpico Finance to offer insurance options for vehicles and equipment financed by the two companies.



Leasing to Hire purchase portfolio as at 31st March 2014



Leasing and Hire Purchase

afc Leasing

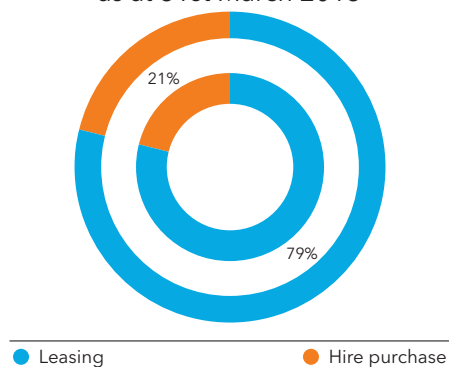
afc Hire Purchase

AFC leasing and hire purchase products are catering for customers that are interested in purchasing vehicles, machinery and consumer durables. Leasing mainly facilitates the purchase of brand new vehicles and machinery while hire purchase options are offered to purchase registered vehicles, used machinery and consumer durables.

The combined portfolio of leasing and hire purchase represents 74% of total lending and 55% of total assets of the company.

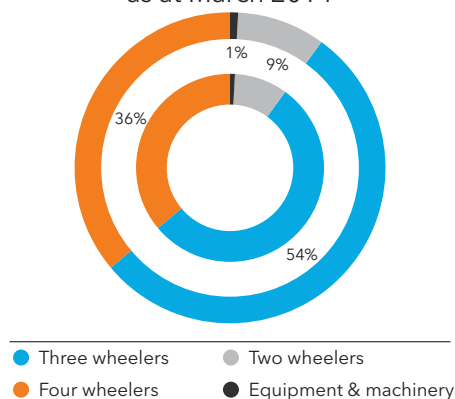
Both leasing and hire purchase saw a downturn with the Company's conservative strategy, focussing on recoveries rather than lending. During the year, the composition of leasing and hire purchase changed with the decision to curtail lending in both products due to the rising NPA's in the Company and in the industry. The Company focused more on recoveries while offering more financing facilities to brand new vehicles and machinery rather than registered vehicles and used machinery. This resulted in the hire purchase portfolio dropping to 17% as compared to 21% of the aggregate portfolio last year.

Leasing to Hire purchase portfolio as at 31st March 2013



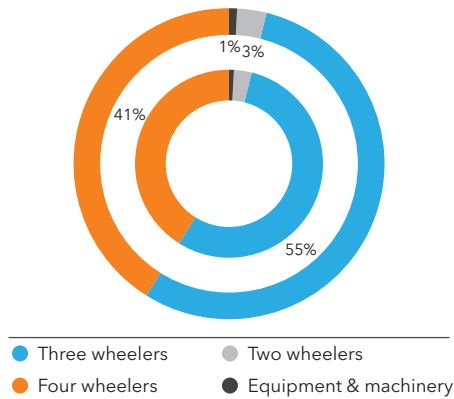
Three wheelers remained the main vehicles financed by the company representing 54% of the leasing and hire purchase portfolio. Meanwhile, the Company's focus on two wheelers increased with the new scooter campaign and group sales.

Asset-wise leasing and hire purchase portfolio as at March 2014

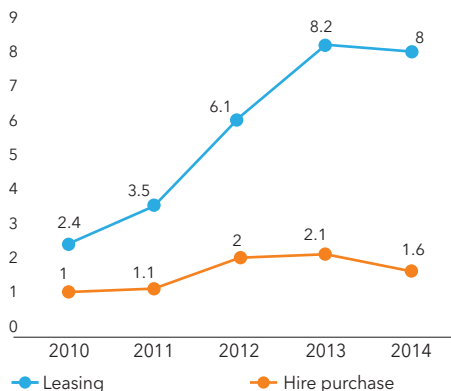


Management Discussion and Analysis

Asset-wise leasing and hire purchase portfolio as at March 2013



Leasing and hire purchase portfolio trend (Rs. Bn) as at 31st March



Gold Loans

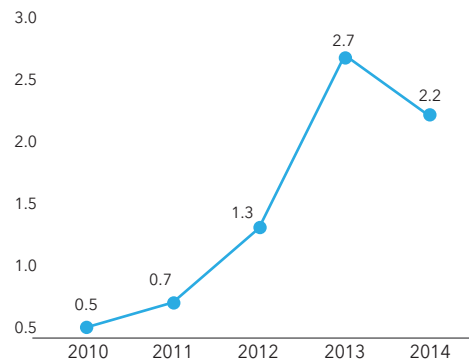


The Alliance Finance Gold Loan product is a short term loan facility secured against gold jewellery. This facility currently provides the following benefits to customers.

- The highest cash advance in the country, which also caters for each individual's unique requirements.
- Open 7 days a week.
- Extended working hours, from 8.00 a.m. to 7.00 p.m.
- Friendly and speedy service.
- Customers can redeem their jewellery at any given time.
- Currently 40 Gold Loan centres Island wide.

The gold prices in the global market witnessed a dramatic price drop at the beginning of the year under review and the Company took precautionary measures in granting short term loans, making sure there was a buffer for price fluctuations. The Company has made adequate reserves to cover losses that may occur due to a price drop and continues to monitor the gold market very closely. Risk management has been tightened on this front, to ensure that losses are minimised in the case of a price drop in gold beyond acceptable levels.

Gold Loan portfolio trend (Rs. Bn) as at 31st March



Micro Finance



As part of the Company's long term growth strategy, in 2013, Alliance Finance diversified its business portfolio into the emerging microfinance sector. The microfinance facility was initiated as a Strategic Business Unit following extensive market analysis and feasibility studies. Currently, the unit is manned by 143 experienced employees, who visit customers at their business premises for maximum customer convenience and close monitoring of businesses. In the face of rising competition in the Company's traditional vehicle markets, the new venture is expected to open up alternative revenues in a large growth market, with many opportunities.

The Company has commissioned the services of Microsave an Indian based microcredit consultant, to develop the microcredit service and delivery structure, to ensure conformity with an international standard of product design and delivery.



Alliance Finance microcredit is marketed at competitive interest rates, through a group guarantor system, ensuring high repayment rates and self-monitoring. The credit delivery is also structured to enhance financial literacy and entrepreneurial skills development among rural low income micro entrepreneurs that are solely women. The main differentiator of the Alliance Finance microcredit products is the use of a holistic approach towards entrepreneur development and the speed of service. While traditionally microcredit disbursements take up to three weeks, Alliance Finance micro credit is disbursed within a week's period, due to highly efficient credit and assessment mechanisms.

Leveraging technology

The microfinance model is supported by modern ICTs for maximum efficiency and to contain administration costs of the wide geographic coverage of service delivery. Field officers who visit customers at their doorstep, use tablets, combined with the internet, to record real time transactions from the field. The speed and quality of service has already helped differentiate Alliance Finance microcredit services from the competition.

Microfinance performance

Marking the start of a new and exciting journey, Alliance Finance microfinance venture was officially launched on 18th September with the first 19 recipients receiving their credit lines at a ceremony held at BMICH.

Within a period of seven months, since initial market entry, the Alliance Finance microcredit facilities were rapidly unrolled across the island through 21 strategic locations, covering a wide area of the country's rural geography. As at March 31, 2014, the venture had reached breakeven point, indicating significant growth opportunities in this market. As at March 31, 2014 the micro credit loan portfolio amounted to Rs. 605.6 million comprising 19,494 customers, with an almost perfect recovery rate of 99.97%.

In line with the Company's expansion strategy for microfinance, market reach and workforce will continue to grow in the new financial year, expanding the Alliance Finance footprint in Sri Lanka's emerging rural markets. Employees are currently facing specialised training with SLICM on microcredit, to enhance their skills and improve internal systems to strengthen financial and social sustainability of the microcredit product line.

The Company plans to develop the microcredit venture as an independent business, under a separate license in the future, which will open up avenues for dedicated external funding opportunities.



Granting the initial Micro Finance loan to a customer at the product launch

Alliance Finance Entrepreneur Development Services (EDS)

A unique Entrepreneur Development Service (EDS) has been implemented to foster entrepreneur growth and grassroots level community development.



EDS programme held in Badulla



Micro Finance customer with her venture

Management Discussion and Analysis

Deposits

afc Fixed Deposits

afc Savings

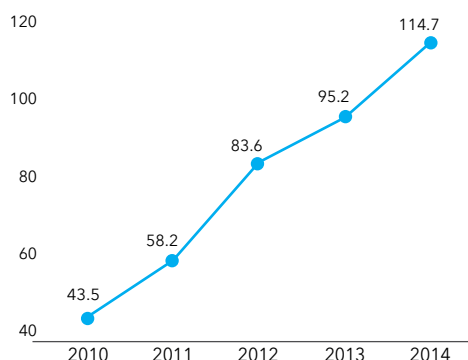
Deposits are the company's main source of funding accounting for more than 62% of the total fund base. The fixed deposits accounted for 98% of total deposits while the balance 2% comprised of savings and certificate of deposits.

The Company experienced an overall 24% growth in deposits, with fixed deposits increasing by 25%, during the year, enhancing liquidity in the face of lower demand for credit. Total deposits reached Rs. 11,201 million from Rs. 9,001 million in the previous year (Refer Depositors Information in Pages 170 and 172 for more details in deposits).

Speed Cash

Speed cash is specially designed to cater for immediate and urgent cash requirements of our depositors. Alliance Finance offers up to 90% of the customer's deposit value as credit, under Speed Cash.

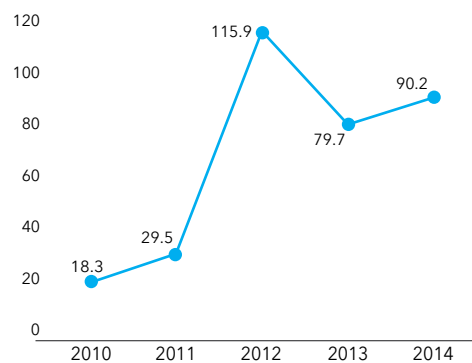
Speed Cash portfolio trend (Rs. Mn) as at 31st March



Pledge Loans

Alliance Finance offers pledge loans as a means of working capital finance for businesses. The tenure of the facility is less than one year and usually the repayment is made as per the individual client's choice during the period. During the year, the product witnessed a growth of 13% increasing from Rs. 79.7 million in 2012/13 to Rs. 90.2 million in 2013/14.

Pledge Loans portfolio trend (Rs. Mn) as at 31st March



Transport Solutions

Transport solutions is a minor segment in our business portfolio where it offers vehicles for hire, operating leases, fleet management solutions and trading of vehicles.

Our vehicle hire services offers vehicles on rent to corporates and individuals, at competitive market rates, on daily schemes or monthly schemes, for short or long term tenures.

Operating leases are yet another product in our portfolio and are offered for longer tenure, with an attractive repurchase option for the lessee at the end of the lease contract.

Fleet management is a service where Alliance Finance manages a part, or the entire vehicle fleet, of a client, for a monthly fee.

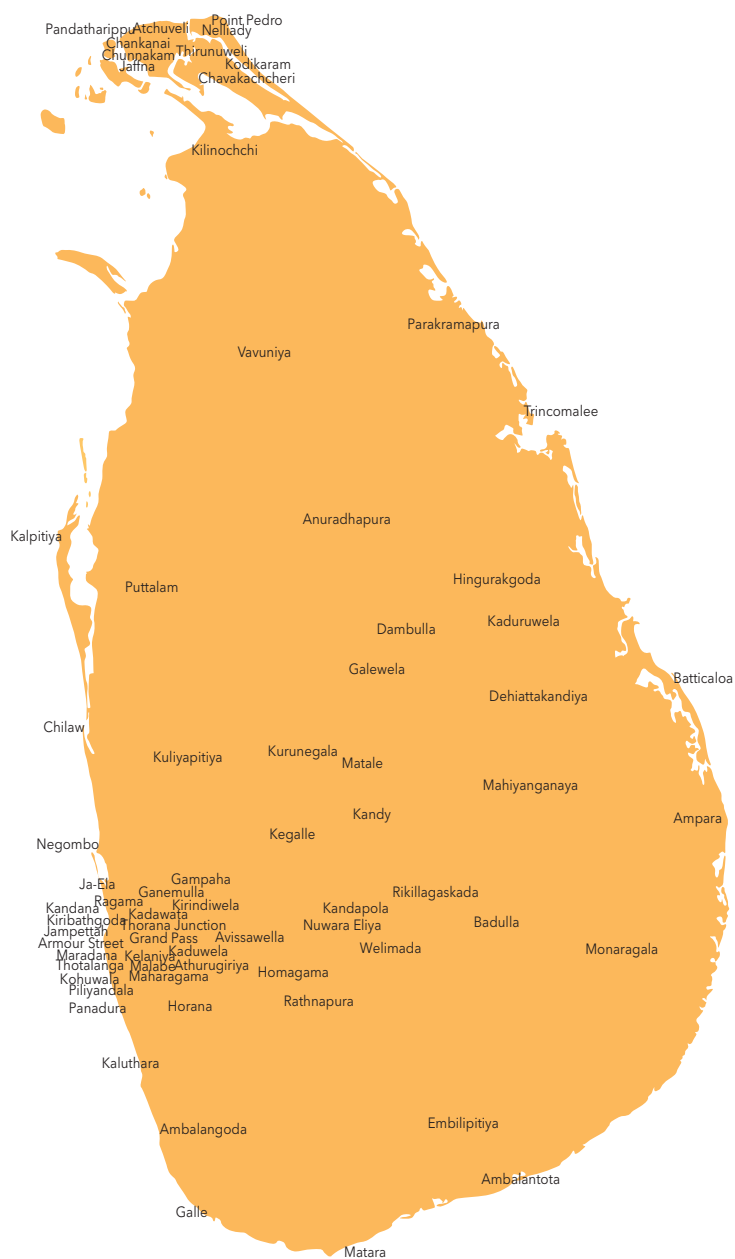
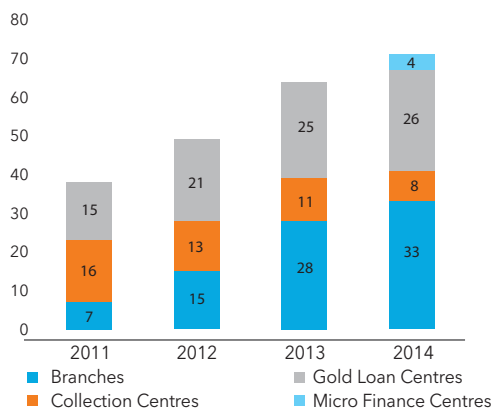
Trading is mainly based on a commission, where Alliance Finance acts as an intermediary to sell a vehicle and charges a commission, based on sale.



Geographic footprint

As at March 31, 2014 the Alliance Finance business network comprised of 33 full service branches island wide, equipped to deliver the full range of the company's products. In addition, the company operates seven collection centres, 26 gold loan centres and 4 microfinance offices. In total, the Company has 71 customer contact points to deliver services and products.

Branch composition as at 31st March



Management Discussion and Analysis

Location	Address	Telephone No	Product Offer
Head Office			
Head Office	No. 84, Ward Place, Colombo 07.	071-1058523	Lease, Hire Purchase, Term Loans, Deposits, Speed Cash, Micro Finance
Western Province			
Armour street	No. 57A, Armour Street, Colombo 12	011-5736012	Gold Loan
Athurugiriya	No. 123/2, Kaduwela Road, Athurugiriya.	011-5230412	Gold Loan
Avissawella	No. 49, Ratnapura Road, Avissawella	036-5704705	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Gampaha	No. 30, Yakkala Road, Gampaha	033-5673801	Lease, Hire Purchase, Term Loans, Deposits, Micro Finance
Ganemulla	No. 291, Kadawatha Road, Ganemulla	033-5108108	Lease, Hire Purchase, Term Loans, Deposits
Grandpass	No. 393, Grandpass Road, Colombo 14.	0115-747114	Gold Loan
Homagama	No. 200/A/1/1, High level Rd Galawilawatta, Homagama	0711058663	Micro Finance
Horana	No. 330, Panadura Road, Horana	034-5672613	Lease, Hire Purchase, Term Loans, Deposits, Speed Cash
Horana	No. 89, Anguruwathota Road, Horana	034-5672612	Gold Loan, Micro Finance
Ja-Ela	No. 60, Negombo Road, Ja-Ela	011-5234372	Lease, Hire Purchase, Term Loans, Deposits, Micro Finance
Ja-Ela	No. 34, Negombo Road, Ja-Ela.	011-5747519	Gold Loan
Jampettah	No. 21, Jampettah Street, Colombo 13.	011-5747115	Gold Loan
Kadawatha	No. 433/A, Ganemulla Road, Kadawatha	011-5742742	Lease, Hire Purchase, Term Loans, Deposits, Micro Finance
Kaduwela	No. 497, Avissawella Rd, Kaduwela.	011-5747600	Gold Loan
Kaluthara	No. 07, Kalamulla, Kalutara	071-0201808	Micro Finance
Kandana	No. 37, Negombo Road, Kandana	011-5234813	Gold Loan
Kelaniya	No. 52, Thorana Junction, Kandy Road, Kelaniya.	011-5234913	Lease, Hire Purchase, Term Loans, Deposits
Kelaniya	No. 1004A, Vihara Mawatha, Kelaniya	011-5747512	Gold Loan
Kiribathgoda	No. 1, Kandy Road, Kiribathgoda	0115-747516	Gold Loan
Kirindiwela	No. 17A, Colombo Road, Kirindiwela	033-5704704	Gold Loan
Kohuwala	No. 178, Dutugemunu Street, Kohuwala	011-5888777	Hire of vehicles, Operating Leases, Fleet Management, Trading
Maharagama	No. 221/A, High Level Road, Maharagama	011-5219212	Lease, Hire Purchase, Term Loans, Deposits
Malabe	No. 888, Athurugiriya Road, Malabe	011-5927827	Lease, Hire Purchase, Term Loans, Deposits
Maradana	No. 502, Maradana Road, Colombo 10.	0115-747518	Gold Loan
Negombo	6 A, Station Road, Negombo	031-5677513	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Panadura	No. 77, D.S. Senanayaka Road, Panadura.	038-5673812	Gold Loan
Piliyandala	No. 15, 2nd Cross Road, Piliyandala	011-5747515	Gold Loan
Ragama	No. 19, Thewatta Road, Ragama.	011-5747517	Gold Loan
Central Province			
Dambulla	No. 738, Anuradhapura Road, Dambulla	066-5704707	Lease, Hire Purchase, Term Loans, Deposits
Galewela	No. 10, Kurunegala Road, Galewela	066-5704705	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Kandapola	No. 56, Main Street, Kandapola	052-5675112	Gold Loan
Kandy	No. 207, Katugastota Road, Kandy	081-5740800	Lease, Hire Purchase, Term Loans, Deposits, Micro Finance



Location	Address	Telephone No	Product Offer
Matale	No. 273, Trincomalee Street, Matale.	066-5679212	Gold Loan
Nuwara Eliya	No. 08, Ramanathan Complex, Park Road, Nuwara Eliya	0525-720000	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Rikillagaskada	No. 48, Ragala Road, Rikillagaskada	081-5637513	Lease, Hire Purchase, Term Loans, Gold Loan
Eastern Province			
Ampara	No. 12/E/1 & 12/E/3, D S Senanayake Street, Ampara	063-5119595	Lease, Hire Purchase, Term Loans, Deposits, Micro Finance
Batticaloa	No. 267, Trincomalee Road, Batticaloa	065-5677513	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Dehiaththakandiya	P30, New Town, Dehiaththakandiya	027-5678312	Lease, Hire Purchase, Term Loans
Trincomalee	No. 47, Central Road, Trincomalee	026-5676512	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan, Micro Finance
North Central Province			
Anuradhapura	No. 282/3, Maithripala Senanayake Mw, Anuradhapura	025-5673342	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan, Micro Finance
Hingurakgoda	No. 11, Airport Road, Hingurakgoda	027-5678512	Lease, Hire Purchase, Term Loans
Kaduruwela	No. 894, Batticaloa Road, Kaduruwela	027-5703333	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Parakramapura	No. 319/B, Padaviya, Parakramapura	025-5624812	Lease, Hire Purchase, Term Loans
North Western Province			
Chilaw	No. 29, Bridge Street, Chilaw	032-5745600	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan, Micro Finance
Kalpitiya	No. 63/E, Muthwal Road, Kalpitiya	032 5704704	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Kuliyapitiya	No. 192, Kurunegala Road, Kuliyapitiya	037-5708708	Lease, Hire Purchase, Term Loans, Deposits
Kurunegala	No. 5B, Noel Senavirathna Mawatha, Kadurugas Junction, Kurunegalla	037-5260363	Lease, Hire Purchase, Term Loans, Deposits
Puttalam	No. 118/F, Kurunegala Road, Puttalama	032-5676610	Lease, Hire Purchase, Term Loans, Deposits
Northern Province			
Achchuveli	Main Street, Achchuveli	021-5673312	Gold Loan
Chankanai	Main Street, Chankanai, Jaffna	021-5673315	Gold Loan
Chawakachcheri	No. 110, Kandy Road, Chawakachcheri	021-5673314	Gold Loan
Chunnakam	No. 39, K.K.S Rd, Chunnakam	021-5701701	Gold Loan
Jaffna	No. 89, Stanley Road, Jaffna	021-5671813	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan, Micro Finance
Killinochchi	No. 6, Karadipokku, Jaffna Road, Killinochchi	021-5671514	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Nelliyadi	No. 21, Point Pedro Road, Nelliyadi.	021-5671513	Gold Loan
Pandatharippu	Main Street, Pandatharippu	021-5673313	Gold Loan
Point Pedro	No. 325, Main Street, Point Pedro.	021-5671512	Gold Loan
Thirunelvely	Adiyapadam Road, Thirunelvely	021-5673316	Gold Loan
Vavuniya	No. 69, Mill Road, Vavuniya	024-5675613	Lease, Hire Purchase, Term Loans, Deposits
Vavuniya	No. 214, Kandy Road, Vavuniya	024-5675612	Gold Loan
Sabaragamuwa Province			
Embilipitiya	No. 115, New Town Road, Embilipitiya	047-5679211	Lease, Hire Purchase, Term Loans
Kegalle	No. 496, Kandy Road, Kegalle	077-1090181	Lease, Hire Purchase, Term Loans, Deposits

Management Discussion and Analysis

Location	Address	Telephone No	Product Offer
Ratnapura	No. 191, Main Street, Ratnapura	045-5440097	Lease, Hire Purchase, Term Loans, Deposits, Gold Loan
Southern Province			
Ambalangoda	No. 61/1, Bogahawatte, Ambalangoda	071-0201818	Micro Finance
Ambalanthota	No. 127 A, Main Street, Ambalanthota	047-5703703	Lease, Hire Purchase, Term Loans, Deposits
Galle	No. 41 A, Sri Dewamiththa Mw, phiana Galle	091-5625262	Lease, Hire Purchase, Term Loans, Deposits
Matara	No. 276, Anagarika Dharmapala Mw, Nupe, Matara	041-5419677	Lease, Hire Purchase, Term Loans, Deposits
Uva Province			
Badulla	No. 49, Cocowatta Road, Badulla	055-5633512	Lease, Hire Purchase, Term Loans, Micro Finance
Mahiyanganaya	No. 56, Ampara Road, Mahiyangana	055-5639612	Lease, Hire Purchase, Term Loans, Micro Finance
Moneragala	No. 470 A, Hulandawa Junction, Monaragala	055-5747512	Lease, Hire Purchase, Term Loans
Welimada	No 37/01, Hemapala Munidasa MW, Welimada	071-0201806	Micro Finance

Expansion and diversification

Market presence

The Company rationalised its geographic presence by opening two new branches at the strategic locations of Kegalle and Malabe and upgrading Hingurakgoda, Nuwara Eliya and Ampara Collection Centres to branch status, taking the total number of branches to 33 and collection centres to 8. This was followed up with the opening of 4 new microcredit outlets to support the Company's diversification into the microfinance market. An additional Gold Loan Centre was created establishing 26 gold loan delivery locations. As a result, currently Alliance Finance operates 71 customer contact points across the island (Refer pages 33 to 36 for geographical presence and branch details).

Brand building

In line with the Company's expansion strategy into new geographic markets in the country, a number of awareness campaigns and below-the-line brand building programmes were conducted, to strengthen brand recognition in rural areas. These campaigns will support expansion into microfinance with stronger rural community mind share, creating new rural markets for traditional services.

As a result of brand building efforts, brand awareness has now increased by significantly in the Company's non-traditional markets, located outside the Western Province. Currently, 57% of the Company's branches are located outside the Western Province.

Attracting long term deposits

To attract long term deposits, the Company conducted two promotional campaigns titled Jaya-Pita-Jaya and Dekama Athe, targeting deposits for 15 months and above. The Jaya-Pita-Jaya campaign customers were rewarded free gifts of appliances and electronic items, such as washing machines, iphones and television sets, based on the value of deposits, for deposits of Rs. 50,000 and above, fixed for 15 months.

Free gifts include: Free Fan, Free Washing Machine, Free TV, Free Mobile Phone, Free Laptop, Free Camera, Free Microwave, Free Rice Cooker.

Happy! This offer is valid up to February 16 only!

Attractive Fixed Deposit rates

Deposit Value	15 months		24 months	
	All Maturity	Monthly	All Maturity	Monthly
Rs. 50,000	14.5%	14.5%	15.5%	15.5%
Rs. 100,000	15.0%	15.0%	16.0%	16.0%
Rs. 200,000	15.5%	15.5%	16.5%	16.5%
Rs. 500,000	16.0%	16.0%	17.0%	17.0%
Rs. 1,000,000	16.5%	16.5%	17.5%	17.5%
Rs. 2,000,000	17.0%	17.0%	18.0%	18.0%
Rs. 5,000,000	17.5%	17.5%	18.5%	18.5%
Rs. 10,000,000	18.0%	18.0%	19.0%	19.0%

Call: 0779 666 111
PEOPLE+PLANET+PROFIT
Alliance Finance Co. PLC
50th Anniversary 1963-2013



The dual benefit Dekama Athe campaign provided a personal accident cover, of double the deposit value, for a period of one year, for deposits of Rs. 100,000 or more, fixed for 15 months. The insurance cover provided health check-ups and health benefits free of charge encouraging better health care, together with savings.

Deposit Range (Rs.)	Interest Rate (%)	Interest Amount (Rs.)	Interest Amount (Rs.)
100,000 - 199,999	14.00%	13,825	13,825
200,000 - 299,999	13.95%	13,775	13,775
300,000 - 399,999	13.90%	13,725	13,725
400,000 - 499,999	13.85%	13,675	13,675
500,000 - 999,999	13.80%	13,625	13,625
1,000,000	13.75%	13,575	13,575

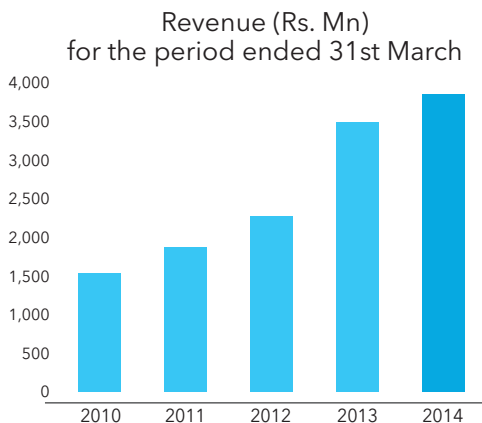
Scooter campaign

The burgeoning youth market was targeted with a leasing campaign for scooters that provide affordable and youthful travel options, in collaboration with scooter suppliers.

Financial Performance

Revenues

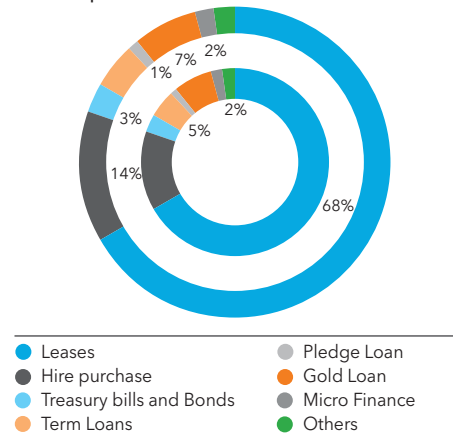
Total income increased to Rs. 3,838 million from Rs. 3,488 recorded in the previous year. Income from other sources increased by 22.7% to Rs. 285.1 million.



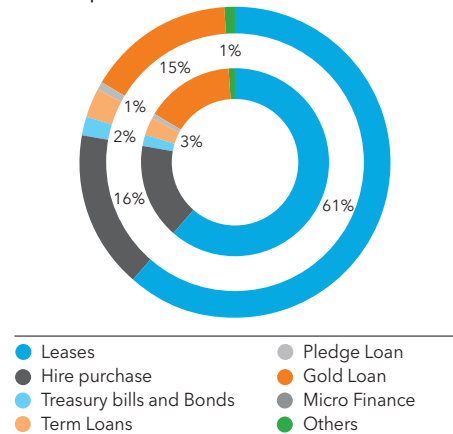
Interest Income

Interest income increased by 9.1% during the period under review, and accounted for 93% of the Company's total income. Leasing and hire purchase income, continued to be the largest contributors to interest income and grew by 17% during the year. The drastic price reduction of gold, saw revenue cut down by 53% to Rs. 234 million from Rs. 493 million.

Interest income composition for the period ended 31st March 2014



Interest income composition for the period ended 31st March 2013



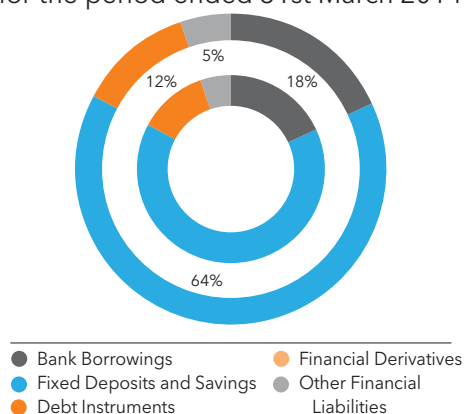
Interest expenses

Interest expenses increased by 22% to Rs. 2,299 as at 31st March 2014, with interest expenses on debt instruments of the Company increasing by 208%, to Rs. 286 million, from Rs. 93 million in the previous year, following the second debenture issue. Interest expenses on fixed deposits and savings increased by 25% and payments on bank borrowings declined by 16% with the settlements of high yielding banking facilities and commercial papers.

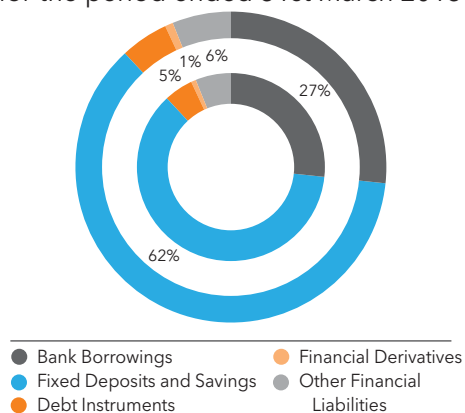
Management Discussion and Analysis

Additional bank funding was not required during the year due to the Company's conservative growth strategy and as a result bank borrowings declined by 38%.

Interest expenses composition for the period ended 31st March 2014



Interest expenses composition for the period ended 31st March 2013



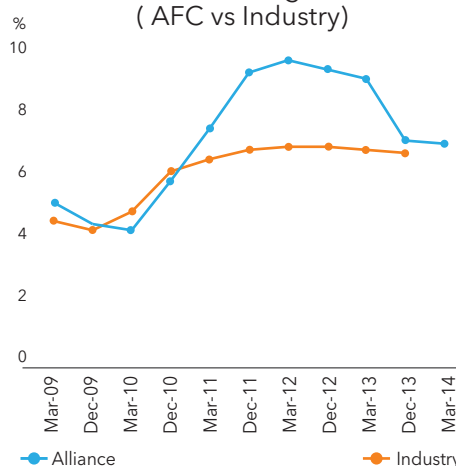
Net interest income

The net interest incomes recorded a negative growth, declining by 8.1%, against the previous year to Rs. 1,364 million.

Net interest margin

The net interest margin narrowed to 7% during the year from 9% due to lowering interest rates. However, the net interest margins of the company is above the 6.6% industry average recorded in December 2013.

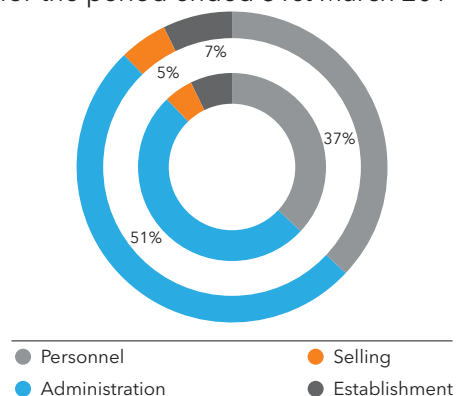
Net interest margin trend (AFC vs Industry)



Operating expenses

Given contracting market scenarios, the Company rationalised its operating expenses in line with market conditions. This process included, the reorganisation of Gold Loan service centres and Collection Centres, to maximise available facilities. However, the Company's diversification into microfinance entailed an on-going cost increase in the form of investments in human resources and other facilities. As a result, total operating costs increased by 4.2% year on year to Rs. 952.7 million. The cost to income ratio increased to 62% from 57% due to lower than anticipated income growth, against the higher expenses. However, we are confident of stabilising our cost structures with new revenue sources from microfinance and also anticipated market recovery in the new financial year.

Operating expenses for the period ended 31st March 2014

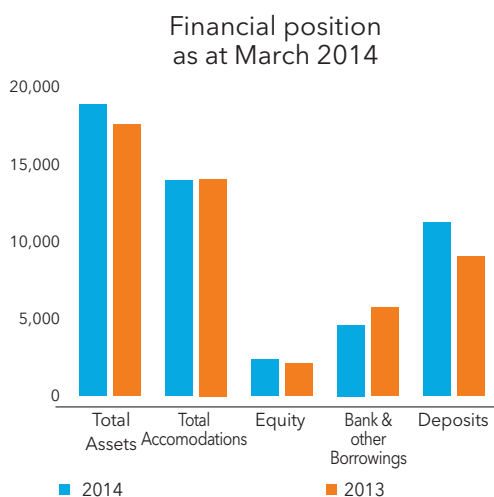




Profitability

Following an year of historically high profits and expansion, the current year saw a sharp reduction in profitability due to unfavourable market conditions and the Company's strategic decision to curtail profits in favour of long term financial sustainability. The pre-tax profit of the Company declined by 51%, compared to the previous financial year and recorded a profit of Rs. 287 million, while profit after tax declined by 39.6% to Rs. 308.6 million.

Financial Position



Assets

Despite the market downturn, the Company's assets recorded a growth of 7.1% over the previous financial year, to reach a total value of Rs. 18,726 million, with a net asset growth of 12.8% at Rs. 2,391 million. While lending growth was a negative 0.8% during the year compared to 2012/13, liquid assets increased by 117% to Rs. 2,740 million over the previous year.

Asset quality

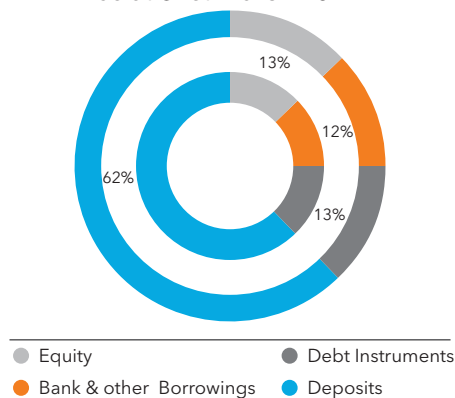
While asset quality of the Company was affected by the rising NPAs in both leasing and gold loan segments, the Company contained its NPA ratios below industry averages. The gross NPA ratio increased to 5.6% as at end March 2014, reaching Rs. 763 million, from 2.0% or Rs 279 million, by end March 2013. The net NPA ratio increased from 0.69% to 2.7%, over the previous year. The industry average gross NPA ratio meanwhile, stood at 6.7% and the industry average net NPA was 2.5%, as at end December 2013. The Company's net and gross NPA as at same date stood at 4.7% and 2.2% respectively.

Category	Gross Non-performing Accommodation Ratio	
	2014	2013
Leases	6.8%	2.2%
Hire Purchase	7.5%	2.9%
Other Loans	0.9%	0.8%

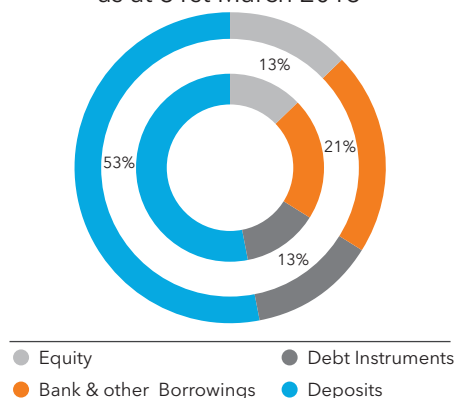
Liabilities

Deposits continued to be the Company's main funding source accounting for 62% of the total funds (refer page 32 for more details on deposits) compared to 53% in 2012/13. The Company settled high cost banking facilities, lowering its dependency on bank borrowings from 21% in 2012/13, to 12% in 2013/14.

Funding Composition as at 31st March 2014



Funding Composition as at 31st March 2013



Management Discussion and Analysis

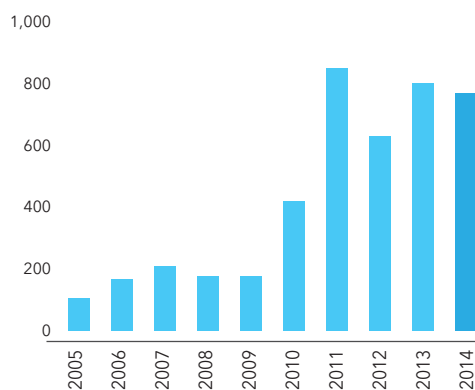
Second listed debenture

The Company's second listed debenture received a favourable market response and raised Rs. 1,000 million at the weighted average rate of 16% and will be used to re-balance the portfolio mismatch in lending and borrowing. A majority of the Company's liabilities are short term while its lending tenure averages four years. Therefore, the five year debenture would help bridge this mismatch, enabling the company to focus on strategic growth opportunities.

Shareholder's funds

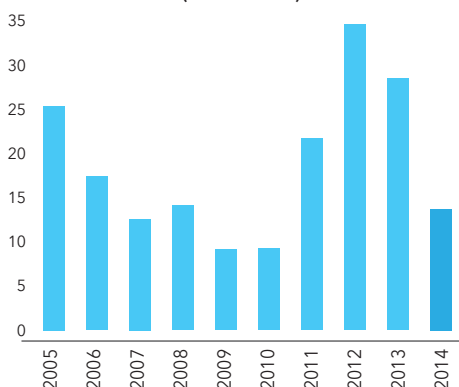
The shareholder funds increased by 12.8% to Rs. 2,391 million, boosted by the earnings of the period under review. The stated capital remained unchanged, while reserves increased by Rs. 66 million, with mandatory transfers to Statutory and Investment Fund reserves. During the year, the Company paid Rs. 36.45 million as dividends.

Market Value per Share (Rs.)



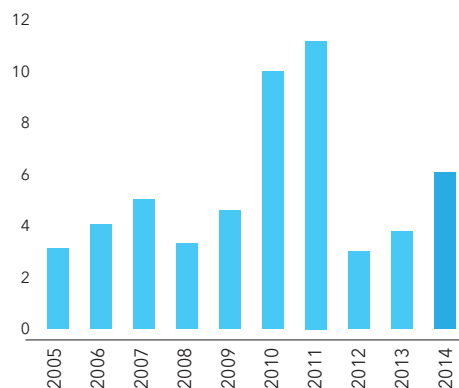
The share price stood at Rs. 769.8 as at 31st March, 2014, compared to Rs. 800.10 per share a year ago.

Return on Shareholders Funds % (After Tax)



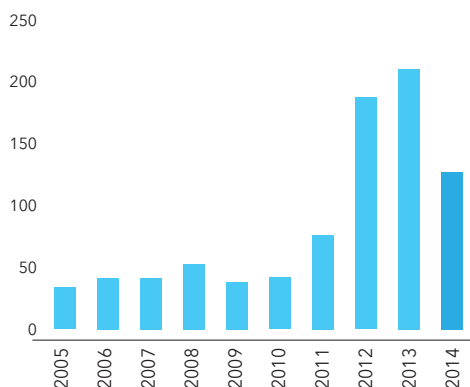
Due to lower profitability, return on shareholder funds fell by 15% to 13.7% from 28.5% in 2012/13.

Price Earning Ratio

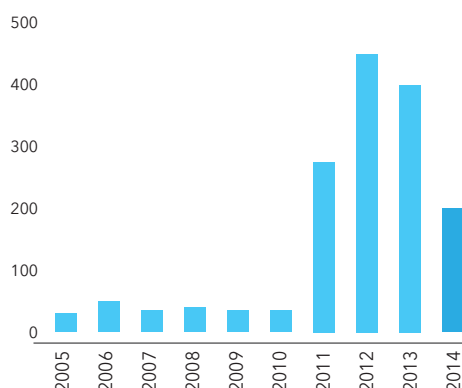


The price earning ratio increased to 6.7% from 3.8% a year ago.

Earnings per Share Rs.



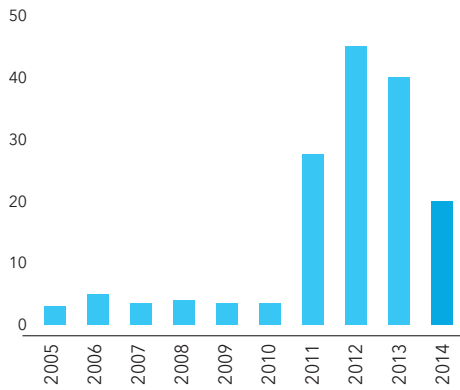
Rate of Dividend %



The rate of dividend reduced to 200% from 450%.

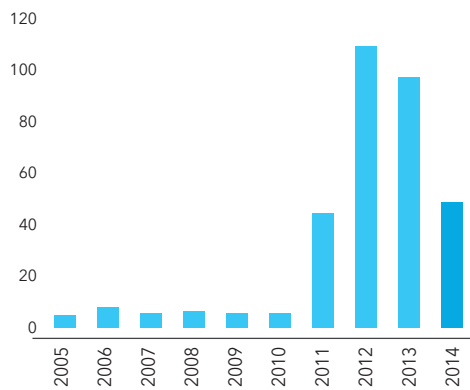


Dividend per Share (Rs.)



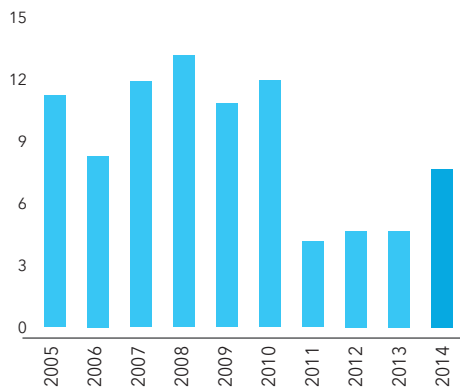
The dividend per share fell to Rs. 20 from the high of Rs. 45 in the two previous years.

Gross Dividend (Rs. Mn)



The gross dividend fell to Rs. 36.45 million from Rs. 109.35 million.

Dividend cover (times)



Industry information source: Annual Report 2013 - Central Bank of Sri Lanka

Sustainability Report



The Native American Iroquois people believe that decisions made today, must foresee seven generations ahead. Seven generations sustainability is an ecological concept that calls on people to think seven generations into the future.

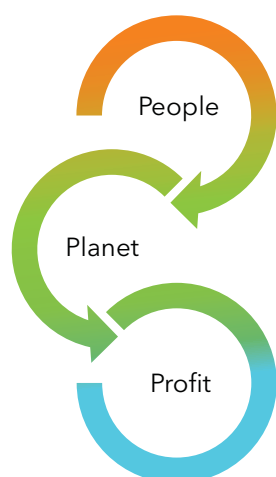
At Alliance Finance we have looked after the finances of four generations of Sri Lankans. Like the Iroquois, we believe in thinking seven generations ahead, as we prepare to walk into the future.

Sustainability Review

Our Sustainability Philosophy

As one of the country's oldest non-bank financial institutions with an unblemished track record of over five decades, the cornerstone of the Alliance Finance business model is sustainability based on good governance practices. For Alliance Finance, sustainable growth is development that meets the needs of the present keeping in mind the need to ensure future growth of the Company and its stakeholders. This entails finding a balance among the three objectives of social welfare, environmental welfare and financial welfare. Our concept of social welfare takes into account the needs of the people, including our employees, customers, investors and communities we interact with. Environmental welfare encompasses our responsibilities towards ensuring a healthy and safe environment for future generations. This includes active efforts at not only conservation of natural resources, but also raising awareness of conservation among our employees and wider society. The concept of financial welfare extends beyond the Company to include employees, investors, deposit holders and wider society. This concept of triple bottom-line means that business success is defined not only by monetary gain but also by the impact an organisation's activities have on society as a whole.

Over the years, the Company has attempted to integrate triple bottom line sustainability principles into strategic thinking and daily activities. The Company has integrated triple bottom line thinking into its operations by empowering communities, nurturing new talent and actively promoting economic growth and nation building as part of its integrated business philosophy.



Our presence & volume (2.7)

Alliance Finance has established a firm foothold in the non-banking and finance sector with precise presence of 57 years. As of 31st March 2014 we have a customer base of 72,947 which includes four generations of deposit holders. This demonstrates the trust and confidence placed by our customers based on the innovative financial solutions provided.

Scale of the organisation (2.8)

Alliance Finance operates from a strategic location at Ward Place, Colombo 07 with an island wide presence of 71 operating locations that offer 12 products. Please refer to the island wide network under management discussions and analysis in page 33.

Alliance Finance employs 933 people with a payment of 23% Net Operating Income as employment remuneration. Total assets, total deposits, equity and debt are recorded as Rs. 18.7 billion, Rs. 11.2 billion, Rs. 2.4 billion and Rs. 4.6 billion, respectively.

Please refer to the list of 20 largest shareholders in page 175 under shareholder information of this report.

Significant changes during the year (2.9)

During the year under review, the directorate changed upon retirement of our former chairperson Mrs. K.S.K de Silva who was succeeded by Mr. Sunil Karunanayake as an independent non-executive chairman with effect from 1st June 2013.

Primary brands, products & services (2.2)

Primary products and services offered to the clientele is mentioned under the Management Discussions and Analysis in page 28.



Awards and Accolades (2.10)

	Awarding Body	Awarded For	Award/Accolade Received	Category	Year
1	EA	Asia Responsible Entrepreneurship	Winner	Green Leadership	2014
2	EOSD	EZY Taxi	Merit Certificate	Best Innovation in Sustainable Financial Products and Services	2013
3	ICASL	Annual Report	Certificate of Recognition	Non-Banking and Finance Sector	2013
4	DNV	BCMS	ISO 22301	Not Applicable	2013
5	NCC	NBEA	Gold - Joint winner	Non-Banking and Finance Sector	2012
6	NCC	NBEA	Silver	Performance Management Practices - Overall	2012
7	ICASL	Annual Report	Certificate of Recognition	Non-Banking and Finance Sector	2012
8	BSI	BCMS	BS25999	Not Applicable	2012
9	NCC	NBEA	Silver	Specialised Banking and Finance Sector	2011
10	ICASL	Annual Report	Certificate of Recognition	Non-Banking and Finance Sector	2011
11	ICASL	Annual Report	Certificate of Recognition	Non-Banking and Finance Sector	2010
12	ICASL	Annual Report	Certificate of Recognition	Non-Banking and Finance Sector	2009

EA - Enterprise Asia Organization

DNV - Det Norske Veritas

BSI - British Standard Institution

ICASL - Institute of Chartered Accountants of Sri Lanka

NCC - National Chamber of Commerce

EOSD - European Organisation for Sustainable Development



Alliance Finance was the recipient of the Award for Green Leadership at the Asia Responsible Entrepreneurship Awards, organized by Enterprise Asia at New Delhi, India.



Alliance Finance was awarded a merit certificate for Best Innovation in Sustainable Financial Products and Services, by the European Organisation for Sustainable Development at Karlsruhe, Germany.

Sustainability Review

Parameters of the Report (3.1/3.2/3.3/3.4)

Alliance Finance reporting takes place on an annual basis, thus the report is being prepared for the period of 1st April 2013 to 31st March 2014. Adhering to GRI guidelines and Methodology of Reporting, this is the first Sustainability Report issued by Alliance Finance Company PLC. The comparative period for the report is 2012/13. The report and indicators cover all service operations and activities of Alliance Finance. Excluding awards and recognition, all other data are applicable to the reporting period of 1st April 2013 to 31st March 2014.

Alliance Finance is happy to answer any inquiries, clarifications and/or comments on any material contained in this report via our website www.alliancefinance.lk or by contacting:

Chief Financial Officer

Alliance Finance Company PLC
No. 84, Ward Place, Colombo 07
Tel: 011 2 673 673

Process of defining Report content (3.5/3.6/3.7/3.8)

Alliance Finance operates in the non-banking and finance sector and is located in the capital city of Sri Lanka. Hence we present topics and issues, which have been prioritised in terms of business focus, geographic spread and the profile of our key stakeholders.

Apart from the above, the report comprises environmental and social indicators, which features customers, suppliers and product responsibility.

Data measurement & Bases for calculations (3.9/3.10/3.11)

There were no changes in scope, boundary or measurement method in comparison to the last year.

The financial data presented in the report has been extracted from the audited financial statements where applicable. The significant accounting policies and estimates are mentioned in pages 103 to 121 under Financial Statements.

Non-financial data, which includes training, workshops, welfare activities etc. has been obtained through the internal records of the Human Resource Management division.

Governance, Commitment Engagements (4.1/4.2/4.3)

As Alliance Finance belongs to the non-banking and finance sector and is operating in a vulnerable and vital industry as a financial services provider, it has placed paramount importance on the responsibilities and obligations to all stakeholders and society at large. The Alliance Finance governance and management system have been designed with the prime objective to assist ethical and responsible business practices with regard to the, environmental, social and economic issues.

Alliance Finance management and controls are based on the current principles of Corporate Governance, which have been stipulated by relevant legislation and regulations. The Corporate Governance Structure and Corporate Governance Compliance are given from page 78 to 86.

The highest governing body of Alliance Finance is its Board of Directors (BOD). Mr. Sunil Karunanayake is the Chairman and the highest authority of the BOD, while Mr. Romani de Silva is the Deputy Chairman/ Managing Director and the highest authority in strategy and operations.

The BOD comprises of three non-executive directors including two independent non-executive directors and two executive directors who are of specialised knowledge, expertise and experience in non-banking and finance sector and other fields (refer pages 16 to 18 for profile of the BOD)



Stakeholder Commitment/ Engagement (4.4/4.14/4.15/4.16)



Effective and efficient mechanisms are in place for shareholder and employee engagement, including interactions with the Board of Directors.

Employees

- Monthly management meetings with representatives of operational level employees and discussion on budgets and forecasts
- Corporate planning
- Staff motivation programmes by the Human Resource Management division
- BCMS and ISO training programmes to ensure conformity standards and awareness
- Monthly target evaluation and feedback meetings
- Annual employee performance evaluation
- Open door policy of the directors encourages and supports employees to provide invaluable suggestions and recommendations to the BOD.
- Staff welfare activities

Shareholders

- Annual General Meeting
- Maintain the shareholder database within the company
- Communication through electronic media such as email, web
- Interim Financial Statement

Conflicts of Interest (4.6)

Conflicts of interest among members of the board of directors are avoided through proper compliance with corporate governance mechanisms (refer corporate governance report in page 78 to 86). Any member of the BOD, who has an interest in a matter under discussions, is excluded from participating in the decision-making process.

In addition, the BOD composition of an independent non-executive chairman, with non-executive directors, ensures conflict of interest situations are avoided with the assistance and guidance of the Audit Committee and Remuneration Committee.

Sustainability Review

Codes of conduct and principles (4.8/4.9)

Alliance Finance operates on a framework of well-defined, clearly articulated core values which have been defined over five decades of presence. These values, principles and rules define the conduct of its Board of Directors, key management personnel and other staff in all foreseeable situations. Refer page 14 in Deputy Chairman/ Managing Director's review for the long term Sustainability focus of Alliance Finance.

Furthermore, the Risk Management Report, Corporate Governance Report and GRI Compliance Summary highlight the statement of commitment.

Commitment and external initiatives (4.11/4.12/4.13)

Alliance Finance takes great pride in ensuring a consistent process to successfully manage all identified risks. The Company has a fully-fledged computerised network with an effective disaster recovery system, to ensure data security and continuity of operations in the case of an unforeseen disruption to operations or a natural disaster.

The following are some of the measures undertaken to mitigate risks;

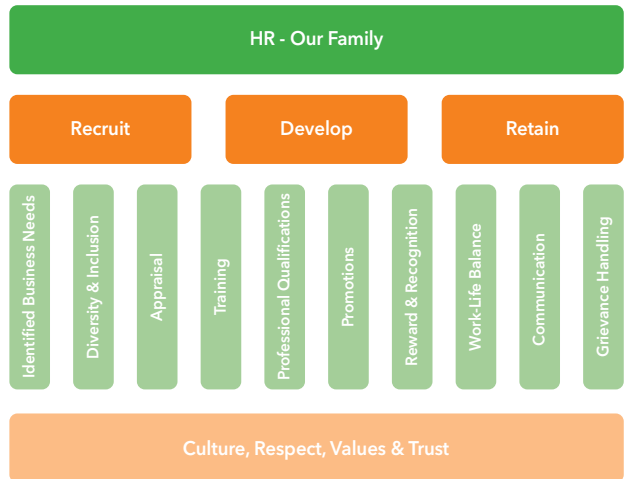
- The first finance company to be ISO certified.
- The first and only finance company in Sri Lanka to be awarded ISO22301, the only accepted global standard for Business Continuity Management Systems.
- A Member of the Finance House Association
- BBB/P2 rating by RAM Ratings Lanka (currently known as Lanka Ratings Agency Limited).

Further, the Company adopted the International G 3.1 guidelines for external economic, environmental and social communications during the year.

People (Social dimension of sustainability)

Building human capital

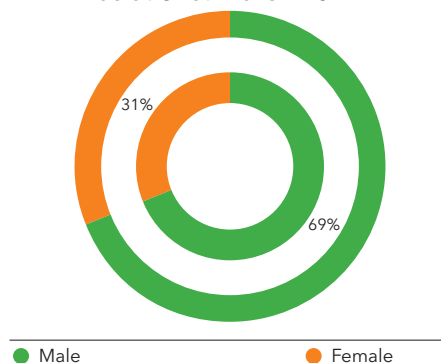
The Company regards its human resource base of 933 personnel as a key competitive asset. Therefore, throughout the year, the Company continued to invest in strengthening its human capital base to face intensifying competition and to sustain future growth plans. In order to maximise synergies and ensure focused performance, the Company is in the process of developing KPIs for employees who are directly linked with operational, corporate and strategic objectives.



Employment (LA 1)

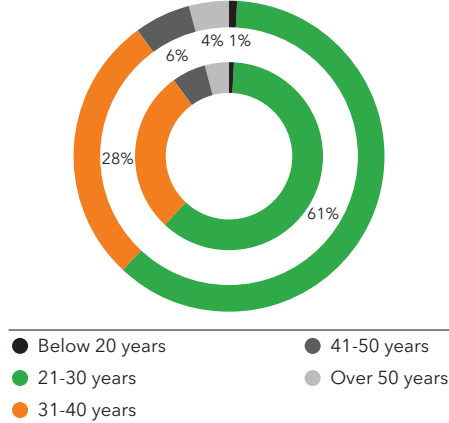
Alliance Finance is an equal opportunity employer providing employment on the basis of qualification and experience. The Company does not discriminate on the basis of gender, race or ethnicity. We encourage diversity and the Company culture promotes inclusiveness and team spirit among all employees. Currently out of the total employee base 31% are women. A majority 61% of employees are within the age range of 21-30 years.

Work Force Composition -Gender as at 31st March 2014





Work Force Composition - Age as at 31st March 2014

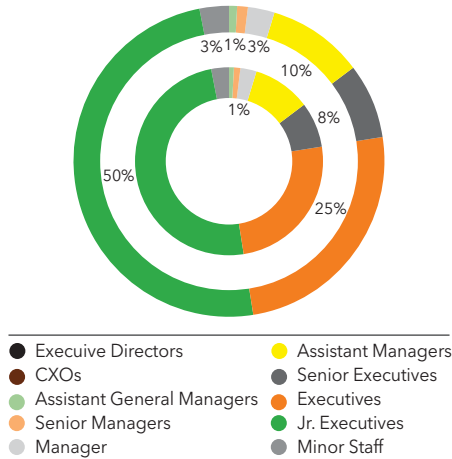


Recruitments and Retention

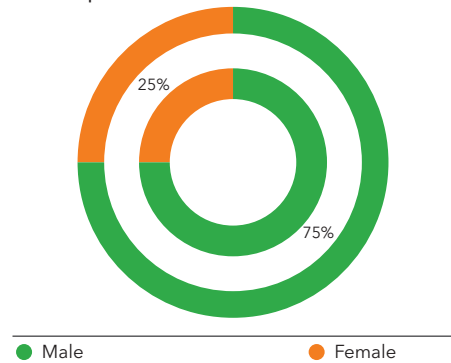
Alliance Finance provides growth opportunities to all employees based on merit. All employees are recruited, developed and evaluated on the basis of their capabilities, competencies and value creation ability. This system has enabled the company to emerge triumphant in periods of adversity, by strengthening the Company's competitive capabilities through the creation of a strong talent pool.

Alliance Finance recruited 432 employees during the financial year 2013/14, out of whom 149 were recruited for its latest business venture, Micro Finance, while 109 new positions were created to meet identified business needs. The rest of the recruitments were to fill the vacancies that arose during the year.

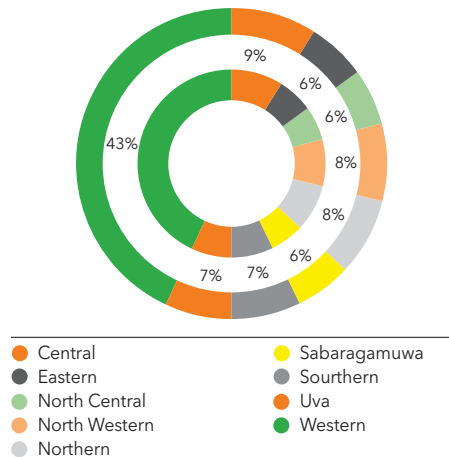
Work Force Composition -Service Level as at 31st March 2014



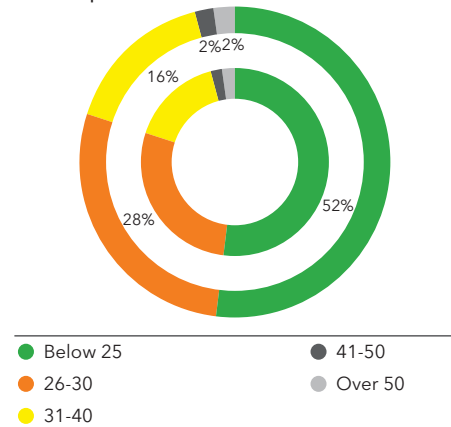
Recruitment Composition - Gender for the period ended 31st March 2014



Work Force Composition -Provincial as at 31st March 2014

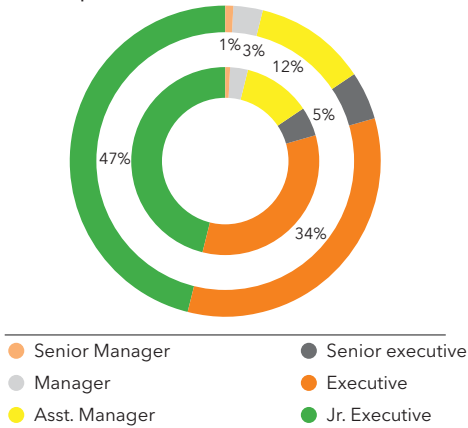


Recruitment Composition - Age for the period ended 31st March 2014

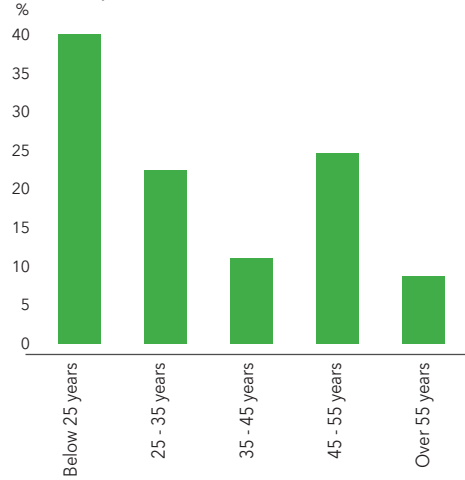


Sustainability Review

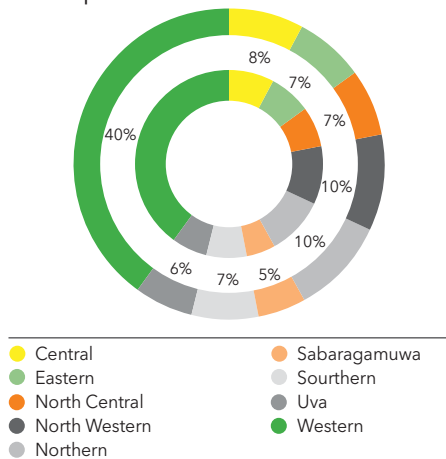
Recruitment Composition Service Level for the period ended 31st March 2014



Labour Turnover Age for the period ended 31st March 2014

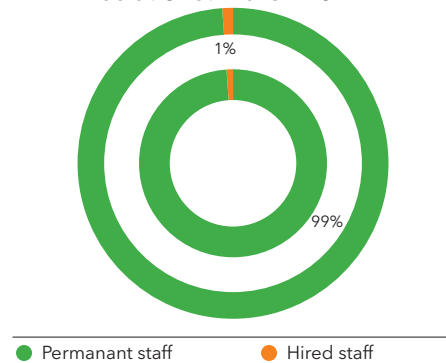


Recruitment Composition Provincial for the period ended 31st March 2014



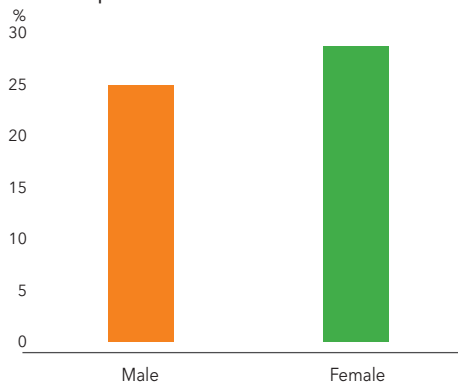
Rate of Employee Hires (LA 2)

Rate of employee hires as at 31st March 2014



The Company experienced a slight increase in its labour turnover ratio from 25% to 26% during the year under review.

Labour Turnover Gender for the period ended 31st March 2014



Employment Benefits (LA 3)

Benefits for permanent employees

- Fixed month salary
- 20% employer's contribution to EPF
- Incentives as entitled
- Performance based bonuses
- Annual Increments
- Travelling allowances/ Fuel allowances
- Mobile allowances as entitled
- Gratuity
- Medical scheme
- Festival advances
- Subscriptions for professional associations
- Educational expenses re-imbursement
- Staff Loans



Health and Safety (LA 6, 7,8,9)

The Human Resources division fully engages in and focuses on creating a safe and healthy work environment for all Alliance Finance employees.

Training and Development (LA 10/11/12)

Alliance Finance believes its key success factor is its employees. Hence the Company ensures that its people develop to their utmost and invests in continuous enhancement of skills, knowledge and expertise to drive the Company towards excellence.

Training and Development is a responsibility of the Head of Human Resources, one of the senior management positions at Alliance Finance.

- The Training and Development calendar begins with the Induction Training for new recruits, which provides an insight to new recruits about the Employee Handbook, Company's operations, the non-banking and finance sector and its best practices. The programme is held every month for the previous month's recruits.



Employee Handbook of Alliance Finance

- In line with the Company's growth plans, a full scale training and development programme has been launched for all employees in the microfinance division at the Sri Lanka Institute of Credit Management. The first group of 30 microfinance officers are currently following this specially designed Diploma course that will broaden their knowledge through interactions with experts and will contribute towards developing and strengthening internal systems and processes to take the new microfinance products to markets. The training

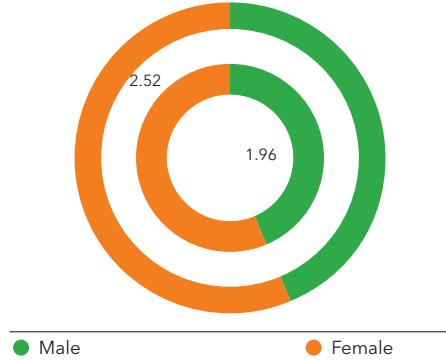
and development calendar has also been extended to other personnel, to ensure preparedness to deal with the new competitive landscape that would emerge following the consolidation of financial markets.

- During the year a 2,917 hours training programmes were held and each employee faced 3.13 hours of training.

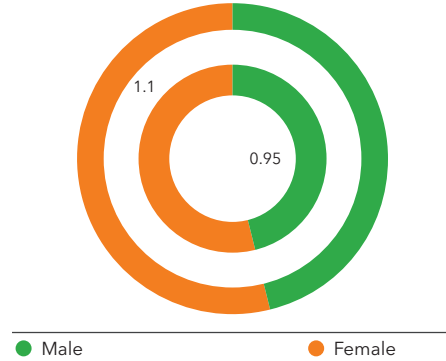


Internal training programme

Training hours per employee Internal

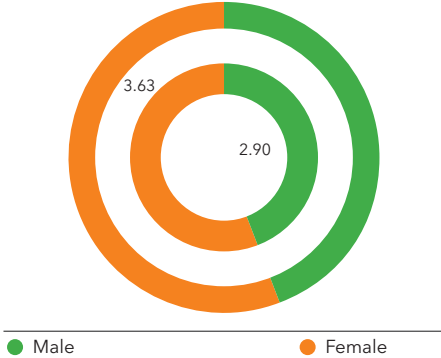


Training hours per employee External

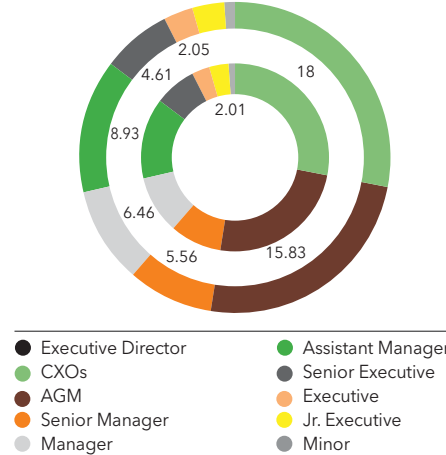


Sustainability Review

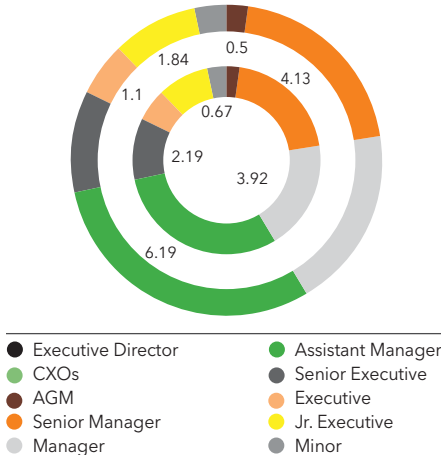
Training hours per employee Overall



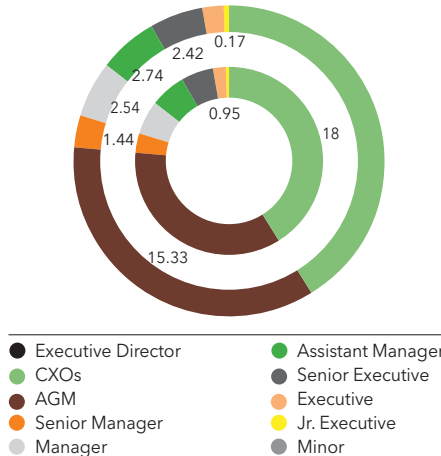
Training hours per employee Overall



Training hours per employee Internal



Training hours per employee External



Employee Promotions

Giving preference to internal candidates for vacancies that occur above entry level is a key part of our employee retention strategy, which is enabled by our comprehensive development plan. Accordingly we promoted 33 employees during the year, enabling them to realise their true potential.

CXO	
AGM	
Senior Manager	
Manager	
Asst Manager	
Senior Executive	
Executive	
Junior Executive Grade 1	1
Junior Executive	3
Office Aide	4
	9
	8
	5
	2
	1

Diversity and Equal Opportunity (LA 14)

Fixed remuneration is not impacted by gender. Therefore, both male and female employees receive equal remuneration, serving as an equal opportunity employer. Similarly, variable remuneration is also not impacted by gender, but varies depending on the performance of each employee.



AFC Day out at Hotel Villa Ocean View in Wadduwa



Human Rights

Non-Discrimination (HR 4)

Alliance Finance reports no incidents related to discrimination during the year under review.

Freedom (HR 5)

Alliance Finance operations and services have not violated the right to exercise freedom of association and there is no concealed or covert discrimination or discouragement against memberships in any political party or religious organisations at individual level.

Child Labour and Forced Labour (HR 6)

Alliance Finance prohibits and expressly disapproves of all forms of exploitation of children and does not employ anyone under the age of 18 years.

Forced and Compulsory Labour (HR 7)

To the best of our knowledge, our bankers and suppliers, and/or our operations, do not use forced or compulsory labour.

Security Practices (HR 8)

Alliance Finance has outsourced its security functions to a security firm. The security personnel assigned to the Company by the firm are provided with necessary training programmes in terms of customer care.

Assessment and Remediation (HR 10/11)

The Company's entire operation is subject to human rights review. Hence, the Company is more particular about these factors relating to all stakeholders. Further, as tools of evaluation, the Company uses customer feedback forms and PRO officers.

Society

This segment of the report focuses on the impact of Alliance Finance on the social system and community in which it operates. Operating to achieve the numerous business objectives and strategies, Alliance Finance also understands the obligations and the ethical responsibility towards the different stakeholders. Alliance Finance is committed to a win-win approach to enrich the lives of all stakeholders to enable a sustainable performance and profitability of our enterprise.

Community (SO 1)

Throughout the years, Alliance Finance has extended a helping hand to many community development projects that have contributed towards quality of life improvement of many families. These programmes have been part of the Company's triple bottom line approach of doing business by integrating community welfare into the Company's activities. While supporting better facilities for communities, these programmes have also contributed towards goodwill and trust that have strengthened the brand image of the Company.

Public Policy (SO 6)

Alliance Finance makes no contributions to any political party, political figures, or any related institution, with regard to its operations and business practices. Alliance Finance takes great responsibility in operating as an ethical service organisation thus building trust and confidence among people.

Compliance (SO 7, 8)

There were no incidents of non-compliance in terms of laws and regulations for the year under review.

Alliance Finance did not enter into any legal action in terms of anti-competitive behaviour and monopolistic practices, with any organisation or non-bank and finance sector in the country. Alliance Finance ensures ethical means of business conduct and fair trading operation in the non-bank and finance sector, as well as being an esteemed service organisation in Sri Lanka.

Sustainability Review

Entrepreneur Development

The EDS services are aimed at creating a conducive environment for entrepreneurs to mature and expand their business, by introducing a two pronged approach that considers:

- Qualitative aspects of entrepreneurship: This includes development of business skills through education on financial literacy for better management of cash flows and investments and the enhancement of specific technical knowledge to develop the businesses.
- Value chain development: The Company believes market linkages and value chain development is essential to sustain and grow grassroots businesses. However, at present one of the major challenges faced by rural entrepreneurs is lack of access to markets. Therefore, the EDS system will facilitate networking and market linkages for rural entrepreneurs, to support their growth over time.

CSR Activities

Uplifting Siyambalagoda village

During the current year the Company continued its commitment towards wider society through its village assistance programme for the village of Siyambalagoda in Polgasovita. This project was initiated by the Company's former Chairman Mr. Pratapkumar de Silva and the Company has continually supported the development of the village for the past 20 years through different contributions. The following activities have been continuing annually;

- Community centre.
- Pre-school.
- Staging concerts.
- Scholarships to students of Siyambalagoda Dharmapala Kanishta Vidyalaya.
- Dole to 29 elders per month of Rs.300/- each.
- Help to cancer patient of Rs.300/- per month.
- Alms giving to temple priests.
- Pre-school new year celebration.
- Treats and gifts to pre-school children and staff at the end of each term.
- Birthday celebration of pre-school children, giving them cakes.
- Giving soup to pre-school children and staff on Thursdays.

- Pre-school sil programme.
- Scholarship for free education to one child in the pre-school.
- Art and crafts exhibition of work done by Pre-school children.
- English classes for pre-school children.
- Picnic for pre-school children.
- Pre-school concert.
- Treat and gifts to dole participants for Sinhala New Year.
- Cottage industry loans.
- Donations of Rs.1,000, with a banner for funeral house of dole recipients and members of the organisation.
- Donation of Rs.500 with a banner for funeral houses in Siyambalagoda.
- Assistance to other service organisations in the village in their numerous projects and activities.
- Assistance to the village temple
- Function and gifts to Committee members.
- Monthly lucky draw for Committee members.
- New Year celebration for Committee members.
- Free classes in English language (junior and senior students).
- Art competition, essay competition and talent contest.
- Gym for weight lifting and other exercises.
- Alms giving to children's home in Hiripitiya.
- All necessary items of stationery and books required for the year, given to all pre-school children.
- Donations of dry rations were made to pregnant mothers in Siyambalagoda.



Treat and gifts to dole recipients for Sinhala New Year



Dry rations for pregnant mothers

Building the next generation

Alliance Finance is helping one of Sri Lanka's promising badminton champions achieve his dream of a gold medal. Seventeen year old Sachin Dias, from Moratuwa St Sebastian's College, is a rising star in the field of badminton with unlimited potential. He is the champion of the Open Badminton Singles, at the National Sports Festival 2013 and has made it to the national pool of badminton players, under the Sri Lanka Badminton Association (SLBA). He currently holds the 44th position in international badminton rankings and is training for the next Olympic Games. The biggest problem faced by badminton players in Sri Lanka is the lack of funds. If a player is to achieve a high world ranking, he needs to play as many international tournaments as possible. However, young talent in Sri Lanka faces difficulty in funding participation and exposure to international tournaments. Alliance Finance has responded to this need by stepping up to support this talent. Through its actions, the Company is not only helping Sachin, but also the game of Badminton in Sri Lanka. Alliance Finance supports Sachin with a monthly allowance for training-related activities and for tuition fees for his further education, to ensure a secure future for the young man at the end of his badminton career.

Big performance from a little champion

Alliance Finance is proud to record its support for the first multiple-gold-medal winning athlete of Sri Lankan origin, at an international sporting event. Sri Lankan-born, 26 year old, Randika Cooray, won three gold medals at the 2013 World Dwarf Games in Michigan, USA. The 2013 World Dwarf Games, is the largest sporting event in history, exclusively for athletes with dwarfism, at which a total of 395 athletes from 17 countries competed for honours. Randika, who resides in the UK, brought in gold for badminton (singles) open women class L1, Boccia (singles) open class U2 and soccer in the open women's category, where she played on the British team. Randika won her gold in badminton by beating the previous world champion and she also beat the key player of the Australian gold winning boccia team.



Sustainability Review

Planet (Environmental Management)

Energy (EN 3/ 4)

Whilst operating with clear objectives on environmental and social aspects, Alliance Finance makes every effort to minimise the impact of its operations and its activities, on the environment. Therefore the Company is currently engaged with an Australian Consulting firm to measure its energy consumption and to develop ways to reduce energy consumption.

Meanwhile, Alliance Finance EZY Taxis are designed to reduce carbon emissions to the atmosphere from three wheelers, by converting them into Liquefied Petroleum Gas (LPG) powered vehicles, cutting carbon emissions by about 30%. The project initially converted three wheelers by importing gas kits from India. The technology was improved by introducing an LPG-LDI (liquid direct Injection) system from ECO TUK BV in the Netherlands, which offers a high level of reliability.

These environmentally friendly three wheelers have been highly successful in controlling emissions while the specially designed lease arrangements have created employment opportunities for low-income communities. Alliance Finance is currently planning to extend this product to the Northern and Eastern provinces of Sri Lanka, to enhance living standards of 100 rehabilitated ex-combatants.

Water (EN 8/9/10)

Currently Alliance Finance does not have a formal system in place to reduce water consumption levels of the Company. However, the Company is working with an Australian Consultant to develop such a system.

Environmental Impacts from Products/Services (EN 26/27/30)

Carbon Footprint

As a leading non-bank financial services provider, Alliance Finance finances a large number of vehicles and has realised its significant contribution to carbon emissions. Therefore, to counteract this impact, Alliance Finance pioneered gas-powered, more energy efficient, three-wheelers in Sri Lanka, as an alternative to the more polluting petroleum fuelled three wheelers. In addition to being more environmentally friendly, the Alliance Finance Green Taxis concept was designed to support employment generation by making these green three-wheelers more

accessible to low income groups, through a specially designed, concessionary lease payment structure. This has ensured the Company's commitment to the triple bottom line principles by empowering marginalised sections of Sri Lankan society with a means of livelihood, while protecting the environment for future generations.



Bio diversity

Going further, we are now addressing our carbon footprint impact by attempting to redress the environmental balance by planting and maintaining a tree, for every auto lease. In 2013, the Company launched the 'Tree for a Lease' project, in the form of a pilot project in partnership with Rainforest Rescue International (RRI) Sri Lanka. The aim is to create a rainforest corridor between the Sinharaja and Kanneliya rain forests, to regenerate Sri Lanka's shrinking rainforest cover. We will plant 1,600 trees in a four acre area, which has been acquired by the Company, on a six year lease agreement.

Therefore, in addition to countering air pollution, the Tree for a Lease project will also help sustain Sri Lanka's forest cover and, support biodiversity and prevent extinction of threatened species of flora and fauna. The Tree for a Lease project will initially focus on an area close to the Kanneliya rainforest, which is considered a global biodiversity hotspot. All ESP (Environmental Stewardship Programme) projects undertaken by RRI ensures a five year monitoring and reporting component, as it has been proven that the survival chances of a tree increases exponentially if the tree is maintained for five years. Placing an ESP value on the photosynthetic component of a tree assists in its early survival, and is a vital component of its maintenance. Thus placing an ESP value on a tree planting programme can greatly affect the outcome of the planting, generating a much higher survival rate than for a programme that does



not capitalise on this value. Therefore, Alliance Finance is committed to a long term investment of ensuring the survival of these trees, instead of a short term tree planting campaign with uncertain returns. This makes Alliance Finance the first financial services company to be involved in planting and maintaining trees until their maturity.



Inauguration of tree for lease concept



Planting the first tree under tree for lease concept at Kanneliya by Mr. Ali Ahlam Nawaz (Group Head - Business Development) and Mr. Adrew Samuel (Head of Micro Finance/ Chief Continuous Improvement Officer)

The Company will offer its leasing customers the choice of planting a tree when they obtain a vehicles lease. A GPS tracking system will be introduced to allow the customers to track their trees and watch over the progress of their trees. Through this process the Company hopes to extend conservation efforts beyond the Company, to wider society and raise social awareness about the urgent need to conserve Sri Lanka's life supporting bio diversity and forest cover. Sri Lanka's rainforests are a not only a vital aspect of maintaining life, but are also part of the country's invaluable natural capital base accommodating many types of endemic flora and fauna. We believe it is the responsibility of the present generation to ensure that these natural treasures are preserved for future generations. For this, it is vital to expand conservation support systems to encompass wider society, getting public support for conservation and protection. Alliance Finance hopes its efforts of involving its customers in this timely process of conservation will create public awareness and support for this cause.



Involving youth in conservation efforts

As part of its Green Pledge and to expand the reach and impact of environmental initiatives, the Company organised a school competition linked with a tree planting campaign. Fifteen schools were asked to develop green projects and the winning project was rewarded with Rs 100,000 for school development activities. More importantly, Rs 200,000 was donated to an outstation, underserved school, to develop the school. The winner of this year's school green project was Asian International College. The second and third place winners, Holy Family Convent and Gateway College, were awarded certificates. The outstation recipient of the Rs 200,000 grant was

Sustainability Review

Kalyanipura Vidyalaya in Welioya. The Company hopes such initiatives would inculcate a love of the environment within the next generation, while also educating young people about the need to conserve natural resources.



Raising awareness

A booklet titled 'AFC Responsibilities,' was published to raise awareness of conservation of natural resources, to encourage people to develop the habit of conservation. The child-friendly, illustrated booklet is distributed free of charge by the Company. This booklet has become an expression of the Company's commitment to triple bottom line principles by involving the public in conservation efforts. The booklet alerts people to the waste of natural resources that occurs in daily activities and raises awareness of simple but highly effective forms of conservation involving the entire family. This process also ensures that the next generation is sensitised towards waste of natural resources and the habit of conservation is inculcated at a young age.



"Yuthukama" booklet

Compliance (EN 28)

There were no fines or non-compliance acts recorded during the year under review for breach of environmental rules and regulations.

Transportation (EN 29)

Emissions and pollution in terms of air and noise are limited to output from vehicles utilized for the transportation of the workforce within the Alliance Finance network and for any other official engagements.



Profit (Economic Performance)

The Alliance Finance comprehensive annual corporate plan and budget, which is prepared to meet all stakeholder interests, sets specific targets and directions for all business divisions and operations of the Company. Alliance Finance economic goals and policies, are aligned in correspondence to sustainable performance and growth.

Monitoring

Monitoring is a vital aspect in the company's economic performance and operations. Monthly budgets and controls are monitored by management accountants at the head office. Whilst monitoring budgets against actual

profitability, explanations are necessitated and obtained, if any, material variances occur. In addition, target achievers are handsomely rewarded. Management accounts and reports are submitted to operational managers. Simultaneously the Board of Directors are kept informed of the performance. Hence, this reflects in the next decision making process of formulating appropriate strategies for the forthcoming financial quarters and years.

Economic Performance (EC 1)

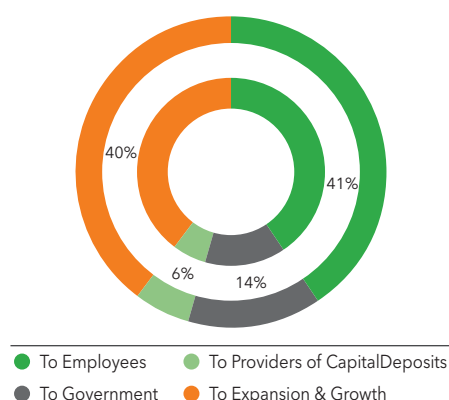
Alliance Finance takes pride in being a major contributor to the nation's economy through the investments in expansions and employees.

Value Added Statement

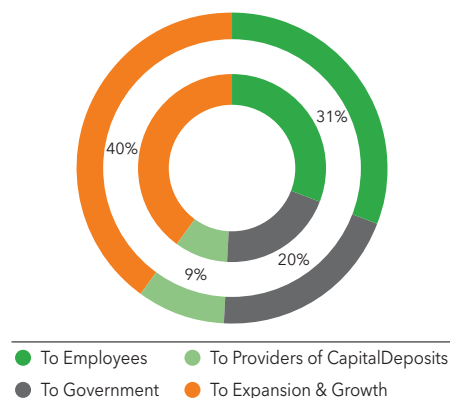
For the year ended 31st March

	2014 Rs.	%	2013 Rs.	%
Value Added				
Income	3,837,887,951		3,487,970,425	
Interest Expense	(2,299,280,718)		(1,891,109,361)	
Cost of External Services	(681,832,166)		(477,092,526)	
	856,775,068		1,119,768,537	
Distribution of Value Added				
To Employees				
Salaries & other benefits	348,880,392	40.72%	348,915,101	31.16%
To Government				
Taxes	117,814,824	13.75%	220,320,076	19.68%
To Providers of Capital				
Dividend	48,600,000	5.67%	97,200,000	8.68%
To Expansion & Growth				
Depreciation	69,249,072	8.09%	57,067,839	5.09%
Reserves	272,230,779	31.77%	396,265,521	35.39%
	341,479,851	39.87%	453,333,360	40.48%
	856,775,068	100.00%	1,119,768,537	100.00%

Value Distribution - 2013/14



Value Distribution - 2012/13



Sustainability Review

Impact on climate change on Company performance (EC 2)

Alliance Finance operations were not affected due to climate changes and since the agricultural portfolio is also minimal the Company did not experience material NPAs as a result of adverse climatic conditions.

However, the Company identifies natural disaster as a possible area of risk and threat, resulting from adverse climatic conditions. Thus, Alliance Finance recognises and follows the Risk and Disaster Management procedure under the Business Continuity Management Systems (BCMS).

Alliance Finance has a Business Continuity Management System which is certified by DNV and adheres to the ISO22301 standard, and evaluates the following activities;

- Threats and risk identification
- Evaluation of control
- Business impact assessment
- Business continuity strategy identification
- The goals and responsibility of the BCMS committee
- Safety to visitor, staff and other stakeholders
- Minimise risk to human resources of the organisations
- Identifying critical business processes and corresponding recovery time objectives
- Provide resources required by the BCMS
- A clear and identified organisation structure for the execution of the BCMS during normal times and emergency periods
- Regularly maintain and verify effectiveness of the plan
- Conduct periodic drills and testing to ensure preparedness in order to execute this plan.

Defined Benefit Plan Obligation (EC 3)

The organisation's defined benefit plan obligation could be found in pages accounting policies 4.8 and note 35 in the financial statement.

Financial Assistant from the Government (EC 4)

During the year, the company has not received any financial assistance from the government.

Wages (EC 5)

The Company's policy is to maintain the entry level salary well above industry regulations and also gender equality in terms of entry level wages.

Banks and Suppliers (EC 6)

The Company deals with all corporate banks operating in Sri Lanka and maintains professional and responsible relationships with them. Banks are the third largest investors of the company contributing 12% of its funding requirement.

The Company does not have a significant supplier base due to its nature of operations, but has close and professional relationships with them.

Recruitment (EC 7)

The Company encourages gender equality, thus promoting itself as an equal opportunity employer. A greater part of the Company's employees have been recruited within city limits and suburbs.



Product Responsibility

Marketing and Communications (PR 6/7)

Alliance Finance strictly adheres to ethical standards in advertising. Marketing communications at Alliance Finance extends beyond compliance and conformity, as the prime objective is to ensure the messages communicated are not overstated and exaggerated. In addition, all communications maintain transparency and do not contain any racial or gender bias or inappropriate imagery. Furthermore, Alliance Finance ensures to reflect the corporate brand image and vision of the Company by conforming to the Company's information security policy.

There were no incidents of non-compliance with regulations and voluntary codes concerning marketing communications, which includes advertising, promotions and sponsorships during the period under review.

Alliance Finance EZY Taxis can be considered as a major step taken by the Company to ensure its product responsibility commitment.

Customer Privacy (PR 8)

There were no records relating to the breach of customer privacy.

Compliance (PR 9)

There are no penalties/fines for non-compliance with laws and regulations concerning the provisions and use of products and services during the year under review.



Sustainability Review

GRI Index

GRI Index No.	Description	Report section	Compliance	Page
1.0 Strategy and Analysis				
1.1	Statement from the senior decision maker of the organization	Managing Director's Review	√	12 - 15
1.2	Description of key impacts, risks and opportunities	Risk Management Review	√	70 - 77
2.0 Organizational Profile				
2.1	Name of the organization	Management Discussion & Analysis	√	27
2.2	Primary Brands, Products and/or services	Management Discussion & Analysis	√	28
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	Management Discussion & Analysis	√	28
2.4	Location of organization's headquarters	Management Discussion & Analysis	√	34
2.5	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report		x	
2.6	Nature of ownership and legal form	Corporate information	√	Inner back cover
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)		x	
2.8	Scale of the reporting organisation	Sustainability Report	√	44
2.9	Significant changes during the reporting period regarding size, structure or ownership	Sustainability Report	√	44
2.10	Awards received in the reporting period	Sustainability Report	√	45
3.0 Report Parameters				
3.1	Reporting period for information provided	Sustainability Report	√	46
3.2	Date of most recent previous Report	Sustainability Report	√	46
3.3	Reporting cycle	Sustainability Report	√	46
3.4	Contact point for questions regarding the report or its contents	Sustainability Report	√	46
3.5	Process for defining report content	Sustainability Report	√	46
3.6	Boundary of the Report	Sustainability Report	√	46
3.7	Specific limitations on the scope or boundary of the Report	Sustainability Report	√	46
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	Sustainability Report	√	46
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the Report	Sustainability Report	√	46



GRI Index No.	Description	Report section	Compliance	Page
3.10	Explanation of the effect of any restatements of information provided in earlier Reports	Sustainability Report	√	46
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Sustainability Report	√	46
3.12	Table identifying the location of the standard disclosures in the Report	Sustainability Report	√	62 - 69
3.13	Policy and current practice with regard to seeking external assurance for the Report		x	
4.0 Governance, Commitments and Engagements				
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Sustainability Report	√	46
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Sustainability Report	√	46
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or nonexecutive members.	Sustainability Report	√	46
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Sustainability Report	√	47
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)		x	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Sustainability Report	√	47
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics		x	
4.8	Internally-developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	Sustainability Report	√	48
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles	Sustainability Report	√	48
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance		x	

Sustainability Review

GRI Index No.	Description	Report section	Compliance	Page
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Sustainability Report	√	48
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	Sustainability Report	√	48
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation	Sustainability Report	√	48
4.14	List of stakeholder groups engaged by the organisation.	Sustainability Report	√	47
4.15	Basis for identification and selection of stakeholders with whom to engage.	Sustainability Report	√	47
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Sustainability Report	√	47
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns, including through its reporting.		x	
EC. Economic Performance				
EC1	Direct economic value generated and distributed	Sustainability Report	√	59
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Sustainability Report	√	60
EC3	Coverage of the organization's defined benefit plan obligations	Sustainability Report	√	60
EC4	Significant financial assistance received from Governments	Sustainability Report	√	60
Market Presence				
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Sustainability Report	√	60
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	Sustainability Report	√	60
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant locations of operation	Sustainability Report	√	60
Indirect Economic Impacts				
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement		x	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts		x	
EN. Environmental Management				
Materials				
EN1	Materials used by weight or volume		x	
EN2	Percentage of materials used that are recycled input materials		x	



GRI Index No.	Description	Report section	Compliance	Page
Energy				
EN3	Direct energy consumption by primary energy source	Sustainability Report	√	56
EN4	Indirect energy consumption by primary source	Sustainability Report	√	56
EN5	Energy saved due to conservation and efficiency improvements		x	
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	Sustainability Report	√	56
EN7	Initiatives to reduce indirect energy consumption and reductions achieved		x	
Water				
EN 8	Total water withdrawal by source		x	
EN 9	Water sources significantly affected by withdrawal of water		x	
EN 10	Percentage and total volume of water recycled and reused		x	
Bio-Diversity				
EN 11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		x	
EN 12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		x	
EN 13	Habitats protected or restored		x	
EN 14	Strategies, current action and future plans for managing biodiversity		x	
EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk		x	
Emmissions, Effluents and waste				
EN 16	Total direct and indirect greenhouse gas emissions by weight		x	
EN 17	Other relevant indirect greenhouse gas emissions by weight		x	
EN 18	Initiatives to reduce greenhouse gas emissions and reductions		x	
EN 19	Emissions of ozone-depleting substances by weight		x	
EN 20	NO, SO, and other significant air emissions by type and weight		x	
EN 21	Total water discharge by quality and destination		x	
EN 22	Total weight of waste by type and disposal method		x	
EN 23	Total number and volume of significant spills		x	
EN 24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally		x	
EN 25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff		x	

Sustainability Review

GRI Index No.	Description	Report section	Compliance	Page
Products and services				
EN 26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Report	√	56
EN 27	Percentage of products sold and their packaging materials that are reclaimed by category	Sustainability Report	x	
Compliance				
EN 28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Sustainability Report	√	58
Transport				
EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce	Sustainability Report	√	58
Overall				
EN 30	Total environmental protection expenditures and investments by type		x	
Social Dimension				
LA	Labour Practices and Decent work indicators			
Employment				
LA 1	Total workforce by employment type, employment contract and region broken down by gender	Sustainability Report	√	48
LA 2	Total number and rate of employee hires and employee turnover by age group, gender and region	Sustainability Report	√	50
LA 3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations	Sustainability Report	√	50
LA 15	Return to work and retention rates after parental leave, by gender		x	
Labour/ Management Relations				
LA 4	Percentage of employees covered by collective bargaining agreements		x	
LA 5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements		x	
Occupational Health and safety				
LA 6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Sustainability Report	√	51
LA 7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region and by gender	Sustainability Report	√	51



GRI Index No.	Description	Report section	Compliance	Page
LA 8	Education, training, counseling, prevention of diseases, and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases	Sustainability Report	√	51
LA 9	Health and safety topics covered in formal agreements with trade unions	Sustainability Report	√	51
Training and Education				
LA 10	Average hours of training per year per employee by gender, and by employee category	Sustainability Report	√	51
LA 11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Report	√	51
LA 12	Percentage of employees receiving regular performance and career development reviews by gender	Sustainability Report	√	51
Diversity and Equal opportunity				
LA 13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity		x	
LA 14	Ratio of basic salary and remuneration of women to men by employee category by significant locations of operation	Sustainability Report	√	52
HR Human Rights				
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening		x	
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken		x	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		x	
Non-Discrimination				
HR4	Total number of incidents of discrimination and actions taken	Sustainability Report	√	53
Freedom of Association and Collective Bargaining core				
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	Sustainability Report	√	53
Child Labour				
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	Sustainability Report	√	53

Sustainability Review

GRI Index No.	Description	Report section	Compliance	Page
	Forced and compulsory Labour			
HR 7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to elimination of all forms of forced or compulsory labour	Sustainability Report	√	53
	Security Practises			
HR 8	Percentage of security personnel trained on the organization's policies or procedures concerning aspects of human rights that are relevant to operations	Sustainability Report	√	53
	Indigenous Rights			
HR 9	Total number of incidents of violations involving rights of indigenous people and actions taken		x	
	Assessment			
HR 10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Sustainability Report	√	53
	Remediation			
HR 11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	Sustainability Report	√	53
SO	Society			
	Community			
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	Sustainability Report	√	53
	Corruption			
SO2	Percentage and total number of business units analysed for risks related to corruption		x	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures		x	
SO4	Actions taken in response to incidents of corruption		x	
	Public Policy			
SO 5	Public policy positions and participation in public policy development and lobbying		x	
SO 6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	Sustainability Report	√	53
	Anti-competitive Behaviour			
SO 7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	Sustainability Report	√	53
	Compliance			
SO 8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	Sustainability Report	√	53



GRI Index No.	Description	Report section	Compliance	Page
PR	Product Responsibility			
	Customer Health and Safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to such procedures		x	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes		x	
	Product and service Labeling			
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements		x	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		x	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		x	
	Marketing Communications			
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	Sustainability Report	√	61
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Sustainability Report	√	61
	Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Sustainability Report	√	61
	Compliance			
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	Sustainability Report	√	61

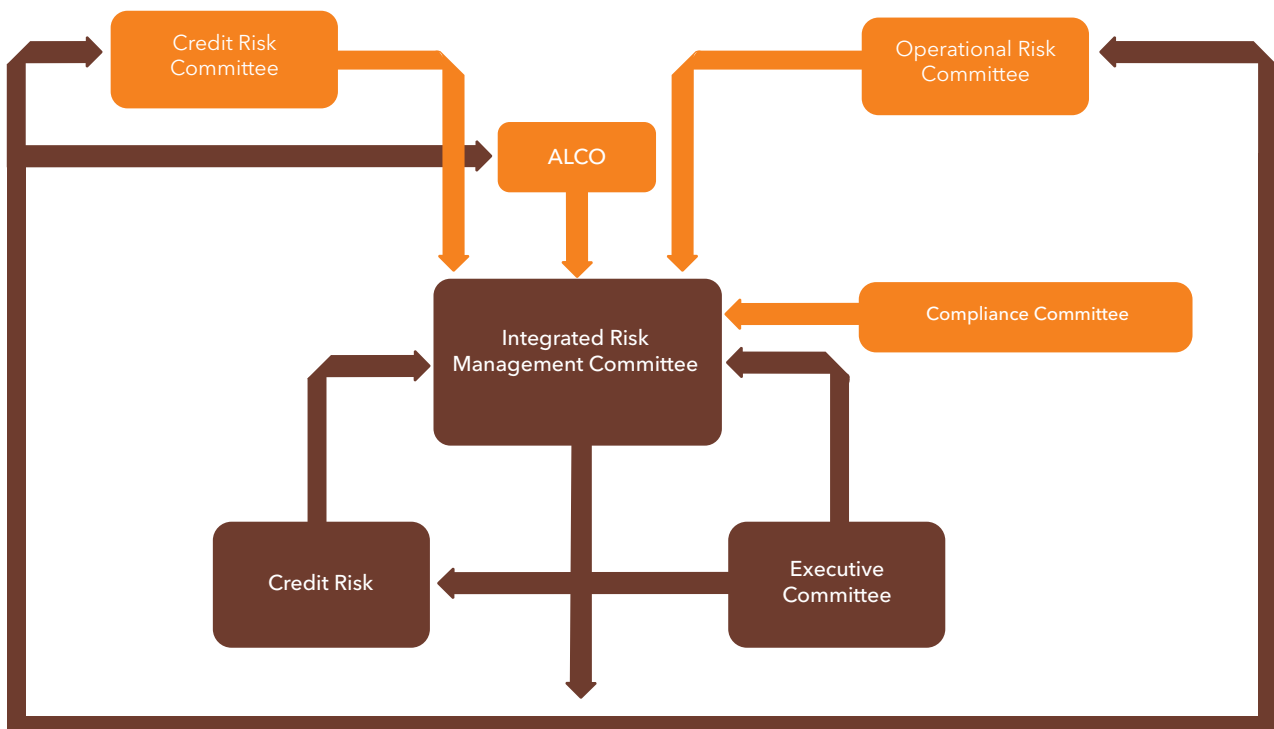
Risk Management Report

Risk Management Strategy and Framework

Alliance Finance emphasises risk management and control, as part of its sustainable growth strategy for the future. In the face of sweeping financial sector changes in the horizon, the Company believes strengthening its risk management system is a key priority to safeguard the best interests of depositors, shareholders and other stakeholders. Accordingly, the company expects to develop pre-emptive measures that would anticipate all potential risk elements and initiate suitable preventive measures to mitigate and manage these risks. By adopting a proactive approach to risk management, the company expects to completely rethink its risk management strategy, vis-à-vis a fully integrated Risk Management Framework, which will act as the primary tool in safeguarding the interests of all stakeholders of the company.

Integrated Risk Management Framework

The Company has devised and implemented an integrated risk management framework. The framework comprises three management committees and four Board subcommittees that combine expertise to identify and monitor different categories of risks and decide on responses and strategies to manage these risks.





	All Executive Directors	Non-Executive Directors	Chief Operating Officer	Chief Financial Officer	AGM - Deposits	AGM - Metropolitan Financial Services	AGM - Gold Loan	AGM - Regional Financial Services	AMG - Treasury	All Divisional Heads	Manager - Quality Management	Manager - MIS	Manager - Legal	Assistant Manager Finance	Assistant Manager Industry Intelligence	Assistant Manager IT
Credit Risk Committee																
Asset Management and Liability Committee																
Operational Risk Committee																
Compliance Committee																
Integrated Risk Management Committee																
Executive Risk Management Committee																
Audit Committee																

Risk Coverage

The Company's Comprehensive risk management framework covers nine major areas that comprise credit risk management, interest rate risk management, liquidity risk management, business risk management, operational risk management, reputation risk management, human resource risk management, legal risk and compliance risk management.

Periodic reviews by the Board, Risk Management Committee and constant Senior Management attention ensures the effectiveness of the company's risk identification, management and risk mitigation strategies and practices.

Risk Management Responsibility

The Board of Directors of Alliance Finance is entrusted with the overall supervision of the Company's risk management function. During the year two senior managers were added to the risk management system to widen and integrate additional expertise in to the system. These two additional experts are the Chief Operating Officer and the Chief Financial Officer.

Risk Management Committee

This committee functions under the leadership of the Chairperson and consists of the Managing Director, an Independent Non-Executive Director and key management personnel. The risk exposures of different strategic business units are evaluated, taking into account the specific exposures to risk arising out of its nature of business and the portfolio.

Risk Management Report

Risk Management Mechanism

Risk Category	Definition	Alliance Finance Management Approach	Key Initiatives/result areas
Credit Risk	Non payment of credit. This includes counter party risk, where an asset is not repaid in accordance with the terms of contract.	<ul style="list-style-type: none"> Evaluating the individual or corporate with independent, external credit evaluating agencies such as the Credit Information Bureau and internally, via lease appraisals and evaluation forms. The MIS provides comprehensive and timely information giving regular feedback to operational divisions and decision makers regarding collections and also non-payments. Strong follow-up and recovery systems in operations are managed by effective managerial and supervisory staff. 	<ul style="list-style-type: none"> Credit principles, policies and limit structures have been established to manage and mitigate credit risks and are reviewed regularly to reflect changing conditions. Lending guidelines and benchmarks are formulated to allow credit officers to mitigate credit risk while improving lending efficiency. Credit utilisations are monitored to prevent excessive exposure.
Interest Rate Risk	The risk from unforeseen fluctuations in interest rates that could have an adverse impact on Company cash flows, credit facilities, fixed deposits and debt instruments	<ul style="list-style-type: none"> Regular fund management meetings are conducted to guard and plan against rate and/or timing mismatch. Meetings are chaired by the Chief Operating Officer (COO) assisted by the Chief Financial Officer, under the overall supervision of the Deputy Chairman/ Managing director and the Finance Director. 	<ul style="list-style-type: none"> A diversified funding strategy is employed to better manage risk. The company uses a mix of bank loans, securitised loans and customer deposits for financing. Financial and economic indicators are continually monitored to keep abreast of interest rate movements and to maintain healthy net interest margins. Interest rates on fixed deposits are set based on competition and industry averages.
Liquidity Risk	These include the risk of available liquid assets being insufficient, an increase in client demand for cash, market disruptions causing normally liquid assets to become illiquid, counterparty withdrawals, and roll-over of funding arrangements not taking place as planned.	<ul style="list-style-type: none"> The Treasury department, Senior Managers and strategic level managers regularly review the liquidity position. Variance analysis and GAP analysis and movement of interest rates are conducted on a monthly basis and any concerns are addressed at the monthly Assets and Liability Committee meetings. Regular Fund Management Meetings are conducted to ascertain the liquidity position and review cash flow statements. 	<ul style="list-style-type: none"> The Company maintains liquidity levels and ratios in line with regulatory requirements. A liquidity management system is in place supported by a comprehensive information framework to identify and monitor liquidity risk. The Company has access to additional sources of stand-by funding in the event of any extraordinary withdrawals. The Company, operating over half a century, is endowed with a loyal depositor base with a redeposit investment rate exceeding over 90%.



Risk Category	Definition	Alliance Finance Management Approach	Key Initiatives/result areas
Business Risk	<p>Business risk is the risk from volatility in profits and the risk of unforeseen events in the future.</p> <p>A highly competitive business environment in Sri Lanka's financial sector exposes the Company to a number of possible business risks.</p>	<ul style="list-style-type: none"> • The Company conducts ongoing environmental scanning and market intelligence gathering. Island wide presence and well informed staff greatly facilitate this process. • Competitor threats on current and future business operations are evaluated on an ongoing basis where competitor analyses are conducted regularly and receive frequent attention of the Company's Board of Directors • Products and services are evaluated against competitor offerings and are revised to retain competitiveness. • Customer satisfaction is monitored by the Quality Control and Customer Care Departments to ensure a long term positive relationship with customers. • Comprehensive analysis of divisional key performance indicators are reviewed by the Board of Directors at each Board meeting. These extend to relevant non-financial indicators as well. 	<ul style="list-style-type: none"> • To minimize sector or industry specific risk, Alliance Finance operations are diversified across product lines, industries and geographical areas. • A range of products to suit different customer needs have been developed. This enables the Company to identify opportunities even under challenging market conditions. • The performance of each business division is monitored using a comprehensive set of key results areas that are regularly communicated to the Executive Directors and Senior Management.

Risk Management Report

Risk Category	Definition	Alliance Finance Management Approach	Key Initiatives/result areas
Operational Risk	Operational Risk is the risk that deficiencies in information systems or internal controls will result in unexpected loss. This includes the possibility of a breakdown in an operational process. (eg. human error or employee misconduct, a malfunction of systems, or external events beyond its control such as a natural disaster or inadequate controls or procedures)	<ul style="list-style-type: none"> The company is certified by DNV for its Business Continuity Management System which has adopted ISO 22301 global standards. All processes have been systematically documented for key areas of the company, in keeping with ISO 9001:2008 certification. Periodic ISO audits are conducted by the Quality Control and Customer Care Departments and external auditors under ISO certification. In addition, reports are presented to the Board on progress and compliance. Internal audits are conducted by an independent audit firm, KPMG Chartered Accountants, on a continuous basis. An IT security system is in operation. Further improvements to the IT security system have been made with TechCERT, a Management Security Service. External and Internal scans are conducted quarterly, to ascertain the state of the information system, and remedial action is taken when required. A disaster recovery plan has been developed with data back-ups stored at external locations. 	<ul style="list-style-type: none"> The scope of internal audits extend to efficiency of operations, reliability of financial reporting, safeguarding assets, and compliance with laws and regulations <p>It also includes spot checks in the form of verification of many classes of assets. (e.g. verification in relation to Gold Loan centres)</p>



Risk Category	Definition	Alliance Finance Management Approach	Key Initiatives/result areas
Reputational Risk	<p>This could derive from failure to comply with regulatory or legal obligations, failure to deliver expected standards of services and products, unethical practices, failure to attain financial performance targets, labour unrest and environmental breaches. Reputational risk could also arise from external factors, such as the actions of a competitor that can cast a cloud over an entire sector.</p>	<ul style="list-style-type: none"> All regulatory requirements are complied with. In the event of external developments that could impact the Company's reputation, systems are in place to speedily address such matters. In order to monitor the media, an integrated communication strategy is in place. Quality Control and Customer Care Departments ensure that Customer complaints are handled in an efficient, streamlined manner, to resolve all issues to the fullest satisfaction. A crisis plan has been developed in the event of a major crisis. The action plan under the direction of the Board of Directors provides for all committees associated with risk management to address any such threat. The Company has hired the services of a marketing Consultant to manage the public relations aspects of its marketing strategy. 	<ul style="list-style-type: none"> By embedding reputational risk management within enterprise risk management, all aspects of the risk profile have been addressed. The Company can avoid 'strategic surprises' that can threaten reputations, and it also aids in identifying emerging risks. Moreover reputational risk management is overall good corporate governance.
Human Resource Risk	<p>These are events that prevent employees from fulfilling their responsibilities and thus preventing the business from operating at full efficiency. Loss, inadequacy or inappropriate recruitment of human resources and poor employee management practices, have been identified as risk that can result in significant business losses.</p>	<ul style="list-style-type: none"> Employees of main business units face monthly performance monitoring against performance parameters. Task-related and general development programmes are conducted regularly. "Rising Stars" are identified and development goals are formulated during performance reviews. External professional education is encouraged on a variety of disciplines, with an attractive reimbursement policy. Financial and non-financial incentives are provided based on performance and strong emphasis on employee motivation and commitment and loyalty Our Company offers very attractive employee Provident Fund contribution schemes as well as superior schemes of retirement benefits. 	<ul style="list-style-type: none"> Confirming occupational safety and health of employees Developing a contingency plan to be used in a situation where key operations are disrupted or key personnel are not available

Risk Management Report

Risk Category	Definition	Alliance Finance Management Approach	Key Initiatives/result areas
Compliance Risk	<p>Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non conformance with, laws, regulations, prescribed practices, internal policies, and procedures, or ethical standards.</p> <p>This risk exposes the Company to fines and the voiding of contracts. Compliance risk can lead to bad reputation, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.</p>	<ul style="list-style-type: none"> As regulatory changes could significantly impact the Company's businesses, the Board of Directors closely monitors this aspects keeping pace with regulatory developments. The Audit Committee supplements this function by reviewing and discussing compliance declarations and compliance matters relevant to the Company. 	<ul style="list-style-type: none"> The Company has appointed a new "Central Bank Compliance Officer" in order to minimise the non-compliance with CBSL rules and regulations.
Legal Risk	<p>Legal risks arise when companies enter into transactions which are not compliant with the legal/governance framework set out by the various regulatory bodies, or due to changes in laws and regulations. Such legal risk may lead to further reputational, compliance and financial risks.</p>	<ul style="list-style-type: none"> When entering into new transactions contractual documentation is evaluated for compliance with the legal requirement. Adoption of changes in laws and regulations on a periodic basis to meet compliance. Establishment of legally compliant policies to ensure that all transactions are legally compliant. 	<ul style="list-style-type: none"> Manager Legal is a senior managerial position in the Alliance Finance PLC management hierarchy and she advises the company on all legal matters that need compliance.



Business Management Continuity Certification (BCMS)

The Alliance Finance Business Continuity Management System has been certified ISO 22301:2012 compliant by Det Norske Veritas (DNV).

Increasing dependency on technology and the fast changing global scenario demands a robust and resilient 'preparedness and recovery' system. Therefore, the Company has made huge investments to protect itself, its customers and stakeholders from any such unexpected disruptive events. This move displays the Company's commitment to business continuity and also facilitates greater resilience as an organisation. The certification will help Alliance Finance mitigate unforeseen events that may interrupt business activities and jeopardise organisational performance, growth and even survival.

BCMS (ISO 22301) provides a systematic approach to managing risks in large organisations. This is facilitated by assessing the business impact (Business Impact Analysis) of different events that may emanate risks. This includes continually recording such occurrences, providing possible mitigation options with clearly identified organisational responsibilities and subsequent follow up action and the periodic reviewing of the company by an independent certifying body.

Integration of the Microcredit Operation into the Risk Framework

In 2013, the Company diversified its operations into the microfinance sector. The company engaged "MicroSave" an internationally reputed microcredit consulting organisation from India, to study and advice on business process management and best practices in governance, covering all aspects of the microcredit operation. The Company hopes to engage Micro Save on a continuing basis to assist in governance as well as in risk management practices in microcredit.

Governance Framework

The key to the proven sustainability of Alliance Finance for over five decades, is the unwavering commitment to good governance, which has in turn contributed towards a sound risk management framework.

As a licensed finance company Alliance Finance complies with a number of national regulations. These are;

- The Finance Business Act No 42 of 2011
- Central Bank directives
- Regulations of the Securities and Exchange Commission
- Regulations of the Colombo Stock exchange

Corporate Governance

Preamble

"Good Governance" has been a fundamental principle that has been practised by our organisation. Self governance has been interwoven in our business ethics and passed down over the years. The decision making process is formulated in a manner that considers the best interest of all our stakeholders in the conduct of business and internal matters. Our employees are guided by these principles, and continuously groomed to follow this precept.

As a listed and licensed Finance Company we have endeavored to fulfill the requirement set out by the Code of Corporate Governance issued by the Central Bank of Sri Lanka.

Boards Role, Functions and Structure

In accordance with the Good Governance practices the Board of Directors is duly constituted.

Our Board of Directors currently consists of two Independent Non Executive Directors and one Non Executive Director and two Executive Directors:-

1. Mr. S. Karunanayake - Chairman
2. Mr. R.K.E.P. de Silva - Deputy Chairman/ Managing Director
3. Mr. D.L.S.R. Perera - Finance Director
4. Mrs. R. Ponnambalam - Non Executive Director
5. Mr. A.R. Samarasinghe - Independent Non Executive Director

Board Committees

The Company continues to be compliant and there are three Board Committees. The independence of the Audit Committee is maintained by the qualified independent Non Executive Chairman and the independent Non Executive Director, who form the Audit Committee.

The Risk Management Committee operates under the Chairmanship of an Independent Non Executive Director, Managing Director and Key Management personnel.

Detailed reports on the entire operations of these committees are given separately in the Annual Report.

Additionally, the Remuneration Committee is also appointed by the Board and comprises Non Executive Directors, of whom two are independent. The scope of the Committee is to give guidance in the recruitment and rewarding of key management personnel to the Executive Directors and the Senior Management, review the remuneration processes and reward system to ensure that the Company is in line with market trends.

Board Meetings /Secretaries to the Board

Board meetings are held every month and strategic matters, policies and key issues are deliberated at the Board Meetings. Recommendations from the Board Committees are also considered for implementation. Performance of the Company and its positioning in the industry and other related matters form part of the agenda.

The Chairman gives direction at Board Meetings and encourages contributions from all Directors and expert advice is sought as and when necessary.

All documents including the Agenda are circulated well in advance to all Directors and provision has been made for Non Executive Directors to include items to the Agenda. The discussions are further enhanced by presentations and supporting documents which help the Directors in their deliberations and decision making process. Notice of all Board meetings, is given at least 15 days prior to the meetings based on an annual calendar was formulated at the commencement of the year.

The minutes of the Board Meetings are maintained by the Company Secretary and copies are circulated to the Directors. Such minutes are prepared in sufficient detail covering all aspects that led to the decision making, systems and controls and changes thereto, reports studied, matters analyzed, and explanations and clarifications sought and decisions made. The Secretaries advise the Board on regulatory matters and provide all the secretarial functions to the Board.

The Board has delegated authority through the Managing Director and there are matters reserved for the Board of Directors. The matters reserved for the Board are considered on a timely and regular basis and special Board meetings are convened when necessary to discuss matters of importance. At the Board meetings the responsible officers are required to submit reports, compliance



certificates and other material to support the dispensation of their duties.

Name of Director	No. of Meetings Held	No. of Meetings attended	Percentage of attendance
Mr. S. Karunanayake	22	20	91%
Mr. R.K.E.P. de Silva	22	21	95%
Mr. D.L.S.R. Perera	22	18	81%
Mrs. R.N. Ponnambalam	22	19	86%
Lt. Col. (Retd) A. R. Samarasinghe	22	22	100%

Key Executives

During the year under review the Management Team was further strengthened and realigned according to business needs on operational and financial matters. This is to further facilitate the Company's achievement of corporate objectives and goals in the shorter term and the structuring in the longer term for strategic positioning. Areas that have potential for growth and diversified activities have also been addressed in such initiatives, where expertise has been brought in.

Succession Planning

Whilst the Senior Management team is being strengthened to meet the growing needs and achieving the corporate strategies manner, the Board also gives due consideration to the sustainability of the Company. Key Management Personnel are afforded training and exposure to meet the demands of socio economic changes. A process is in place to identify, nurture and groom employees who have potential and show promise to reach higher levels within the organisation.

Accountability and Disclosure

During the year under review, the quarterly accounts and annual audited accounts were reviewed by the Audit Committee and also by the Board of Directors. All required disclosures have been complied with to the relevant regulatory bodies and also to the shareholders. Public dissemination of information was also made with adequate disclosure.

Directors' responsibility with regard to financial statements is given on page 94.

Share Issues/Interim Dividends

There was no share issue during the year under review and no interim dividend was paid.

Future

In a competitive environment, the Board is of the belief that good governance is an essential tool for the wellbeing of the Company and all its stakeholders. The values of upholding good governance is nurtured and inculcated in our employees from the entry level.

Corporate governance is the system by which companies are directed and controlled. Boards of Directors are responsible for the governance of their companies whilst the shareholders' role is to appoint the Directors and the Auditors and to satisfy themselves that an appropriate governance structure is in place. Corporate governance covers a wide range of issues and disciplines from secretarial and legal, through to business strategy, executive and non-executive management and investor relation, to accounting and information systems and remuneration.

We have enumerated below the extent of adherence by the Company to the Direction No.3 of 2008 issued by the Central Bank of Sri Lanka and also that of the Colombo Stock Exchange.

Corporate Governance

CSE Rule Ref.	Status of Adherence	Reasons for Non Compliance
7.10 (1) Non Executive Directors to be at least 2 or 1/3 of the total number of Directors whichever is higher.	3 Non Executive Directors on the Board.	Complied
7.10 (2) Independent Directors to be at least 2 or 1/3 of the total number of Non Executive Directors	2 Directors are Independent	Complied
7.10(3) a Names of Independent Directors	Mr.Sunil Karunanayake Lt. Col. (Retd) A.R. Samarasinghe	Complied
7.10(3) b Board determination of independence or independence of Non Executive Directors	The Non Executive Directors have served on the Board for less than 9 years.	Complied
7.10(3) c Publish a resume of each Director on the Board.	Refer page 16 to 18	Complied
7.10(5) Remuneration Committee Composition Functions Disclosures	Three Non Executive Directors of whom two are independent. Makes recommendations to the Board of proposed remuneration for Executive Directors and Senior Management. Remuneration is the outcome of an individual appraisal and a comparison with market. Refer page 156 for aggregate remuneration paid to Directors by the Company.	Complied
7.10(6) Audit Committee Composition Functions Disclosures	Comprises of two independent Non Executive Directors. One member of the Committee is a member of ICASL. The Committee is assisted by Internal and External Auditors and secretaries. Refer page 96 for the names of Directors. The Audit Committee Report appears on page 95.	Complied



Description and paragraph reference	Ref code	Degree of compliance
Responsibilities of the Board- paragraph 2		
Approving business strategy, risk policy and management with measurable goals for at least three years.	2(1) b	Compliant
Identification and management of risk prudently.	2(1) c	Compliant. By the Board
Approving a process of communication with all stakeholders.	2(1) d	Compliant
Review adequacy and the integrity of internal control systems and MIS	2(1) e	Compliant
Identification and designation of key management personnel	2(1) f	Compliant
Defining areas of authority and key responsibilities for the Board and key management	2(1) g	Compliant.
Ensuring that key management personnel oversee the affairs appropriately.	2(1) h	Compliant. By the Management Committee.
Assessing effectiveness of governance practices including nomination/ selection of Directors & key management, managing conflict of interests, determining weaknesses and effecting changes	2(1) i	Compliant. Key recruitments are approved by the Board of Directors.
Periodically assessing the effectiveness of the governance practices ensuring that there is a succession plan for key management.	2(1) j	Compliant
Meeting regularly with key management personnel to review policies, establish lines of communication and monitor progress.	2(1) k	Compliant
Understanding the regulatory environment	2(1) l	Compliant
Exercising due diligence in hiring and oversight of external auditors.	2(1) m	Compliant
Board shall define and approve the functions of Chairman and Chief Executive Officer (Managing Director)	2(2)	Compliant
Procedure to enable the directors to seek independent professional advice upon reasonable request.	2(3)	Compliant
Board shall have a formal schedule of matters reserved to it and ensure that direction and control is under its authority	2(5)	Compliant
Board shall include in Annual Report a corporate governance report setting out compliance with this Direction	2(7)	Compliant
Board shall adopt a scheme of Self-assessment to be undertaken by each Director annually and maintain such records.	2(8)	Compliant

Corporate Governance

Description and paragraph reference	Ref code	Degree of compliance
Meetings of the board - Paragraph 3		
Board shall meet twelve times in a financial year.	3(1)	Compliant.
Arrangements for the directors to add agenda items pertaining to the promotion of business and the management of risks.	3(2)	Compliant. Agenda is circulated in advance permitting time for changes.
At least seven days notice for the regular board meetings and reasonable notice for other meetings.	3(3)	Compliant.
Appointment of company secretary to handle statutory, regulatory and secretarial services.	3(5)	Compliant.
Preparation of the agenda for a board meeting by company secretary.	3(6)	Compliant
Directors' access to advice and services of the company secretary.	3(7)	Compliant.
Maintenance of minutes of board meetings by the company secretary and make it available for inspection by any director.	3(8)	Compliant.
Recording of the Minutes of board meetings with sufficient detail to gather whether the board acted with due care and prudence in performing its duties	3(9)	Compliant.
Composition of the Board- Paragraph 4		
Directors of the board shall not be less than 5 and not more than 13	4(1)	Compliant.
Period of service of a director other than an executive director shall not exceed nine years.	4(2)	Compliant.
Number of executive directors shall not exceed one-half of the number of directors on the board.	4(3)	Compliant. Two Executive Directors on the board.
The Number of independent non-executive directors of the board shall be at least one fourth of the total number of directors.	4(4)	Compliant. Two directors are independent non-executive.
Non-executive directors shall have necessary skills and experience in strategy, performance and resources.	4(6)	Compliant.
Quorums for Board Meeting one half are Non Executive Directors.	4(7)	Compliant.
The independent non-executive directors shall be expressly identified in all corporate communications and in the annual corporate governance report.	4(8)	Compliant.
A formal and transparent procedure for the appointment of new directors and for their orderly succession.	4(9)	Compliant.



Description and paragraph reference	Ref code	Degree of compliance
All Directors appointed during the year retire at the Annual General Meeting following the appointment.	4(10)	Compliant.
If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions.	4(11)	Compliant.
Criteria to assess the fitness and propriety of directors- Paragraph 5		
A person over the age of 70 years shall not be a director.	5(1)	Compliant.
A director shall not hold office as a director or other equivalent position in more than 20 companies/ societies/ body corporate nor in 10 specified business entities.	5(2)	Compliant.
Delegation of functions - Paragraph 6		
Board shall not delegate any matters to anyone so as to significantly hinder or reduce the ability of the board to discharge its functions.	6(1)	Compliant.
Board shall review the delegation process periodically	6(2)	Compliant.
The Chairman and the Chief Executive Officer - Paragraph 7		
Separation of the roles of chairman and chief executive officer	7(1)	Compliant.
The chairman shall be an independent non-executive director.	7(2)	Compliant.
Disclosures in the Annual Corporate Governance Report the relevant details of the Chairman and Chief Executive Officer (Managing Director).	7(3)	Compliant.
Chairman shall provide leadership to the board, ensure effective discharge of responsibilities and all issues are discussed in a timely manner.	7(4)	Compliant.
Responsibility of the chairman for either the preparation or delegating the preparation of agenda to the company secretary.	7(5)	Compliant.
The information to be disseminated to the Directors prior to the Board Meetings	7(6)	Compliant.
Chairman shall encourage directors to make a full and active contribution and ensure that the Board acts in the best interest of the company.	7(7)	Compliant.
Chairman shall facilitate effective contribution by non-executive directors and constructive relationships among directors	7(8)	Compliant.
Chairman shall not engage in direct supervision of key management personnel or any other executive duties.	7(9)	Compliant.

Corporate Governance

Description and paragraph reference	Ref code	Degree of compliance
Board Appointed Committees - Paragraph 8 Company shall have at least two board committees (Audit & Risk) reporting directly to the board.	8(1)	Compliant.
Audit Committee Chairman shall be a Non- Executive Director with an accounting Qualification	8(2) 8(2) a	Compliant. Mr. Sunil Karunanayake- ACMA (UK), FCA
Members shall be Non- Executive directors.	8(2)b	Compliant.
Shall make recommendations on the appointment of auditors, service period, audit fee, period of engagement of an audit partner and the application of accounting standards.	8(2)c	Compliant.
Review the effectiveness of audit processes and monitor the external auditors' independence and objectivity.	8(2)d	Compliant. Management letter is directed to the Board.
Shall develop an approved policy for the engagement of external auditors to provide non audit services, to assure independence of external auditors.	8(2)e	Compliant. Non audit assignments were not given to external auditors.
Prior to audit, committee shall discuss and finalize the nature and scope of audit, assessment of compliance with directions and preparations of financial statements compatible with accounting standards and reporting principles.	8(2)f	Compliant.
Monitor integrity, significant judgments, changes in accounting policies and practices, adjustments arising from the audit in the preparation of financial information and reports.	8(2)g	Compliant. External and internal auditors and group of audit team reporting compatibilities direct to the Audit Committee.
Review management letter and management response there to.	8(2)i	Complaint
Consider findings of internal investigations and management responses there to.	8(2)k	Complaint
Meet external auditors once in 6 months without Executive Directors being present.	8(2)l	Complaint
Shall have authority to investigate any matter within TOR, acquire resources and access to information.	8(2)m	Complaint
Meet regularly, give notice of issue to be discussed and record conclusions.	8(2)n	Compliant. Meets monthly.



Description and paragraph reference	Ref code	Degree of compliance
Annual Report to disclose activities of the Audit Committee, Audit Committee meetings and attendance of each individual member.	8(2)o	Complaint
The Secretary shall record and keep detailed minutes.	8(2)p	Compliant
Review arrangements for employees to raise concerns in confidence about financial reporting and internal control and ensure fair and independent investigation and appropriate follow up action.	8(2)q	Complaint
Risk Management Committee	8(3)	
Consists of one Non-Executive Director, CEO and Key management personnel.	8(3)a	Complaint
Assess all risks on a monthly basis using risk indicators and MIS.	8(3)b	Complaint
Review adequacy and effectiveness of all management committees and the management of risks.	8(3)c	Complaint
The actions to mitigate the effects of specific risks if such risks are beyond the internal policy or regulatory limits.	8(3)d	Complaint
Shall meet at least quarterly to assess risk management and BCP.	8(3)e	Complaint
Submit risk assessment report within a week of each meeting for board review and specific directions.	8(3)g	Complaint
Establish compliance function with a Compliance Officer to report about compliance with laws, rules, regulations & directions etc.	8(3)h	Complaint
Related party transactions - Paragraph 9		
Board shall avoid any conflict of interest from any transaction with any person and particularly with persons considered as related parties.	9(2)	Compliant.
Board shall ensure that the company does not engage in transactions which would grant a related party "more favourable treatment" than is accorded to other constituents.	9(4)	Compliant.

Corporate Governance

Description and paragraph reference	Ref code	Degree of compliance
Disclosures - Paragraph 10		
A statement to the effect that audited financial statements are prepared in line with applicable accounting standards and regulatory requirements.	10(2) a	Compliant
A report by the board that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability and the preparation of financial statements is in accordance with the relevant accounting standards and regulatory requirements.	10(2) b	Compliant.
Details of the directors including names, transactions with the company.	10(2) d	Compliant.
Fees and remuneration paid in aggregate by the company to the directors.	10(2) e	Compliant
Net accommodation outstanding in respect of each category of related parties and net accommodation outstanding as a percentage of the finance company's capital funds.	10(2) f	Compliant
Aggregate values of remuneration paid and transactions with its key management set out by broad categories such as remuneration paid, accommodation granted and deposits or investments.	10(2) g	Compliant
A report setting out details of compliance with prudential requirements, regulation, laws, internal controls and measures to rectify non-compliances, if any.	10(2) h	Compliant. Directors, auditors, internal control, audit and risk committees and governance reports form part of this requirement.
The external auditors certification of compliance with the Act, rules and directions issued by the Monetary Board	10(2) j	Compliant

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

(Sgd)

ALLIANCE MANAGEMENT SERVICES (PVT) LTD

Secretaries

30th May 2014





Financial Reports



Our concept of financial success is not limited to making profits today. We look at financial success as a component of business sustainability that includes environmental and social sustainability. Our footprint is one that incorporates all three as we walk into the future.

Annual Report of the Directors

The Board of Directors of Alliance Finance Company PLC is pleased to present the Annual Report of the Directors together with the Audited Statement of Accounts of the Company for the financial year ended 31st March 2014.

Board of Directors Structure

The Board is comprised of three Non Executive Directors and two Executive Directors. The offices held by the Executives are Managing Director and Finance Director. During the year our Chairperson retired as she had served on the Board for nine years of which for one and half years she was the Chairperson. She ceased to hold office from 31st May 2013. An Independent Non Executive Director, Mr.Sunil Karunanayake has been appointed as Chairman of the Company from 1st June 2013. The profiles of the Directors appear on page 18.

On behalf of the Board of Directors we convey our grateful thanks for her invaluable contribution to the Company during her tenure of office and for her active leadership as Chairperson of the Company.

Principal Activities

The Company continued with its principal Lines of Business, it was a year of consolidation for its core businesses, Hire Purchase, Lease and Gold Loans. A new product Micro Finance was included to the credit portfolio during the latter part of the financial year. The main thrust for the business was from leasing, which was followed by Hire Purchase and Gold Loan. The new product too has fared well.

The other sources remained part of the product portfolio with contributions from some namely Collaboration finance, Import finance.

Management Discussion And Analysis

An encompassing review on the Company's activities overall assessment of the company's Financial position and performance during the year, with comments on financial results and special events that took place are also more comprehensively dealt with in the Managing Director's review (Pages 12 to 15), the Financial statements (Pages 97 to 166) and the Management Discussion and Analysis section of the report (Pages 26 to 41).

Risk Management Review

During the year under review the Board of Directors further strengthened the risk management framework to meet the changing business climate. The risk management system has been formulated to identify, evaluate and manage the risk associated with the operations of the Company at various levels. A detailed overview of the process is set out in the integrated Risk Management Report on pages 70 to 77 of this Annual Report.

Corporate Governance

The Board has complied with the requirements of the guidelines in the Central Bank Direction No.3 of 2008 and the subject is comprehensively covered in the Corporate Governance Report in the Annual Report and is on pages 78 to 86.

Board Committees

Audit Committee

The Audit Committee report appears on page 95.

Remuneration Committee

This subject is dealt under Corporate Governance.

Results and Appropriations

	Year ended 31.03.2014 Rs.	Year ended 31.03.2013 Rs.
Turnover	8,688,937,273	7,407,358,604
Profit before Taxation	287,315,434	586,175,235
Profit after Taxation	308,601,238	511,110,392
Retained Profit b/f	288,036,456	302,535,871
Transfer to Reserves		
Less: Transfer to Reserve Fund	49,900,000	104,000,000
Transfer to General Reserve	-	130,000,000
Transfer to Diversification Risk Reserve	-	150,000,000
Transfer to Investment Fund Reserve	16,018,251	32,432,755
Add: Transfer to Retained Earnings	272,151,237	401,933,340
Retained profit c/f	494,269,442	288,036,456



Dividends

The Board of Directors has recommended a Final Dividend of Rs. 20/- per share. The Directors confirm that the Company satisfies the solvency test set out in Section 56 of the Companies Act No. 2007. The Certificates of Confirmation was obtained from the Auditors in respect of the proposed Dividends.

Reserves

The Directors have transferred Rs. 49.9 mn to the Reserve Fund as required by section 3(b) of the Central Bank, Finance Companies (Capital fund) direction No.1 of 2003, and Rs. 16 mn to the Investment Fund Reserve. The Reserves Including Retained Earnings stand Rs. 2,391 mn at the close of the financial year.

Rating

Ram Rating has assigned our Company a rating of RAM BBB/P2 with a positive outlook.

Issue Of Debentures

During the year 2013/14, the Company issued Ten Million Unsecured Subordinated Redeemable Debentures of Rs. 100 with an aggregate value of Rupees One Billion and it enhanced the Tier 2 capital of the Company.

The Company also issued Ten Million Unsecured Subordinated Redeemable Debentures of Rs. 100 with an aggregate value of Rupees One Billion in the previous year.

Stated Capital

The Stated Capital of the Company is Rs. 24.3 Mn represented by 2,430,000 ordinary shares. There was no issue of shares during the year under review.

Shareholders' Information

The detailed Shareholders' information appear on page 175 of the annual Report.

Twenty Major Shareholders

The names and number of shares of the 20 major shareholders appear on page 175.

Public Holding

The public holding percentage appears on page 175.

Share Information

Information with regard to Dividend per Share, Dividend Pay Out and Net Asset Value per share and Market Value per share appears in the Ten year Summary on Page 174.

Directors' Interest In Contracts

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

Related Party Transactions

The required disclosures have been made the details appear on pages 156 to 157.

Re-Election of Directors'

Lt. Col. A.R. Samarasinghe retires by rotation under Articles numbered 130 & 131 of the Company and eligible offers himself for re-election with the unanimous support of the Directors.

Directors' Remuneration

The Directors' remuneration is disclosed under Note 47.1.1 to the Financial Statements.

Directors' shareholdings

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

Name	31.03.2014	31.03.2013
Mr. S. Karunanayake	119	119
Mr. R.K.E.P. de Silva	640,075	636,381
Mr. D. L. S. R. Perera	39,920	39,920
Mrs. R.N. Ponnambalam	200	200
Mr. A.R. Samarasinghe	100	100

Annual Report of the Directors

Shareholdings in Associate Companies

The Company has no subsidiaries and the holdings in the Associate Companies are given below.

Name of the Company	No. of Shares as at 31.03.2014	Percentage
Alfinco Insurance Brokers (Pvt) Ltd	97,500	39
Xesol (Pvt) Ltd	513,055	36
Macbertan (Pvt) Ltd	1,720,000	30
Alliance tech Trading (Pvt) Ltd	20,000	40

Employee Share Ownership

The company has not implemented a Employee Share Ownership scheme.

Properties of The Company Restate

The value of freehold properties owned by the Company as at 31st March 2014 is included in the accounts at Rs. 615,723,322/- (31st March 2013 - Rs. 618,393,993) based on valuations undertaken by Mr. M.T.H.Farook, incorporated valuer and a fellow member of the institute of valuers (Sri Lanka) in the year 2012/13 and cost of subsequent improvements. The Directors are of the opinion that this value is not in excess of the current market value. The details are provided in the Note 28.6 to the Financial Statements.

Donations

The Company donated a sum of Rs. 1,723,790.88 during the year under review.

Auditors

The Auditors M/s. HLB Edirisinghe & Co. Chartered Accountants, of 45, Braybrooke Street, Colombo 2, have audited the accounts as at 31st March, 2014. The re-appointment rests in your hands they have offered their services at an all inclusive fee of Rs. 600,000 for the ensuring year.

(Sgd)

By Order of the Board of Directors

ALLIANCE MANAGEMNET SERVICES (PVT) LTD

Secretaries

30th May 2014

Report by the Board on Internal Control



Internal Control and Responsibility of the Board

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

1. Effectiveness and efficiency of operations, systems and internal controls and the identification and management 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 final financial statements. The third aspect deals with complying with those laws and regulations which are applicable to the Company. These three areas although intrinsically different, overlap in certain categories but addresses different needs.

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

The Company has a structured, pro-active risk management system. A risk and control framework has been developed, based on good governance principles and is dealt with in great 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 committees to consider the systems of risk management and internal control being operated for managing

significant risks, including strategic, safety and operational and compliance and control risks, throughout the year.

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

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

External Auditors' Statement

The External Auditors have reviewed the above Director's Statement on internal control for the year ended 31st March 2014 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.

Romani de Silva

Deputy Chairman/Managing Director

Sunil Karunanayake

Chairman

Audit Committee

Directors' Responsibility for Financial Reporting

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

Accordingly, the Directors confirm that the Company's Financial Statements for the year ended 31st March 2014 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 judgment 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 Balance Sheet date have been paid for, or where relevant, provided for.

The External Auditors, Messrs HLB Edirisinghe & Company was provided with the opportunity to make appropriate inspections of financial records, minutes of shareholders and Directors' meetings and other documents and carry out review and sample check on the system of internal controls as they consider appropriate and necessary to enable them to form an opinion of the Financial Statements. The Report of the Auditors is set out on page 97.

By order of the Board

(Sgd)

Alliance Management Services (Pvt) Ltd
Secretaries

30th May 2014



Report of the Audit Committee

This report is provided by the Audit Committee, in respect of the financial year ended 31st March 2014. The Committee's operation is guided by a detailed mandate that is approved by the Board. The Committee is appointed by the Board and is comprised of two Independent Non Executive Directors.

Executive functions

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

External Auditors and audit

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

- approved the reappointment of HLB Edirisinghe & Co., external auditors for the financial year ended 31 March 2015,
- approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
- reviewed the audit and evaluated the effectiveness of the audit;
- obtained assurance from the auditors that their independence was not impaired;
- it was noted that non-audit services were not provided by the external auditors;

In respect of Financial Statements

- examined and reviewed the interim and annual financial statements as well as financial information disclosed to the public prior to submission and approval by the board;
- reviewed reports on the adequacy of the portfolio and specific impairments and impairment of other assets, and the formulae applied by the associate in determining charges for and levels of portfolio impairments;
- ensured that the annual financial statements fairly present the financial position of the company as at the

end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company was determined to be a going concern;

- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed and discussed the external auditors' audit report;
- considered and made recommendations to the board on the final dividend payment to shareholders;
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

In respect of internal control and internal audit

- reviewed and approved the annual internal audit mandate and audit plan and evaluated the independence and compliance with its mandate;
- considered reports of the internal and external auditors on the Company'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;
- 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

Report of the Audit Committee

internal financial controls, resulting in any material loss to the Company.

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

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

In respect of risk management and information technology

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


Compliance with the Legal and Statutory Requirements

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

	Meetings Held	Meeting Present
Mr. S. Karunanayake	08	08
Lt.Col. Athula R. Samarasinghe	08	08

Conclusion

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



Sunil Karunanayake
Chairman
Audit Committee



Independent Auditor's Report



TO THE SHAREHOLDERS OF ALLIANCE FINANCE COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Alliance Finance Company Plc, which comprise the Statement of Financial Position as at March 31, 2014, and the Income Statement and Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2014 and the financial statements give a true and fair view of the financial position of Company as at March 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of section 151(2) of the Companies Act No.07 of 2007 and the Finance Business Act No. 42 of 2011.

HLB Edirisinghe & Co.
Chartered Accountants

Colombo

30-May-14

45, Braybrooke Street, Colombo 02. Sri Lanka. Telephone: +94 11 2433933 Facsimile: +94 11 2445683, E-mail: info@hiblk.com
A. D. Jayasena FCA, Partner, P. P. Edirisinghe FCA, ACIM, MBA, Partner,
Ms. N. G. D. C. K. de Silva Jayawardene FCA, Partner, Ms. M. K. K. Karunaratne ACA, ACMA, Partner, P. K. A. M. Alahakoon ACA, MAAT, Partner
A.T.P. Edirisinghe FCMA, FCA, Consultant/Advisor

HLB Edirisinghe & Co is a member of International. A world-wide organization of accounting firms and business advisers.

Income Statement

For the Financial year ended 31st March 2014		2014	2013
	Notes	Rs.	Rs.
Gross Income		3,896,139,718	3,572,136,587
Interest Income		3,552,743,296	3,255,569,543
Interest Expenses		(2,299,280,718)	(1,891,109,361)
Net Interest Income	5	1,253,462,578	1,364,460,181
Fee and Commission Income		180,026,176	204,189,251
Fee and Commission Expenses		(58,251,767)	(84,166,162)
Net Fee and Commission Income	6	121,774,409	120,023,089
Net gain/(loss) from Trading	7	20,702,295	(7,375,384)
Other Operating Income (net)	8	142,667,951	119,753,177
Total Operating Income		1,538,607,234	1,596,861,064
Impairment (Charges) / Reversal for loans and other losses	9	(299,260,083)	(88,154,013)
Net Operating Income		1,239,347,150	1,508,707,051
Operating Expenses			
Personnel Expenses	10	(348,880,392)	(459,865,731)
Depreciation of Property & Equipment		(69,249,072)	(57,067,839)
Other Operating Expenses	11	(534,530,767)	(397,558,641)
Operating Profit before Value Added Tax on Financial Services		286,686,919	594,214,840
Value Added Tax on Financial Services		(15,764,886)	(37,012,395)
Operating Profit after Value Added Tax on Financial Services		270,922,033	557,202,445
Share of profit from Associates		16,393,401	28,972,790
Profit before Taxation from Operations		287,315,434	586,175,235
Provision for Income Taxation	12	21,285,803	(75,064,643)
Profit for the Year		308,601,237	511,110,592
Basic/ Diluted Earnings Per Share	13	127.00	210.33
Dividend Per Share (Rs./Cts.)	14	20.00	40.00

Figures in brackets indicate deductions.

Accounting Policies & Notes from pages 103 to 166 from an integral part of these Financial Statements.

Statement of Comprehensive Income



	2014	2013
	Rs.	Rs.
Profit for the Year	308,601,237	511,110,592
Other comprehensive income:		
Net Gains and Losses on Available-for-Sale Financial Assets:		
Sri Lanka Government Securities	(388,511)	1,100,194
Equity Securities - Quoted	(3,341,627)	(3,051,045)
Equity Securities - Un Quoted	6,499,985	(1,073,514)
Share of Other Comprehensive Income of Associates	(2,690,304)	(2,470,706)
Other Comprehensive Income for the Period, Net of Taxes	79,542	(5,495,071)
Total Comprehensive Income for the Period	308,680,779	505,615,521

Statement of Financial Position

As at 31st March 2014		31.03.2014	31.03.2013
	Notes	Rs.	Rs.
Assets			
Cash and Bank Balances	17	137,530,040	151,455,670
Repurchase Agreements		395,408,217	422,906,198
Placements with Banks & Financial Institutions		715,261,644	468,713,717
Financial Investments - Held for Trading	18	1,477,669,371	241,848,243
Loans and Advances	19	3,643,971,566	3,372,775,361
Lease Rentals Receivable & Stock out on hire	20	8,573,451,013	8,476,083,340
Hire purchase rentals receivable & Stock out on hire	21	1,711,157,466	2,193,311,980
Financial Investments - Available for Sale	22	242,534,452	176,822,297
Real Estate & Other Trading Stock	23	93,241,656	240,519,961
Other Financial Assets	24	162,867,616	139,101,427
Other Non Financial Assets	25	126,984,240	87,555,817
Income Tax Refund Due	26	7,771,001	77,211,499
Investments In Associates	27	123,442,479	125,414,272
Property, Plant & Equipment	28	1,120,354,307	1,074,238,256
Deferred Tax Assets		194,820,518	243,558,590
Total Assets		18,726,465,587	17,491,516,627
Liabilities			
Due to Banks	29	2,184,716,485	3,499,753,777
Due to Customers	30	11,201,588,507	9,001,881,219
Debt Instruments Issued and Other borrowed funds	31	2,400,373,061	2,188,547,841
Derivative Financial Liabilities	32	-	10,296,783
Other Financial Liabilities	33	360,779,078	314,591,579
Other Non Financial Liabilities	34	18,245,273	8,929,938
Retirement Benefit Liability	35	63,151,656	78,873,062
Deferred Tax Liabilities	36	106,302,413	269,564,093
Total liabilities		16,335,156,474	15,372,438,292
Shareholders' Funds			
Stated Capital	37	24,300,000	24,300,000
Retained Earnings	38	494,269,442	288,036,456
Reserves	39	1,872,739,672	1,806,741,878
Total Shareholders' Funds		2,391,309,114	2,119,078,335
Total Liabilities and Shareholders' Funds		18,726,465,587	17,491,516,627
Net Assets Value Per Share (Rs.)		984	872

Accounting Policies & Notes from pages 103 to 166 from an integral part of these Financial Statements.

Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

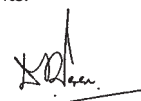


Chamindra de Silva
Chief Financial Officer

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



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



D.L.S.R. Perera
Finance Director

30th May 14
Colombo

Statement of Changes in Equity



	Stated Capital Rs.	Statutory Reserve Rs.	Capital Reserve Rs.	Dividend Equalization Reserve Rs.	Diversification Risk Reserve Rs.	General Reserve Rs.	Development Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 April 2012	24,300,000	223,757,400	224,954,309	7,000,000	105,000,000	323,300,000	108,141,275	34,765,774	113,933,101	302,535,871	1,467,687,731
Profit for the year	-	-	-	-	-	-	-	-	-	511,110,593	511,110,593
Other Comprehensive											
Income, net of tax	-	-	-	-	-	-	-	-	(5,495,071)	-	(5,495,071)
Transfer to Statutory Reserve	-	104,000,000	-	-	-	-	-	-	-	(104,000,000)	-
Transfer to Investment Fund Reserve	-	-	-	-	-	-	-	32,432,755	-	(32,432,755)	-
Revaluation Surplus	-	-	254,952,335	-	-	-	-	-	-	-	254,952,335
Transfers during the year	-	-	-	-	150,000,000	130,000,000	-	-	-	(280,000,000)	-
Dividend Paid	-	-	-	-	-	-	-	-	-	(109,350,000)	(109,350,000)
Prior year adjustment	-	-	-	-	-	-	-	-	-	172,748	172,748
Balances as at											
31 March 2013	24,300,000	327,757,400	479,906,644	7,000,000	255,000,000	453,300,000	108,141,275	67,198,529	108,438,030	288,036,457	2,119,078,335
Profit for the year	-	-	-	-	-	-	-	-	-	308,601,237	3308,601,237
Other Comprehensive Income,											
net of tax	-	-	-	-	-	-	-	-	79,542	-	79,542
Transfer to Statutory Reserve	-	49,900,000	-	-	-	-	-	-	-	(49,900,000)	-
Transfer to Investment Fund Reserve	-	-	-	-	-	-	-	16,018,251	-	(16,018,251)	-
Transfers during the year	-	-	-	-	-	-	-	-	-	-	-
Dividend Paid	-	-	-	-	-	-	-	-	-	(36,450,000)	(36,450,000)
Balances as at 31st March 2014	24,300,000	377,657,400	479,906,644	7,000,000	255,000,000	453,300,000	108,141,275	83,216,780	108,517,572	494,269,442	2,391,309,114

Statement of Cash Flows

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
Cash Flows From / (Used in) Operating Activities		
Profit before Income Tax Expense	287,315,434	586,175,235
Adjustments for;		
Depreciation of property, plant & equipment	69,249,072	57,067,839
Impairment Provision	299,260,083	88,154,013
Interest on Fixed Deposits, Commercial Paper & Treasury Bills	(165,358,653)	(105,270,096)
Profit/(Loss) on Sale of Securities	(9,829,290)	(1,711,040)
Fair Value Gain or Loss on Equity Investments (FVTPL)	(2,112,546)	18,620,234
Fair value gain or Loss on Financial Derivatives	(8,740,673)	(9,538,011)
Diminution/(Appreciation) in value of investments	21,713,626	(26,284,615)
Loss/(Profit) on disposal of property & equipment	(6,335,983)	(1,939,166)
Provision/(reversal) for Defined Benefit Plans	(3,988,519)	50,760,317
Dividend Received	(6,841,446)	(5,644,300)
Share of profit from Associates	(10,695,011)	(28,972,790)
Operating Profit before Working Capital Changes	463,636,093	621,417,621
(Increase)/Decrease in Real Estate Stock	147,278,305	(2,753,778)
(Increase)/Decrease in Loans and Advances	(387,653,382)	(1,592,086,225)
(Increase)/Decrease in Lease Rentals Receivable & Stock out on hire	(254,871,279)	(2,298,200,523)
(Increase)/Decrease in Hire purchase Rentals Receivable & Stock out on hire	456,855,212	(191,886,317)
(Increase)/Decrease in Fixed Deposits & Repurchase Agreements	(219,049,947)	(486,398,873)
(Increase)/Decrease in Other Financial Assets	(23,766,189)	(154,118,904)
(Increase)/Decrease in Other Non Financial Assets	(39,428,424)	1,907,373
Increase/(Decrease) in Amounts Due to Customers	2,199,707,288	2,269,072,111
Increase/(Decrease) in Derivative Financial Liabilities	(1,556,110)	(790,740)
Increase/(Decrease) in Other Financial Liabilities	46,187,500	55,426,263
Increase/(Decrease) in Other Non Financial Liabilities	9,315,335	704,929
Cash (Used in)/ Generated from Operations	2,396,654,405	(1,777,707,063)
Retirement Benefit Liabilities Paid	(1,141,800)	(1,894,285)
Investments in Gratuity fund	(10,591,087)	(8,684,164)
Net Cash Used in Operating Activities	2,384,921,518	(1,788,285,512)
Cash Flows from / (Used in) Investing Activities		
Acquisition of Property, Plant & Equipment	(137,364,507)	(158,354,058)
Proceeds from Sales of Property, Plant & Equipment	27,772,125	37,953,140
Net Sales/ (Purchases) of Financial investments Held -For- Trading	(1,255,422,208)	134,584,619
Net Sale/(Purchase) of Financial Investments- Available- For- Sale	(66,370,585)	(10,173,273)
Dividend Received	6,841,446	5,644,300
Interest on Fixed Deposits, Commercial Paper & Treasury Bills	165,358,653	105,270,096
Net Cash Flows from/(Used in) Investing Activities	(1,259,185,076)	114,924,824
Cash Flows from / (Used in) Financing Activities		
Proceeds from debentures and Increase in borrowed funds	211,825,220	1,933,684,029
Net Increase /(Decrease) in Other Borrowings	(1,315,037,292)	(121,666,141)
Dividends Paid	(36,450,000)	(109,350,000)
Net Cash Flows from/(Used in) Financing Activities	(1,139,662,072)	1,702,667,888
Net Increase in Cash and Cash Equivalents	(13,925,631)	(29,307,200)
Cash and Cash Equivalents at the beginning of the year	151,455,670	122,148,471
Cash and Cash Equivalents at the end of the year	137,530,040	151,455,670
Movement in Cash and Cash Equivalent	(13,925,631)	29,307,200

Note : Reporting cash flows from operating activities

The Company reports cash flows from operating activities by using the indirect method. The indirect method - whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows - is shown in the above.



Significant Accounting Policies

1. CORPORATE INFORMATION

1.1 General

Alliance Finance Company PLC (the 'Company') is a public limited liability Company listed on the Colombo Stock Exchange and incorporated on July 18, 1956 under the Companies Ordinance No 51 of 1938 and domiciled in Sri Lanka. It is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto. The Company is re-registered under the new Companies Act No 7 of 2007. The registered office of the Company is located at No.84, Ward Place, Colombo 07, and the principal place of business is situated at the same place

1.2 Principal Activities and Nature of Operations

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 and other financial services.

During the year under review, The Company started Micro Financing activities. Please refer pages 30 to 31.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Statement of Financial Position, Income Statement, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes, ('Financial Statements'), as at 31st March 2014 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards and Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by the Institute of Chartered Accountants of 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 provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and SLFRS.

The Board of Directors acknowledges its responsibility as set out in the 'Annual Report of the Board of Directors', "Statement of Directors Responsibility" and the certification on the Statement of Financial Position on page no 94.

2.3 Date of Authorization for Issue

The Financial Statements of Alliance Finance Company PLC for the year ended 31 March 2014 were approved and authorized for issue in accordance with a resolution of the Board of Directors on 30th May 2014.

2.4 Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of financial position:

Items	Measurement Basis
Financial Investments available for sale	Fair value
Financial Investments held for trading	Fair value
Land and Buildings	Stated at valuation
Net defined benefit (asset)/ liability	Liability for defined benefit obligations is recognised at the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

2.5 Functional and presentation currency

The Financial Statements are presented in Sri Lanka Rupees, except when otherwise is indicated.

Significant Accounting Policies

2.6 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements, except those which had to be changed as a result of application of the new SLFRS. Further comparative information is reclassified wherever necessary to comply with the current presentation.

2.7 Presentation of financial statements

The Company presents its Statement of Financial Position broadly in order that it 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 45 on page no 155.

2.8 Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature of 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 Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.9 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupee, except where otherwise indicated.

3 USE OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements requires the application of certain critical accounting and assumptions relative to the future. Further, it requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Judgements

In the process of applying the Company's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgements and estimates are as follows;

I Taxation

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements. The Company 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.



II Useful life-time of the Property and equipment

The Company reviews 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based these assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

I Going Concern

The Directors have made an assessment of its ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on a going concern basis.

II Impairment Losses on Loans and Advances (Leases, Hire Purchase & Other Loans)

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Income Statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual

results may differ, resulting in future changes to the impairment allowance.

Loans and advances that have been assessed individually and found to be not impaired or not individually significant and all individually insignificant loans and advances are then assessed collectively, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

The collective provision for groups of homogeneous loans is established using statistical methods or a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. The loss rates are regularly benchmarked against actual loss experience.

In assessing the need for collective loss provision, management considers factors such as credit quality (such as loan to collateral ratio, level of restructured performing loans, level of arrears, credit utilization etc.) portfolio size, judgements on the effect of concentration of risks and economic factors (including levels of unemployment, inflation, interest rates).

III Impairment of available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied on the individual assessment of loans and advances.

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements,

Significant Accounting Policies

duration and extent up to which the fair value of an investment is less than its cost.

Estimates and assumptions (Continued)

IV 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 which such tax losses 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.

V 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 Company.

VI Fair Value of Property and Equipment

The Land and Buildings of the Company are reflected at fair value. The Company engaged independent valuation specialist to determine fair value of land and building. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets.

VII Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities 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 Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in preparation of its Financial Statements are included below. The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, unless otherwise indicated.

4.1 Cash and Bank Balances

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.

4.2 Financial Assets - Initial Recognition and Subsequent Measurement

Financial assets within the scope of LKAS 39 are classified as loans and advances, financial investments held to- maturity, financial investments available-for-sale, financial investments held for trading or financial assets held for trading pledged as collateral as appropriate. The Company determines the classification of its financial assets at initial recognition.



(i) **Date of Recognition**

All financial assets and liabilities except 'Regular way traders' are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. 'Regular way trades' mean purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) **Initial Measurement of Financial Assets**

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 with through the Statement of Comprehensive Income.

(iii) **Non-derivative Financial Assets**

The Company recognizes non-derivative financial assets by the following four categories:

- Financial assets at fair value through profit or loss
 - Held for trading; or
 - Designated at fair value through profit or loss.
- Held-to maturity investments
- Loans and receivables
- Available-for-sale

Subsequent measurement of financial assets depends on their classification.

- **Financial Assets at Fair Value through Profit or Loss**

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

Financial Assets Held for Trading

Financial assets are classified as held - for - trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest income on financial assets held for trading are recognised under 'Interest Income' and dividend income is recorded in 'Other Operating Income' according to the terms of the contract, or when the right to the payment has been established.

Financial assets held for trading includes instruments such as Government and other debt securities and equity instrument that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets designated at fair value through profit or loss (FVTPL)

Financial assets may be designated by management at fair value through profit or loss in the following circumstances:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis or
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated and reported on a fair value basis.

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial instrument designated at fair value through profit or loss. Interest earned or incurred is accrued in 'Interest income' using the effective interest

Significant Accounting Policies

rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

- **Held-to-maturity Financial Investments**

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line 'Impairment gain/(loss) on financial investment.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as Available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

However the Company has not designated any financial instrument as Held -to-Maturity Financial Investment.

- **Due from Banks and Loans and Receivables from Customers**

Due from banks and loans & receivables from customers include non - derivative financial assets with fixed or determinable payments that are not quoted in an active market.

'Due from banks and loans and receivables from customers' include Loans and Advances and Lease Receivables of the Company.

After initial measurement, amounts 'Due from banks' and 'Loans and receivables from customers' are subsequently measured at amortised cost using the EIR, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'Impairment charges on loans & other losses'.

- **Available for Sale Financial Investments**

Available for sale investments include equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Company has not designated any loans or receivables as available for sale. After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity through Other Comprehensive Income in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Income Statement in 'Other operating income'. Where the company hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as Interest Income using the EIR. Dividends earned whilst holding Available for sale financial investments are recognised in the Income Statement as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.



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 company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'.

4.2.2 Reclassification of Financial Assets

The Company may reclassify financial assets (other than those designated at FVTPL upon initial recognition), in certain circumstances:

- out of the 'held for trading' category and into the 'available for sale' or 'loans and receivables', or 'held to maturity' categories.
- out of the 'available for sale' category and into the 'loans and receivables', 'held for trading category' or 'held-to-maturity'.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset with a fixed maturity reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the asset using the EIR.

In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when the financial asset sold or disposed of. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

Out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently

increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

4.2.3 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 Company 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 Company has transferred substantially all the risks and rewards of the asset; or
 - The Company 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 amount 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 Company 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 Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability.

Significant Accounting Policies

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

4.2.4 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

i **Loans , advances to customers, leases and hire purchases**

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and for groups of loans, this is done collectively. Impairment losses are recorded as charges to the Income Statement. The carrying amount of impaired loans on the reporting date is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans & advances, leases and hire purchases

For all loans that are considered individually significant, the company assesses on a case-by-case basis at the end of each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Company's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding;

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.



Collectively assessed loans, advances, leases and hire purchases

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the company has incurred as a result of events occurring before the reporting date, which the company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the end of the reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans, advances, leases and hire purchases

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

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

- Net flow Rate method

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

Under above methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates, Gross Domestic Production (GDP) growth, inflation
- Exchange rates, interest rates
- Changes in government laws and regulations

Write-off of loans, advances, leases and hire purchases

Loans, advances, leases and hire purchases (and the related impairment allowance accounts) are normally

Significant Accounting Policies

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 Income Statement.

ii Available for sale financial investments

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available for sale, the company assesses individually whether there is objective evidence of impairment.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that

investment previously recognised in the Income Statement is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in Other Comprehensive Income.

iii Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR and is recognized in Income Statement. Interest on impaired assets continues to be recognized through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

4.2.5 Collateral valuation

The Company 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 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.

4.2.6 Collateral repossessed

The Company'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.



4.2.7 Repurchase agreement

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Other Financial Assets, reflecting the transaction's economic substance as a loan by the Company. 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'.

4.3 Basis of Accounting for Associates and Jointly Controlled Entities

Associates are those entities which the Company 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 Company Financial Statements include the Company'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 Company's share of net assets of the Associates and are reported as a separate line item in the Statement of Financial Position. The Statement of Comprehensive Income reflects the share of current year's profit or loss of the Associates.

When the Company 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 discontinued except to the extent that the Company has incurred obligations or has made payments on behalf of the Investee.

Jointly controlled entities are those entities where the Company 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.

4.4 Non - Financial Asset

4.4.1 Property, Plant and Equipment

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, Plant & Equipment. Initially Property, Plant & Equipment are measured at its cost.

Recognition and measurement

Cost Model

Property, Plant and Equipment is stated at cost except land and building, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Revaluation Model

Land and buildings are measured at fair value, less depreciation on buildings and impairment charged subsequent to the date of the revaluation. Valuations are performed every 3 to 5 years to ensure that the fair value of revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the Equity of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Income Statement, in which case the increase is recognised in Income Statement. A revaluation deficit is recognised in Income Statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Significant Accounting Policies

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 Company and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in the Income Statement as incurred.

Depreciation

The provision for depreciation is calculated by using both reducing balance method and straight-line method to write down the cost or valuation of the Property, Plant & Equipment to their residual values over the periods appropriate to the estimated useful lives of different types of assets stated below other than freehold land.

Category of Asset	Depreciation method	Rate of Depreciation
Building	Reducing Balance	5% p.a.
Office Equipment	Reducing Balance	15% p.a.
Plant & Machinery	Reducing Balance	15% p.a.
Furniture & Fittings	Reducing Balance	10% p.a.
Cutlery & Crockery	Reducing Balance	50% p.a.
Motor Vehicles	Straight Line	15% p.a.
Computers	Straight Line	33.33% p.a.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

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 Income Statement in the year the asset is derecognised.

4.4.2 Impairment of non-financial assets

The Company assesses 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 Company 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 is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company 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 Income Statement.

4.5 Finance and Operating Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific



asset or assets and the arrangement conveys a right to use the asset.

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 Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Loans and advances to company'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 company 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.

Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, Plant and Equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General

and administrative expenses' and 'Other Operating Income', respectively.

4.6 Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as due to customers (Deposits), due to banks, debt issued and other borrowed funds and other financial liabilities as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company classifies financial liabilities as other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Company recognizes financial liabilities in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the financial liability.

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 Income Statement.

Upon initial recognition, transaction cost are directly attributable to the acquisition are recognized in Income Statement as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Significant Accounting Policies

Other Financial Liabilities

Other financial liabilities including Due to Customers (Deposits), Due to Banks, Debt issued and Other Borrowed Funds. Other financial liabilities are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expenses' in the Income Statement.

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 is recognised in the Income Statement.

4.7 Provisions

Provisions are recognised when the Company 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 of 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, taking in to account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

4.8 Retirement Benefit Obligations

Gratuity

All the employees of the company 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 one 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 Company operates an approved non contributory Gratuity Fund to facilitate the Gratuity payments to the retiring employees of the Company. The Company determines the adequacy of gratuity liability in terms of Payment of Gratuity Act No.12 of 1983. In order to meet this liability, the Company carry 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 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 complete 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 complete 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 complete service over 25 years.

The valuation was carried out as at 31st March 2014 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

Actuarial gains & losses are recognized as income or expenses when the net cumulative unrecognized actuarial gains & losses at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at the date.

The gains/losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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.

i Gratuity

Management of the Fund's Assets

The assets of the Gratuity Fund and the Employees' Provident Fund are held separately from those of the Company and are independently administered by a separate management team appointed by the Company. As at the balance sheet date fair value of plan assets is Rs. 73,873,788/- (2013: Rs.57,686,351/-.)

ii Defined contribution plan

The Company also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 20% and 10% respectively of the employee's monthly gross salary to the Provident Fund. The Company's Provident Fund is an approved fund under the Employees' Provident Fund Act.

Employees' Trust Fund

The Company contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

4.9 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 Income Statement except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in Equity or in OCI.

4.9.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the end of the reporting period. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for the taxation purpose in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

4.9.2 Deferred tax

(i) Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between

Significant Accounting Policies

the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible differences, carried forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of a deferred tax asset is reviewed at end of the reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at end of the reporting period and are recognised to the extent that it is probable that 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.

4.9.3 Value Added Tax on Financial Services (FVAT)

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

4.9.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently CIL is payable at 1% of the profit after tax.

4.9.5 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

4.10 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

4.10.1 Interest Income and Expense

For all financial assets measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities. However, for a reclassified financial asset for which the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to



an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4.10.2 Fee and Commission Income

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- i Fee income earned from services that are provided over a certain period of time**
Fees earned from services that are provided over a period of time are accrued over that period. These fees include commission income from asset management, custody and other management and advisory fees.
- ii Fee income from providing transaction services**
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

4.10.3 Dividend Income

Dividend income is recognised when the right to receive the payment is established. Dividends are presented in the 'Other Operating Income' in Income Statement.

4.10.4 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.

4.10.5 Other Income

The recognition of other income is accounted based on accrual basis.

4.11 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the company. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4.12 Statement of Cash Flows

Statement of Cash Flows has been prepared using the 'Indirect Method', as stipulated in Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows'. Cash and cash equivalents comprise cash in hand and cash at bank.

4.13 Operating Segments

A business segment is a distinguishable component of the Company, 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 Company, 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 judgment in determining the compositions of these core business activities 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 Company's business activities are carried out in Sri Lanka. Consequently, the economic environment

Significant Accounting Policies

in which the Company 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 Company's business segments is based on the Company's management and internal reporting structure.

Income recognized in Segments is 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 bases decided by the management and applied consistently throughout the period. Unallocated items mainly comprise of Head Office expenses.

Measurement of segments assets, liabilities, segment revenue and results are based on the accounting policies set out below. Segments revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segments assets that are expected to be used for more than one accounting period.

4.14 New Accounting Standards issued but not Yet Effective

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRS will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements.

i **SLFRS 9 -Financial Instruments: Classification and Measurement**

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities as defined in LKAS 39.

SLFRS 9 was issued in 2012 and effective date of this standard has been deferred until further notice.

ii **SLFRS 10 - Consolidation Financial Statements**

SLFRS 10 replace the portion of LKAS 27(Consolidation and Separate Financial Statements) that addresses the accounting for consolidation financial statements. It also addresses the issues raised in SIC 12 (Consolidation Special Purpose Entities).

SLFRS 10 establish a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require the management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by the parent.

The impact on the implementation of the above Standard was assessed as at the reporting date and concluded that there is no impact on the Company's Financial Statements.

iii **SLFRS 11 - Joint Arrangements**

SLFRS 11 replace LKAS 31 (Interest in Joint Ventures) and SIC 13 (Jointly Controlled Entities).

SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation method. Instead JCEs that meet the definition of a joint venture must be accounted for using the equity method.

Pending the completion of full study of this standard, the financial impact is not yet known and reasonable estimable.

iv **SLFRS 12 - Disclosures of Interests in Other Entities**

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 (Consolidated and Separate Financial Statements) related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 (Interests in Joint Ventures) and LKAS 28 (Investment in Associates).



The impact on the implementation of the above Standard was assessed as at the reporting date and concluded that there is no impact on the Company's Financial Statements.

v SLFRS 13 -Fair Value Measurement

SLFRS 13 establish a single source of guidance under SLFRS for all fair value measurements.

SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. Use of principles of measurement in this standard is currently encouraged.

Pending the completion of full study of this standard, the financial impact is not yet known and reasonably estimable.

Notes to the Financial Statements

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
5. GROSS INCOME		
Interest income (Note 5.1)	3,552,743,296	3,255,569,543
Fee & commission income (Note No 6)	180,026,176	204,189,251
Net trading income (Note No 7)	20,702,295	(7,375,384)
Other operating income (Note No 8)	142,667,951	119,753,177
	3,896,139,718	3,572,136,587
5.1 Interest Income		
Financial investments - Held for trading	64,359,679	25,790,748
Loans and advances (Note No. 5.1.1)	478,675,314	633,661,587
Lease rentals receivable	2,406,958,125	1,997,476,885
Hirepurchase & consumer durables	501,751,204	519,160,974
Financial investments - Available for sale	9,287,423	4,901,848
Repurchase agreements	30,610,841	39,108,727
Placements with banks & other financial institutions	61,100,710	35,468,773
Total interest income	3,552,743,296	3,255,569,543
5.1.1 Interest Income from Loans & Advances		
Interest income from loans	163,694,054	110,677,742
Interest income from pledge loan	22,407,079	30,032,161
Interest income from gold loan	234,127,784	492,951,684
Interest income from micro finance	58,446,397	-
	478,675,314	633,661,587
5.2 Interest Expenses		
Due to banks	425,198,742	509,157,539
Due to customers (fixed deposits & savings accounts)	1,470,609,580	1,172,482,096
Debt instruments issued and other borrowed funds	285,945,288	92,852,684
Financial derivatives	7,864,082	10,270,949
Other financial liabilities	109,663,026	106,346,093
Total interest expenses	2,299,280,718	1,891,109,361
Net interest income	1,253,462,578	1,364,460,181
6. NET FEE AND COMMISSION INCOME		
6.1 Credit related fees and commissions		
Service charge	32,902,479	29,126,442
Transfer fees	103,723,695	123,830,400
Other fees	29,197,582	19,943,201
	14,202,421	31,289,208
Total fee and commission income	180,026,176	204,189,251



For the Financial year ended 31st March 2014		2014	2013
		Rs.	Rs.
6.2	Fee and Commission Expenses		
	Brokerage fees	(43,393,034)	(63,918,341)
	Credit related fees	(14,858,733)	(20,247,822)
	Total fee and commission expenses	(58,251,767)	(84,166,162)
	Net Fee and Commission Income	121,774,409	120,023,089
7.	NET GAIN/(LOSS) FROM TRADING		
	Profit/(loss) on sale of securities	9,829,290	1,711,040
	Profit/(loss) on sale of foreign currencies	19,785	(4,200)
	Fair value gain / (loss) on equity investments (FVTPL)	2,112,546	(18,620,234)
	Fair value gain or loss on financial derivatives	8,740,673	9,538,011
		20,702,295	(7,375,384)
8.	OTHER OPERATING INCOME		
	Income from investment securities	6,841,446	5,644,300
	Profit/(loss) on disposal of property & equipment	6,335,983	1,939,166
	Profit on sale of vehicles	13,696,644	43,118,544
	Rental income from hiring vehicles	64,068,526	64,257,560
	Income from sale of tiles & furnitures	8,519,307	7,047,505
	Bad debt recoveries	5,511,686	5,846,950
	Others	37,694,359	(8,100,848)
	Total Other Operating Income	142,667,951	119,753,177
9.	IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES		
	Impairment Charges / (Write back)		
	Lease rentals receivable	134,747,377	45,585,109
	Hirepurchase rentals receivable	23,342,317	(30,707,784)
	Loans and advances	61,295,399	5,990,785
		219,385,093	20,868,110
	Bad Debts Written off		
	Lease rentals receivable	22,756,228	16,520,811
	Hirepurchase rentals receivable	1,956,984	48,641,303
	Loans and advances	55,161,778	2,123,789
		79,874,990	67,285,903
		299,260,083	88,154,013

Notes to the Financial Statements

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
10. PERSONNEL EXPENSES		
Salaries and bonus	271,767,363	339,312,306
Gratuity charge/ (reversals) for the year	(3,988,519)	50,760,317
Employer's contribution to EPF	55,858,829	45,042,384
Employer's contribution to ETF	8,278,542	6,698,756
Staff welfare	11,134,756	10,801,609
Other allowances & staff related expenses	5,829,422	7,250,628
	348,880,392	459,865,731
11. OTHER OPERATING EXPENSES		
11.1 Auditors fees and expenses		
Auditors fees	600,000	552,000
Non audit fees and expenses	790,990	433,124
Professional fees	2,601,242	1,121,073
Office administration & establishment expenses	249,587,336	171,228,027
Advertising & business promotion expenses	46,760,721	55,881,227
Motor vehicle running & maintenance	176,117,153	131,630,310
Others	58,073,325	36,712,880
	534,530,767	397,558,641
11.2 Depreciation/Amortisation of property, plant and equipment	69,249,072	57,067,839
12. TAXATION		
12.1 The major components of income tax expense for the years ended 31st March are as follows.		
Income Statement		
Current Income Tax expenses		
Income Tax for the year (Note No. 12.2)	87,539,415	47,432,059
Under/ (over) provision of current taxes in respect of prior years/ SLFRS adjustments		
Share of income tax expenses for associates	5,698,390	7,390,458
Deferred Tax expenses		
Deferred Taxation charge/ (reversal) (Note No. 12.4)	(114,523,608)	20,242,127
	(21,285,803)	75,064,643



12.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2014 and 2013 is as follows.

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
Accounting profit before income taxation	287,315,434	588,172,235
Tax effect of non deductible expenses	6,198,534,752	4,966,978,130
Tax effect of other allowable credits	(6,060,072,799)	(5,274,752,381)
Tax effect of exempt income	(34,223,003)	(17,785,273)
Tax effect of Tax losses claimed	(78,913,616)	(91,215,499)
	312,640,768	169,400,213
Tax rate at 28%	28%	28%
Income tax for the year	87,539,415	47,432,059

12.3 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No.10 of 2006, provided that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements & the resulting notional tax credit amounts to Rs. 10.2 Mn (2013 - Rs.6.8 Mn /-)

12.4 Deferred tax expense/(income)

The following table shows deferred tax expense recorded in the income statements due to changes in the deferred tax assets and liabilities.

	2014	2013
	Rs.	Rs.
Deferred Tax Liabilities		
Defined benefit obligation	4,401,993	-
Other temporary differences	44,336,079	-
Accelerated depreciation - Own assets	17,165,368	10,133,684
Lease rentals	4,608,179	66,923,947
	(70,511,621)	77,057,631
Deferred Tax Assets		
Defined benefit obligation	-	11,250,923
Accelerated depreciation - Leased assets	185,035,228	779,022
Other temporary differences	-	44,785,559
	185,035,228	56,815,504
Deferred tax expense for the year	(114,523,608)	20,242,127

Notes to the Financial Statements

13. 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 31st March 2014	2014 Rs.	2013 Rs.
Amounts Used as the Numerators:		
Net profit/ (loss) attributable to ordinary shareholders for basic earnings per share	308,601,237	511,110,592
Number of Ordinary Shares Used as Denominators for Basic Earnings per share		
Weighted average number of ordinary shares (Note No . 37)	2,430,000	2,430,000
Basic earnings per ordinary share (Rs./Cts.)	127.00	210.33

14. DIVIDENDS

14.1 Declared and Paid During the Year

Dividends on Ordinary Shares:

Interim dividend for 2013 - Rs.25/- per share	-	60,750,000
Final dividend proposed for 2014 - Rs. 20/- per share (2013 - Rs.15/- per share)	48,600,000	36,450,000
	48,600,000	97,200,000
Dividend Per Share	20.00	40.00

In accordance with LKAS 10 on 'Events After the Reporting Period', above proposed final dividend have not been recognised as a liability as at the year end.

15 NET ASSETS VALUE PER ORDINARY SHARE

Amount used as the numerator

Total equity attributable to equity holders of the Company 2,391,309,114 2,119,078,335

Number of ordinary shares used as the denominator

Total number of shares 2,430,000 2,430,000

Net assets value per share 984 872



16. 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 LKAS 39 on 'Financial Instrument Recognition & Measurement' under the headings of the Statement of Financial Position.

16.1 As at 31st March 2014	Fair Value Through Profit or Loss Rs.	L&R at Amortised Cost Rs.	AFS at Fair Value Rs.	Held To Maturity Rs.	Total Rs.
Assets					
Cash and bank balances	-	137,530,040	-	-	137,530,040
Repurchase agreements	-	395,408,217	-	-	395,408,217
Placements with banks & financial institutions	-	715,261,644	-	-	715,261,644
Financial investments - Held for trading	1,477,669,371	-	-	-	1,477,669,371
Loans and advances	-	3,643,971,566	-	-	3,643,971,566
Lease rentals receivable & stock out on hire	-	8,573,451,013	-	-	8,573,451,013
Hirepurchase rentals receivable & stock out on hire	-	1,711,157,466	-	-	1,711,157,466
Financial investments - Available for sale	-	-	242,534,452	-	242,534,452
Other financial assets	-	162,867,616	-	-	162,867,616
Total Financial Assets	1,477,669,371	15,339,647,562	242,534,452	-	-17,059,851,385

	Fair Value Through Profit or Loss Rs.	Other Financial Liabilities Rs.	Total Rs.
Liabilities			
Due to banks	-	2,184,716,485	2,184,716,485
Due to customers	-	11,201,588,507	11,201,588,507
Debt Instruments issued and other borrowed funds	-	2,400,373,061	2,400,373,061
Other financial liabilities	-	360,779,078	360,779,078
Total Financial Liabilities	-	16,147,457,132	16,147,457,131

HFT - Held for Trading

L & R - Loans and Receivables

AFS - Available for Sale

Notes to the Financial Statements

16.2 As at 31st March 2013	Fair Value	L&R at	AFS at Fair Value	Held To Maturity	Total
	Through	Amortised			
	Profit or Loss	Cost			
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash and bank balances	-	151,455,670	-	-	151,455,670
Repurchase agreements	-	422,906,198	-	-	422,906,198
Placements with banks & financial institutions	-	468,713,717	-	-	468,713,717
Financial investments - Held for trading	241,848,243	-	-	-	241,848,243
Loans and advances	-	3,372,775,361	-	-	3,372,775,361
Lease rentals receivable & stock out on hire	-	8,476,083,340	-	-	8,476,083,340
Hirepurchase rentals receivable & stock out on hire	-	2,193,311,980	-	-	2,193,311,980
Financial investments - Available for sale	-	-	176,822,297	-	176,822,297
Other financial assets	-	139,101,427	-	-	139,101,427
Total Financial Assets	241,848,243	15,224,347,693	176,822,297	-	15,643,018,233

	Fair Value	Other	Total
	Through	Financial	
	Profit or Loss	Liabilities	
	Rs.	Rs.	Rs.
Liabilities			
Due to banks	-	3,499,753,777	3,499,753,777
Due to customers	-	9,001,881,219	9,001,881,219
Debt Instruments issued and other borrowed funds	-	2,188,547,841	2,188,547,841
Derivative financial liabilities	10,296,783	-	10,296,783
Other financial liabilities	-	314,591,579	314,591,579
Total Financial Liabilities	10,296,783	15,004,774,416	15,015,071,199

HFT - Held for Trading

L & R - Loans and Receivables

AFS - Available for Sale

For the year ended 31st March 2014	2014	2013
	Rs.	Rs.
17. CASH AND BANK BALANCES		
Cash in hand	55,832,973	103,270,642
Balances with banks	81,697,066	48,185,029
	137,530,040	151,455,670



For the year ended 31st March 2014	2014	2013
	Rs.	Rs.

18 FINANCIAL INVESTMENTS - HELD FOR TRADING

Government of Sri Lanka Treasury Bills	1,411,340,327	162,346,537
Quoted equities (Note 18.1)	66,329,044	79,501,706
	1,477,669,371	241,848,243

18.1 Quoted Equities

	2014	2014	2014	2013	2013	2013
	No of	Rs.	Rs.	No of	Rs.	Rs.
	Shares	Investment	Market Value	Shares	Investment	Market Value
Banks, Finance & Insurance						
National Development Bank PLC	22,000	4,122,939	3,929,200	42,000	7,852,103	6,930,000
Seylan Bank PLC	101,525	11,111,443	6,467,143	100,000	11,111,443	6,520,000
Commercial Credit PLC	370,417	10,566,093	5,630,338	339,300	10,566,093	4,376,970
People's Leasing Company PLC	177,396	3,038,668	2,536,763	129,800	2,336,400	1,700,380
Peoples Merchant Finance PLC	-	-	-	7,000	122,355	94,500
Ceylinco Insurance non voting	1,775	713,253	750,825	-	-	-
		29,552,397	19,314,269		31,988,395	19,621,850
Land & Property						
Commercial Development Co PLC.	1,000	25,515	71,500	1,000	25,515	60,000
Overseas realty (Ceylon) PLC	600,000	11,118,664	12,300,000	800,000	14,820,999	11,200,000
City Housing & Real Estate Company PLC	-	-	-	9,700	225,108	140,650
East West Properties PLC	-	-	-	2,756	54,065	35,828
		- 11,144,179	12,371,500		15,125,687	11,436,478
Hotels & Travels						
Sigiriya Village Hotels PLC	64,902	6,779,287	3,504,708	129,902	13,568,810	8,963,238
Ceylon Hotels Corporation PLC	50,900	2,139,964	799,130	50,900	2,139,964	855,120
Mahaweli Reach Hotels PLC	71,928	2,970,734	1,201,198	69,100	2,926,981	1,361,270
Taj Lanka Hotels PLC	17,800	997,893	516,200	17,800	997,893	445,000
Serendib Hotels PLC -Non Voting	14,700	338,755	274,890	14,700	338,755	255,780
Nuwara Eliya Hotels Company PLC	300	455,040	375,000	300	455,040	390,000
Kingsbury	82,200	1,116,377	1,052,160	-	-	-
		- 14,798,049	7,723,286		- 20,427,442	12,270,408
Manufacturing						
Central Industries PLC	900	95,561	51,300	900	95,561	56,250
ACME Printing & Packaging PLC	-	-	-	3,000	58,852	35,100
Tokyo Cement PLC- - Non Voting	22,000	498,319	638,000	-	-	-
Royal Ceramics PLC	11,700	1,044,165	927,810	-	-	-
		- 1,638,045	1,617,110		- 154,412	91,350

Notes to the Financial Statements

For the year ended 31st March 2014	2014	2014	2014	2013	2013	2013
		Rs.	Rs.		Rs.	Rs.
	No of	Cost of	Market	No of	Cost of	Market
	Shares	Investment	Value	Shares	Investment	Value
18 FINANCIAL INVESTMENTS - HELD FOR TRADING (Contd.)						
Quoted equities continued						
Footwear & Textiles						
Kuruwita Textile Mills PLC	9,200	458,901	192,280	9,200	458,901	201,480
		458,901	192,280		458,901	201,480
Beverage Food & Tobacco						
Three Acre Farms PLC	1,000	40,448	39,500	-	-	-
		40,448	39,500	-	-	-
Investment Trusts						
Renuka Holdings PLC	45,484	3,758,537	1,432,746	45,484	3,758,537	1,410,004
Lee Hedges PLC	100	33,273	25,700	100	33,273	24,500
		3,791,811	1,458,446		3,791,811	1,434,504
Diversified Holdings						
Hemas Holdings PLC	-	-	-	24,900	811,788	672,300
Vallibel one PLC	-	-	-	2,000	45,302	32,000
John Keells Hodings PLC	81	19,025	18,387	-	-	-
		19,025	18,387		857,090	704,300
Telecommunication						
Dialog Axiata PLC	96,633	857,796	869,697	-	-	-
		857,796	869,697	-	-	-
Plantations						
Kegalle Plantations PLC.	37,100	8,266,496	3,895,500	37,100	8,266,496	4,155,200
Horana Plantations PLC	25,000	1,873,625	572,500	50,000	3,747,249	1,325,000
		10,140,120	4,468,000		12,013,745	5,480,200
Construction & Engineering						
Access Engineering PLC	326,647	8,128,713	7,349,558	305,147	7,628,675	6,011,396
Colombo Dockyard PLC	4,000	763,122	698,800	-	-	-
		8,891,836	8,048,358	-	7,628,675	6,011,396
Power & Energy						
Mackwoods Energy PLC	100,000	1,399,997	730,000	204,077	2,857,079	2,306,070
		1,399,997	730,000		2,857,079	2,306,070
Motors						
Lanka Ashok Leyland Ltd	350	11,115	452,200	350	11,115	601,230
Diesel & Motor Engineering PLC	17,500	19,143,781	8,837,500	37,857	41,412,922	19,117,785
Colonial Motors PLC	2,285	800,794	188,513	2,285	800,794	189,655
		19,955,690	9,478,213		42,224,831	19,908,670
Health Care						
The Lanka Hospitals Corporation PLC	-	-	-	1,000	46,515	35,000
		-	-		46,515	35,000
Total Investment		102,688,296	66,329,044		137,574,583	79,501,706



For the year ended 31st March 2014	2014	2013
	Rs.	Rs.
19. LOANS AND ADVANCES		
Term loan receivable	645,350,125	452,971,284
Gold loans	2,242,650,820	2,737,370,951
Pledge loans	90,165,998	79,737,903
Micro finance loans	605,577,858	-
Loans against fixed deposits	114,668,570	95,155,940
Staff loans (Note 19.2)	15,529,051	18,025,366
Operating lease debtors	4,268,248	2,457,622
	3,718,210,670,	3,385,719,067
Less : Allowance for impairment losses (Note 19.1)	(74,239,105)	(12,943,706)
Net loans and advances	3,643,971,566	3,372,775,361
19.1 Allowance for Impairment Losses		
As at 01 April	12,943,706	6,952,921
Charge / (Reversal) for the year	61,295,399	5,990,785
As at 31 March	74,239,105	12,943,706
19.2 Staff Loans include loans granted to Company Officers, the movement of which is as follows :		
As at the beginning of the year	18,025,366	15,714,767
Loans granted during the year	5,521,275	17,085,161
Repayments during the year	(8,017,589)	(14,774,562)
As at the end of the year	15,529,051	18,025,366
20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE		
Gross rentals receivables		
- Lease rentals	10,923,660,138	11,620,932,342
- Amounts receivable from hirers	903,323,300	505,245,601
	11,826,983,437	12,126,177,943
Less: Unearned income	(2,930,261,414)	(3,461,570,970)
Net rentals receivables	8,896,722,024	8,664,606,973
Less : Allowance for impairment losses (Note 20.1)	(323,271,010)	(188,523,633)
Total net rentals receivable (Note 20.2 & 20.3)	8,573,451,013	8,476,083,340
20.1 Allowance for Impairment Losses		
As at 01 April	188,523,633	142,938,524
Charge / (Reversal) for the year	134,747,377	45,585,109
As at 31 March	323,271,010	188,523,633

Notes to the Financial Statements

20.2	As at 31st March 2014	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
	Gross rentals receivables				
	- Lease rentals	5,296,659,689	5,626,339,565	660,884	10,923,660,139
	- Amounts receivable from hirers	857,004,389	46,318,910	-	903,323,300
		6,153,664,079	5,672,658,476	660,884	11,826,983,438
	Less: Unearned income	(1,803,860,570)	(1,126,392,233)	(8,612)	(2,930,261,415)
	Net rentals receivables	4,349,803,509	4,546,266,243	652,272	8,896,722,024
	Less : Allowance for impairment losses				(323,271,010)
	Total net rentals receivable				8,573,451,013

20.3	As at 31st March 2013	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
	Gross rentals receivables				
	- Lease rentals	4,956,217,363	6,663,306,094	1,408,884	11,620,932,341
	- Amounts receivable from hirers	493,903,220	11,336,638	5,744	505,245,602
		5,450,120,583	6,674,642,732	1,403,140	12,126,177,943
	Less: Unearned income	(1,923,348,366)	(1,538,222,604)	-	(3,461,570,970)
	Net rentals receivables	3,526,772,217	5,136,420,128	1,403,140	8,664,606,973
	Less : Allowance for impairment losses				(188,523,633)
	Total net rentals receivable				8,476,083,340

Lease rentals receivables include receivables amounting to Rs. 3,647,598,127 that have been assigned under a securitisation funding arrangement.

	For the Financial year ended 31st March 2014	2014 Rs.	2013 Rs.
--	--	-------------	-------------

21. HIREPURCHASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	Gross rentals receivables		
	- Hirepurchase rentals	2,102,672,317	2,899,557,408
	- Amounts receivable from hirers	215,019,591	140,578,304
		2,317,691,908	3,040,135,712
	Less: Unearned income	(528,695,743)	(792,327,349)
	Net rentals receivables	1,788,996,165	2,247,808,363
	Less : Allowance for impairment losses (Note 21.1)	(77,838,700)	(54,496,383)
	Total net rentals receivable (Note 21.2 & 21.3)	1,711,157,466	2,193,311,980

21.1 Allowance for Impairment Losses

	As at 01 April	54,496,383	85,204,167
	Charge / (Reversal) for the year	23,342,317	(30,707,784)
	Interest accrued on impaired leases & hirers receivables		
	As at 31 March	77,838,700	54,496,383



		Within one year	1 - 5 years	Over 5 years	Total
21.2 As at 31st March 2013		Rs.	Rs.	Rs.	Rs.
Gross rentals receivables					
- Hirepurchase rentals		1,012,386,056	1,090,248,352	37,910	2,102,672,317
- Amounts receivable from hirers		204,308,438	10,711,153	-	215,019,591
		1,216,694,493	1,100,959,505	37,910	2,317,691,908
Less: Unearned income		(313,774,776)	(214,920,258)	(709)	(528,695,743)
Net rentals receivables		902,919,718	886,039,247	37,200	1,788,996,165
Less : Allowance for impairment losses					(77,838,700)
Total net rentals receivable					1,711,157,466

		Within one year	1 - 5 years	Over 5 years	Total
21.3 As at 31st March 2013		Rs.	Rs.	Rs.	Rs.
Gross rentals receivables					
- Hirepurchase rentals		1,225,095,148	1,674,135,203	327,057	2,899,557,408
- Amounts receivable from hirers		134,773,502	5,804,802	-	140,578,304
		1,359,868,650	1,679,940,005	327,057	3,040,135,712
Less: Unearned income		(433,815,341)	(358,512,008)	-	(792,327,349)
Net rentals receivables		926,053,309	1,321,427,997	327,057	2,247,808,363
Less : Allowance for impairment losses					(54,496,383)
Total net rentals receivable					2,193,311,980

Hirepurchase receivables include receivables amounting to Rs. 558,529,427 that have been assigned under a securitisation funding arrangement

For the year ended 31st March 2014		2014	2013
		Rs.	Rs.
22. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE			
Government of Sri Lanka treasury bonds		80,694,064	58,181,462
Quoted equities (Note 22.1)		103,735,489	78,019,567
Unquoted equities (Note 22.2)		58,104,898	40,621,269
		242,534,452	176,822,297

22.1 Quoted equities

1,452,878, (2013- 871,727) Ordinary shares of Rs.10/- each at Arpico Finance Co. PLC	103,735,489	78,019,567
Total	103,735,489	78,019,567

Notes to the Financial Statements

For the year ended 31st March 2014	2014		2014		2013	
	Rs.		Rs.		Rs.	
	No of Shares	Cost of Investment	Market Value	No of Shares	Cost of Investment	Market Value
22.2 Unquoted equities						
COM Trust Equity Fund	13,999	200,500	200,500	13,999	200,500	200,500
MBSL Savings Bank Ltd	62,500	625,000	625,000	62,500	625,000	625,000
Commercial Fund Management	150	1,500	1,500	150	1,500	1,500
MBSL Savings Bank Ltd - Non Voting	62,500	93,750	93,750	62,500	93,750	93,750
DFCC Vardhena Bank	852,603	16,179,701	25,610,290	666,136	9,548,356	11,229,068
Shaw Wallace Distributors Ltd	375	11,544	11,544	375	11,544	11,544
Shaw Wallace Distributors Ltd-Non Voting	1,125	-	-	1,125	-	-
Singhaputhra Finance Ltd (Preference Shares)	5,000	125,000	125,000	5,000	125,000	125,000
Alliance Agencies Ltd	7,820	75,300	75,300	7,820	75,300	75,300
Ceylon Japan Industries Ltd	250	1	1	250	1	1
Orient Food Processing (Lanka) Ltd	10,000	1	1	10,000	1	1
Trigem Knitwear Ltd	4,000	1	1	4,000	1	1
Credit Information Bureau of Sri Lanka	254	25,400	25,400	254	25,400	25,400
Finance House Consortium (Pvt) Ltd	20,000	200,000	200,000	20,000	200,000	200,000
Alliance Tech trading (Pvt) Ltd	20,000	200,000	200,000	20,000	200,000	200,000
Orient Hotels Ltd	5,000	1	1	5,000	1	1
Ranwelli Holiday Resorts Ltd	12,250	65,001	65,001	12,250	37,001	37,001
Jetwing Symphony Ltd	750,000	8,250,000	11,799,066	750,000	8,250,000	8,250,000
Nation Lanka Equities (Pvt) Ltd	800,005	8,785,760	3,297,544	800,005	8,785,760	8,096,502
		34,838,460	42,329,898		28,179,115	29,170,569
Provision			-			(6,049,300)
Alfinco Insurance Brokers (Pvt) Ltd (10% Preference shares) - Redeemable	1,577,500	15,775,000	15,775,000	1,750,000	17,500,000	17,500,000
Total		50,613,460	58,104,898		45,679,115	40,621,269

	2014		2013	
	Rs.		Rs.	
23 REAL ESTATE STOCKS AND OTHER TRADING STOCKS				
Real estate stocks		5,161,300		5,161,300
Other trading stocks		88,080,356		235,358,661
		93,241,656		240,519,961

Notes to the Financial Statements

For the year ended 31st March 2014		2014	2013
		Rs.	Rs.
		No. of Ordinary Shares	Cost of Investment
27. INVESTMENT IN ASSOCIATES (Contd.)			
b) Cost Method			
Alfinco Insurance Brokers (Pvt) Ltd	97,500	975,000	975,000
Xesol (Pvt) Ltd	513,055	5,130,550	5,130,550
Macbertan (Pvt) Ltd	1,720,000	17,200,000	17,200,000
		23,305,550	23,305,550

		2014	2013
		Rs.	Rs.
c) Summaries Financial information of the Investment in Associates			
Total Assets		835,498,517	738,675,576
Total Liabilities		490,809,412	392,231,311
Net Assets		344,689,106	346,444,265
Revenue		847,693,117	835,305,231
Profits		37,123,058	72,805,338

There was no significant change in the carrying value of the assets of Xesol (Pvt) Ltd, during the year 2013/14.

28 PROPERTY, PLANT AND EQUIPMENT

	Balance				Balance
	As at 31.03.2013	Additions	Transfers	Disposals	As at 31.03.2014
	Rs.	Rs.	Rs.	Rs.	Rs.
28.1 Gross Carrying Amounts					
Cost					
Freehold Assets					
Land	564,980,564	-	-	-	564,980,564
Buildings	53,413,429	-	-	-	53,413,429
Furniture & fittings	42,395,565	25,520,649	-	(448,450)	67,467,764
Equipments	146,415,045	50,787,400	-	(199,792)	197,002,652
Motor vehicles & accessories	334,889,703	29,198,387	5,245,625	(47,957,205)	321,376,511
Computers	108,985,438	31,858,071	-	(161,400)	140,682,109
Antiques	25,580	-	-	-	25,580
Cutlery & crockery	110,459	-	-	-	110,459
	1,251,215,782	137,364,507	5,245,625	(48,766,847)	1,345,059,068
Assets on Finance Lease					
Motor vehicles	82,111,696	-	(5,245,625)	-	76,866,071
Total Value of Depreciable Assets	1,333,327,478	137,364,507	-	(48,766,847)	1,421,925,139



For the Financial year ended 31st March 2014	Balance As at 01.04.2013 Rs.	Charge for the Period Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2014 Rs.
Depreciation					
Freehold Assets					
Land	-	-	-	-	-
Buildings	-	2,695,671	-	-	2,695,671
Furniture & fittings	15,260,889	3,642,225	-	(22,422)	18,880,691
Equipments	53,522,523	17,224,634	-	(77,462)	70,669,694
Motor Vehicles & accessories	110,226,975	21,253,573	1,569,861	(27,136,201)	105,914,209
Computers	73,356,774	21,017,737	-	(94,619)	94,279,892
Antiques	-	-	-	-	-
Cutlery & crockery	65,471	5,941	-	-	71,411
	252,432,632	65,839,781	1,569,861	(27,330,705)	292,511,569
Assets on Finance Lease					
Motor vehicles	6,656,591	3,972,533	(1,569,861)	-	9,059,263
	259,089,223	69,812,314	-	(27,330,705)	301,570,832
Net book value					
Land	564,980,564				564,980,564
Buildings	53,413,429				50,717,758
Furniture & fittings	27,134,676				48,587,073
Equipments	92,892,522				126,332,958
Motor vehicles & accessories	224,662,728				215,462,302
Computers	35,628,664				46,402,217
Antiques	25,580				25,580
Cutlery & crockery	44,988				39,047
	998,783,150				1,052,547,499
Assets on Finance Lease					
Motor vehicles	75,455,105				67,806,808
Total Value of Depreciable Assets	1,074,238,255				1,120,354,307

28.2 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 137,364,507 (2013 - Rs.161,294,051) and payment made by cash.

28.3 There aren't any temporarily idling assets as at 31st March 2014.

Notes to the Financial Statements

28.4 The cost of the fully depreciated property plant and equipment of the company which are still in use as at the end of the reporting date is as follows:

For the Financial year ended 31st March 2014	2014 Rs.	2013 Rs.
Equipments	16,650	16,650
Computers	61,339,511	51,192,325
Motor Vehicles	12,993,017	27,637,864
	74,349,178	78,846,838

28.5 The Company had revalued its Land & Buildings in the IFRS as at 31st March 2013, on an open market value for existing use basis by M.T.H. Farook incorporated valuer and Fellow Member of the Institute of Valuers (Sri Lanka). Accordingly the increasing value of Rs. 254,952,335 was credited to the Capital Reserve.

28.6 The carrying amount of Company's revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation are as follows;

Carrying value at Cost

	Cost As At 01.04.2013	Accumulated Depreciation As At 31.03.2014	Net Book Value As At 31.03.2014
Land	90,500,000	-	90,500,000
Building	16,726,205	6,171,522	10,554,683
	107,226,205	6,171,522	101,054,683

Carrying value at Revaluation

	Revalued Amount As At 01.04.2013	Accumulated Depreciation As At 31.03.2014	Net Book Value As At 31.03.2014
Land	564,980,564	-	564,980,564
Building	53,413,429	2,695,671	50,717,758
	618,393,993	2,695,671	615,698,322

28.7 Details of Free Hold Land and Buildings as at 31st March 2014

Location	Extent (Purchases)	Cost or Revaluation of Land Rs.	Building (Square Feet)	Cost or Revaluation of Building Rs.	Total Value Rs.
No 84 Ward Place Colombo - 7	37.33 P	275,000,000	6,967	21,877,050	296,877,050
No. 199/11, Obesekara Crescent, Rajagiriya Road, Rajagiriya	165 P	206,250,000	16,508	13,150,000	219,400,000
No.98, Ward Place, Colombo - 7	19.41 P	83,105,564	8,460	18,386,379	101,491,943
No.152, Batapadura Watta Road, Siyambalagoda	28 P	625,000	-	-	625,000
Freehold Land and Building		564,980,564		53,413,429	618,393,993



For the Financial year ended 31st March 2014		2014	2013
		Rs.	Rs.
29. DUE TO BANKS			
Bank Overdrafts		132,581,401	313,819,726
Securitised Borrowings and Other Bank Facilities (Note 29.1 & 29.2)		2,009,691,965	3,128,883,034
Finance Lease (29.3 & 29.4)		42,443,118	57,051,018
Total		2,184,716,485	3,499,753,778

	As at	Loans	Interest	Repayments	As at	Period	Security
	01.04.2013	Obtained	Recognized		31.03.2014		
	Rs.	Rs.	Rs.	Rs.	Rs.		
29.1 Securitised Borrowings, Syndicated							
Loans and Other Bank Facilities							
Securitized Borrowings							
Deutsche Bank Trust - 16	28,000,169	-	2,434,125	(27,934,125)	2,500,169	46 months	Lease Receivables
Deutsche Bank Trust - 17	23,272,832	-	1,766,468	(25,039,300)	-	36 months	Lease Receivables
Deutsche Bank Trust - 18	36,274,756	-	1,653,944	(37,928,700)	-	36 months	HP Receivables
Deutsche Bank Trust - 19-1	60,784,033	-	3,067,645	(63,851,678)	-	36 months	Lease Receivables
Deutsche Bank Trust - 19-2	76,721,266	-	5,053,250	(70,157,322)	11,617,193	36 months	Lease Receivables
Deutsche Bank Trust - 20	202,250,836	-	16,298,507	(151,107,923)	67,441,420	48 months	Lease Receivables
Deutsche Bank Trust - 21	103,671,017	-	8,237,540	(81,722,781)	30,185,776	36 months	Lease Receivables
Deutsche Bank Trust - 22	84,607,143	-	8,944,543	(65,634,339)	27,917,347	36 months	Lease Receivables
Deutsche Bank Trust - 23	158,059,706	-	17,203,594	(102,620,743)	72,642,558	36 months	Lease Receivables
Deutsche Bank Trust - 24	115,124,905	-	12,791,381	(70,047,859)	57,868,428	36 months	Lease/HP Receivables
Deutsche Bank Trust - 25	-	200,000,000	26,307,941	(121,603,048)	104,704,893	24 months	Lease Receivables
Deutsche Bank Trust - 26	-	275,000,000	31,068,910	(108,932,053)	197,136,856	36 months	Lease Receivables
Taprobain Saylan 01	-	396,559,888	45,004,974	(164,212,589)	277,352,273	36 months	Lease Receivables
Deutsche Bank Trust - 27	-	254,071,306	3,320,279	(2,672,068)	254,719,517	36 months	Lease Receivables
	888,766,663	1,125,631,194	183,153,101	(1,093,464,528)	1,104,086,430		

29.2 Direct Bank Borrowings

Term Loans							
Bank of Ceylon	513,947,954	550,000,000	38,332,510	(1,063,947,954)	-	36 months	Lease Receivables
DFCC Bank - PCI Loan	155,099,085	-	14,316,998	(7,908,954)	147,190,131	-	Nil
Nations Trust Bank	58,000,000	-	6,867,736	(33,600,000)	24,400,000	36 months	Lease Receivables
Hattion National Bank	198,970,000	-	26,938,730	(70,870,000)	128,100,000	48 months	Lease / HP Receivables
Sampath Bank Loan	432,997,666	-	47,039,123	(184,176,004)	248,821,662	60 months	Lease Receivables
Public Bank	47,500,000	-	6,481,740	(12,000,000)	35,500,000	60 months	Lease Receivables
Union Bank	445,000,000	1,961,000,000	34,340,368	(2,326,000,000)	80,000,000	90 days	Lease / HP Receivables
Commercial Bank	128,493,333	-	13,374,776	(74,670,667)	53,822,667	36 months	Land & Building
DFCC Bank	90,000,000	-	12,724,430	(9,642,857)	80,357,143	96 months	Land & Building
Seylan Loan	161,458,333	-	12,728,311	(161,458,333)	-	48 months	Lease Receivables
Public bank - vehicle loan	8,650,000	-	1,269,948	(1,236,067)	7,413,933	60 months	04 Vehicles
NDB bank	-	800,000,000	6,857,534	(700,000,000)	100,000,000		
	2,240,116,371	3,311,000,000	221,272,203	(4,645,510,836)	905,605,535		
	3,128,883,034				2,009,691,965		

Notes to the Financial Statements

For the Financial year ended 31st March 2014	As at 01.04.2013	Repayments	As at 31.03.2014
	Rs.	Rs.	Rs.
29.3 Finance Lease			
Finance Leases	57,051,018	(14,607,899)	42,443,118
	57,051,018	(14,607,899)	42,443,118
Gross Liability	69,559,836		49,100,567
Finance Charges allocated for future periods	(12,508,818)		(6,657,449)
Net Finance Lease Liability	57,051,018		42,443,118
		2014	2013
		Rs.	Rs.
29.4 Finance Lease			
Gross liability		49,100,567	69,559,836
Less: Finance Charges allocated for future periods		(6,657,449)	(12,508,818)
Net liability		42,443,118	57,051,018
Repayable with in one year			
Gross liability		19,605,698	20,459,269
Less: Finance Charges allocated for future periods		(4,104,459)	(5,851,444)
Net liability		15,501,239	14,607,825
Repayable after one year before five years			
Gross liability		29,494,869	49,100,585
Less: Finance Charges allocated for future periods		(2,552,990)	(6,657,393)
Net liability		26,941,879	42,443,192
30. DUE TO CUSTOMERS			
Fixed Deposits		11,025,622,871	8,842,270,053
Certificates of Deposit		7,529,896	55,045,328
Savings Deposits		168,435,741	104,565,838
		11,201,588,507	9,001,881,219



For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
31. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS		
Commercial papers	243,206,964	1,048,297,215
Secured Debentures - Ceylon Assets Management Ltd	34,000,000	70,359,273
Unsecured Debentures (Note No 31.1)	2,123,166,098	1,021,665,723
Other Borrowings - LC facilities	-	48,225,630
	2,400,373,061	2,188,547,841

31.1 Quoted - Debentures

- a) The debentures include 10,000,000 Unsecured Redeemable Subordinated Debentures of Rs. 100/- each issued by the company in 2012. The Debentures are quoted on the Colombo Stock exchange in November 2013. Details are given below.

Category	Period	No of Debentures	Face Value Rs.	Rate of Interest
Type ' A '	05 Years	7,524,700	752,470,000	Fixed - 20% per annum payable monthly
Type ' B '	05 Years	-	-	Floting rate- equivalent to the one year treasury bill rate puls 3.5% payable monthly
Type ' C '	03 Years	2,475,200	247,520,000	Fixed - 18.5% per annum payable quarterly
Type ' D '	04 Years	100	10,000	Floting rate- equivalent to the one year treasury bill rate puls 3% payable annually
		10,000,000	1,000,000,000	

- b) The debentures include 12,000,000 Unsecured Redeemable Subordinated Debentures of Rs. 100/- each issued by the company in September 2013. The Debentures typed 'D' issued at discount basis. The Debentures are quoted on the Colombo Stock exchange. Details are given below.

Category	Period	No of Debentures	Face Value Rs.	Rate of Interest
Type ' A '	03 Years	4,036,000	403,600,000	Fixed rate of 15.5% per annum payable semi annually
Type ' B '	04 Years	1,682,000	168,200,000	Fixed rate of 16% per annum payable semi annually
Type ' C '	05 Years	3,510,000	351,000,000	Fixed rate of 16.5% per annum payable semi annually
Type ' D '	05 Years	2,772,000	129,170,488	Zero coupon Debentures with an annually compounding AER of 16.5%
		12,000,000	1,051,970,488	

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
Face Value	2,051,970,488	1,000,000,000
Accrued Interest	71,195,610	21,665,723
	2,123,166,098	1,021,665,723

Notes to the Financial Statements

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
32. DERIVATIVE FINANCIAL LIABILITIES		
Interest Rate SWAP	-	10,296,783
	-	10,296,783
33. OTHER FINANCIAL LIABILITIES		
Accrued Expenses	89,237,669	119,602,433
Others	271,541,408	194,989,146
	360,779,078	314,591,579
34. OTHER NON FINANCIAL LIABILITIES		
VAT Payables	5,646,810	1,274,378
Other Taxes Payables	12,598,463	7,655,560
	18,245,273	8,929,938
35. RETIREMENT BENEFIT OBLIGATIONS		
Retirement Benefit Obligations - Gratuity		
35.1 Liability Recognized in the Statement of Financial Position		
Balance at the beginning of the year	78,873,062	38,691,194
Amount Charged/(Reversed) for the year (Note -35.2)	(3,988,519)	50,760,317
Transfer to gratuity trust fund	(10,591,087)	(8,684,164)
Payments made during the year	(1,141,800)	(1,894,285)
Balance at the end of the year	63,151,656	78,873,062



For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
35.2 Expenses on Defined Benefit Plan		
Current Service Cost for the year	12,205,760	18,030,150
Interest cost for the year	15,024,852	8,999,843
Net Actuarial (Gain)/ Loss	(26,045,581)	23,730,324
Expected return on Plan Assets	(5,173,550)	-
	(3,988,519)	50,760,317
35.3 Assumptions		
Discount Rate	10%	11%
Salary scale	12%	10%
Mortality Table	A 67/70	A 67/70
Staff Turnover	25%	24%

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 2014 by Acturial & 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

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
36. DEFERRED INCOME TAX ASSETS AND LIABILITIES		
Deferred Tax Liabilities		
Balance at the beginning of the year	269,564,093	193,285,484
Recognised in profit & loss	(163,261,680)	76,278,609
Balance at the end of the year	106,302,413	269,564,093
Deferred Tax Assets		
Balance at the beginning of the year	243,558,590	187,522,108
Recognised in profit & loss	(48,738,072)	56,036,482
Balance at the end of the year	194,820,518	243,558,590
Deferred Tax Liabilities/Asset (net)	(88,518,105)	26,005,503

Recognised Deferred Tax Assets and Liabilities	31.03.2014		31.03.2013	
	Assets	Liabilities	Assets	Liabilities
	Rs.	Rs.	Rs.	Rs.
Accelerated depreciation - Own assets	-	57,692,962	-	40,527,594
Accelerated depreciation - Leased assets	-	7,101,833	-	2,493,654
Lease Rentals	-	41,507,618	-	226,542,845
Defined benefit obligation	17,682,464	-	22,084,457	-
Others	-	-	24,471,908	-
Tax loss carried forward	177,138,054	-	121,671,111	-
Unclaimed Tax refunds	-	-	75,331,114	-
	194,820,518	106,302,413	243,558,590	269,564,093

	2014	2013
	Rs.	Rs.
37. STATED CAPITAL		
37.1 Issued and Fully Paid-Ordinary shares		
Rs. 10/- each 2,430,000 Ordinary Shares	24,300,000	24,300,000
	24,300,000	24,300,000

During the financial year the company not issued shares through IPO, rights or bonus issue of shares

37.2 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting. All shares rank equally with regard to the Company's residual assets.

Shares in the Alliance Finance Company are quoted in the Colombo Stock Exchange.



For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
38. RETAINED EARNINGS		
As at 01 April	288,036,456	302,535,871
Dividend Paid	(36,450,000)	(109,350,000)
Profit for the Year	308,601,237	511,110,592
Prior year adjustment	-	172,748
Transfers to Investment Fund Account (Note 39.4)	(16,018,251)	(32,432,755)
Transfers to Statutory Reserve Fund	(49,900,000)	(104,000,000)
Transfers to Diversification Risk Reserve	-	(150,000,000)
Transfers to General Reserve	-	(130,000,000)
As at 31 March	494,269,442	288,036,456

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		As at 31 March
	2013	Transfers to/(from)	2014
	Rs.	during the year	Rs.
39. RESERVES			
Available for Sale Reserve (Note 39.1)	108,438,031	79,542	108,517,573
Capital Reserve (Note 39.2)	479,906,644	-	479,906,644
Development Reserve (Note 39.3)	108,141,275	-	108,141,275
Diversification Risk Reserve (Note 39.3)	255,000,000	-	255,000,000
Dividend Equalization Reserve	7,000,000	-	7,000,000
General Reserve (Note 39.3)	453,300,000	-	453,300,000
Investment Fund Reserve (Note 39.4)	67,198,529	16,018,251	83,216,780
Reserve Fund (Note 39.5)	327,757,400	49,900,000	377,657,400
	1,806,741,879	65,997,793	1,872,739,672

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
39.1 Available for Sale Reserve		
Balance as at 01 April	108,438,031	113,933,101
Sri Lanka Government Securities	(388,511)	1,100,194
Equity Securities - Quoted	(3,341,627)	(3,051,045)
Equity Securities - Un Quoted	6,499,985	(1,073,514)
Share of other comprehensive income of Associates	(2,690,304)	(2,470,706)
	108,517,573	108,438,031

Notes to the Financial Statements

39. RESERVES (Contd.)

39.2 Capital Reserve - Revaluation Reserve

The Capital Reserves represents the increase in the fair value of the land & buildings at the date of revaluation. The Company revalues its freehold lands and buildings in every Three to Five years, unless significant changes in fair values indicate it may be necessary to revalue freehold lands and buildings on an earlier date, to ensure that the carrying amounts do not differ materially from the fair values at the end of the reporting date.

The Company treats 50% of the revaluation surplus as supplementary capital in the Tier II Capital Base in the computation of the Risk Weighted Capital Adequacy Ratio in accordance with the Central Bank of Sri Lanka, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006.

39.3 Other Reserves

The Company maintains the General Reserve to retain funds for future expansion.

The Development Reserve comprises Rs.108 million set aside by the management to cover general risks involved in its operations.

Diversification risk reserve created with the intension of mitigating against losses that may arise as a result of diversification.

39.4 Investment Fund Reserve

As per the guidelines issued to Finance Companies as proposed by 2011 Budget, the company shall transfer following to build a permanent fund.

- (i) 8% of the profits calculated for the payment of VAT on Financial Services as Specified in the VAT Act for payment of VAT. This requirement abolished from the budget proposals announced in the budget 2014.
- (ii) 5% of the profits before tax calculated for payment of Income Tax purposes on dates specified in section 113 of the Inland Revenue Act for the self assessment payment of tax.

For the Financial year ended 31st March 2014	2014	2013
	Rs.	Rs.
Opening balance	67,198,529	34,765,774
Transfers during the year	16,018,251	32,432,755
Closing balance	83,216,780	67,198,529

39.4 (a) Utilisation of Investment Fund Account (IFA)

Balance available for utilization

Total transfers to IFA	83,216,780	67,198,529
Total Investments in Government Securities	(74,953,133)	(54,640,406)
Balance available for utilization as at 31st March	8,263,647	12,558,123

As at 31st March 2014 Rs. 75,577,905 has been invested in long term treasury bonds and Rs. 1,664,764 invested in Repurchase agreements balance as 31st March 2014 represent 5% of profit before tax calculated for payment of Income Tax of Rs. 8, 263, 647 which will be invested according to the guideline.



For the Financial year ended 31st March 2014						
Tenure	Date of investment	Date of maturity	Face Value	Cost of Investment	Rate of Interest (%)	
39.4 (b) Investments in Government Securities						
(i) Treasury Bonds						
7 years	20/01/2012	01/05/2019	25,000,000	23,772,525	9.82%	
7 years	20/08/2012	20/08/2020	17,000,000	10,635,710	14.30%	
7 years	20/03/2013	01/05/2021	25,000,000	22,207,550	11.85%	
7 years	20/09/2013	01/05/2022	23,000,000	18,962,120	11.70%	
			90,000,000	75,577,905		
(ii) Investment in REPOs						
7 Days	28/03/2014	04/04/2014	795,022	794,024	6.55%	
7 Days	28/03/2014	04/04/2014	260,186	259,859	6.55%	
182 days	20/01/2014	21/07/2014	631,898	610,880	6.90%	
			1,687,105	1,664,764		
Total Investments in Government Securities			91,687,105	77,242,669		

39.5 Reserve Fund

Twenty percent of profits after tax of 2014 is transferred to the Reserve Fund to fulfil the minimum requirement of the Section 3 (b) of Finance Companies (Capital Funds) Direction No.1 of 2003. This balance in the Statutory Reserve Fund will be used only for the purposes specified in the Finance Business Act, No.42 of 2011.

40 COMPARATIVE FIGURES

The comparative information is re-classified where ever necessary to confirm with the current year's classification in order to provide a better presentation.

Statement of Financial Position	Presentation in 2013	Reclassification	Presentation in 2014
Assets			
Other Financial Assets			
Other receivables	193,583,374	(61,882,458)	131,700,916
Other Non Financial Assets			
VAT payables/recoverable	-	4,664,143	4,664,143
Liabilities			
Debt Instruments Issued and Other borrowed funds			
Commercial papers	1,105,515,530	57,218,315	1,048,297,215

Notes to the Financial Statements

41 FINANCIAL REPORTING BY SEGMENT

The following table presents the income, profit and certain assets and liability information regarding the Company's business segments for the year ended 31st March 2013 and 2014.

41.1 For the period ended 31st March 2014

	Leasing	Hire Purchase & Consumer Durables	Loans	Pawning
REVENUE				
External Sales	6,144,298,776	1,574,430,087	253,831,117	234,127,784
Inter-segment sales				
Total revenue	6,144,298,776	1,574,430,087	253,831,117	234,127,784
Total income	2,527,569,479	518,730,792	253,831,117	234,127,784
RESULTS				
Segment results	1,895,340,438	403,413,712	180,615,348	(43,639,680)
Unallocated company expenses				
Operating profit				
Interest expense	(1,374,170,622)	(305,929,652)	(121,692,220)	(364,775,920)
Other income				
Share of Profits of Associates before tax				
Income taxes - Restated				
Net Profit				
OTHER INFORMATION				
Segment assets	8,573,451,015	1,711,157,465	1,467,481,418	2,174,932,775
Investment in Associates - Restated				
Unallocated company assets				
Total assets				
Segment liabilities	7,087,273,971	1,401,844,676	1,210,842,892	1,866,198,841
Unallocated company liabilities				
Total liabilities				



Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
92,528,270	82,221,311	104,257,943	99,927,310	103,314,674	8,688,937,273
92,528,270	82,221,311	104,257,943	99,927,310	103,314,674	8,688,937,273
65,009,491	(2,930,343)	104,257,943	8,524,481	187,018,975	3,896,139,718
31,071,773	24,572,940	100,711,454	8,524,481	156,768,806	2,757,379,271 (187,176,520) 2,570,202,751
(39,571,815)	(13,087)	(108,261)	(62,894)	(92,956,247)	(2,299,280,718)
					16,393,401 21,285,803 308,601,237
246,352,960	228,169,432	1,887,442,608	31,686,507	784,492,247	17,105,166,427 123,475,522 1,497,823,639 18,726,465,588
247,403,373	135,848,873	1,567,311,088	7,343,743	652,810,724	14,176,878,181 2,158,278,293 16,335,156,474

Notes to the Financial Statements

41 FINANCIAL REPORTING BY SEGMENT (Contd.)

41.2 For the period ended 31st March 2013

	Leasing	Hire Purchase & Consumer Durables	Loans	Pawning
REVENUE				
External Sales	4,963,606,087	1,429,041,624	142,643,156	492,951,684
Inter-segment sales				
Total revenue	4,963,606,087	1,429,041,624	142,643,156	492,951,684
Total income	2,147,917,720	540,877,269	142,643,156	492,951,684
RESULTS				
Segment results	1,624,633,447	359,569,393	131,665,535	374,019,760
Unallocated company expenses				
Operating profit				
Interest expense	(1,121,968,553)	(317,364,301)	(75,813,258)	(270,604,277)
Other income				
Share of Profits of Associates before tax				
Income taxes - Restated				
Net Profit				
OTHER INFORMATION				
Segment assets	8,476,083,344	2,193,311,979	641,975,049	2,730,800,313
Investment in Associates				
Unallocated company assets				
Total assets				
Segment liabilities	7,079,709,741	1,828,605,121	521,912,254	2,279,346,509
Unallocated company liabilities				
Total liabilities				



Hire of vehicles	Investing in Shares	Government Securities	Investing in Collaboration Finance	Others	Total
102,685,096	30,232,012	69,801,323	107,775,786	68,621,836	7,407,358,604
102,685,096	30,232,012	69,801,323	107,775,786	68,621,836	7,407,358,604
65,221,960	(11,264,895)	69,801,323	5,049,655	118,938,714	3,572,136,587
34,702,153	(4,654,004)	67,941,073	(661,024)	114,747,227	2,701,963,561 (253,046,876) 2,448,916,685
(37,707,613)	173,768	564,281	(644,444)	(68,349,842)	(1,891,714,239)
					28,972,790 (75,064,643) 511,110,593
267,209,862	198,142,541	643,434,196	18,905,097	685,976,301	15,855,838,682 125,414,272 1,510,263,673
					17,491,516,627
279,527,181	113,563,808	533,913,329	5,965,681	571,196,524	13,213,740,148 2,158,698,144 15,372,438,292

Notes to the Financial Statements

42. 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.

42.1 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 2014	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Financial Investments - Held for Trading				
Government of Sri Lanka Treasury Bills	1,411,340,327	-	-	1,411,340,327
Quoted equities	66,329,044	-	-	66,329,044
Financial Investments - Available for Sale	-			
Government of Sri Lanka Treasury Bonds	80,694,064	-	-	80,694,064
Quoted equities	103,735,489	-	-	103,735,489
Unquoted equities	-	-	58,104,898	58,104,898
Total Financial Assets	1,662,098,924	-	58,104,898	1,720,203,823
Financial Liabilities				
Derivative Financial Liabilities	-	-	-	-
Total Financial Liabilities	-	-	-	-
As at 31st March 2013				
Financial Assets				
Financial Investments - Held for Trading				
Government of Sri Lanka Treasury Bills	162,346,537	-	-	162,346,537
Quoted equities	79,501,706	-	-	79,501,706
Financial Investments - Available for Sale				
Government of Sri Lanka Treasury Bonds	58,181,462	-	-	58,181,462
Quoted equities	78,019,567	-	-	78,019,567
Unquoted equities	-	-	40,621,269	40,621,269
Total Financial Assets	378,049,271	-	40,621,269	418,670,540
Financial Liabilities				
Derivative Financial Liabilities	-	10,296,783	-	-
Total Financial Liabilities	-	10,296,783	-	-



42.2 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.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Bank Balances	137,530,040	137,530,040	151,455,670	151,455,670
Repurchase Agreement	395,408,217	395,408,217	422,906,198	422,906,198
Placement with Banks & Other Financial Institutions	715,261,644	715,261,644	468,713,717	468,713,717
Loans and Advances	3,643,971,566	3,636,572,672	3,372,775,361	3,333,750,921
Lease rentals receivable	8,573,451,013	8,166,949,336	8,476,083,340	8,256,004,287
Hire Purchase Receivables	1,711,157,466	1,610,579,465	2,193,311,980	2,149,221,260
Other financial assets	162,867,616	162,867,616	139,101,427	139,101,427
Total Financial Assets	15,339,647,562	14,825,168,991	15,224,347,693	14,921,153,481
Financial Liabilities				
Due to Banks	2,184,716,485	2,184,716,485	3,499,753,777	3,499,753,777
Due to Customers	11,201,588,507	11,232,468,803	9,001,881,219	9,008,192,361
Debt Instruments Issued and Other borrowed funds	2,400,373,061	2,400,373,061	2,188,547,841	2,188,547,841
Financial Liabilities	360,779,078	360,779,078	314,591,579	314,591,579
Total Financial Liabilities	16,147,457,131	16,178,337,427	15,004,774,416	15,011,085,558

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits, certificate of deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year.

Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. For quoted debt issued the fair value are determined based on quoted market prices

Notes to the Financial Statements

43 COMMITMENTS AND CONTINGENCIES

In the normal course of the business, the Company makes various commitments and incurs certain contingent liabilities. No material losses are anticipated as a result of these transactions.

There were no capital commitments or contingent liabilities as at the end of the reporting date which requires separate disclosure to these Financial Statements.

43.1 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 their transactions

44 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date, no circumstances have arisen which would required adjustment to or disclosure in the Financial Statements other than those disclosed below.

44.1 Final Dividend - 2014

The Board of Directors of the Company have recommended final dividend of Rs. 20 per share, less 10% withholding tax will be paid under the Inland Revenue Act No. 10 of 2006. This dividend is to be approved by the shareholders at the Annual General Meeting to be held on 30th June 2014. However, in accordance with LKAS 10 on 'Events after the Reporting Period', proposed final dividend have not been recognized as a liability as at 31st March 2014.

Compliance with Section 56 and 57 of Companies Act No 7 of 2007

As required by Section 56 (2) of the Companies Act No 07 of 2007, the Board of Directors has confirmed that the Company has satisfied the 'Solvency Test' in accordance with Section 57 of the Companies Act No. 07 of 2007, having obtained a certificate from the auditors, prior to recommending the final dividend for the year.



45 MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

An analysis of financial assets and financial liabilities based on the remaining period at the end of the reporting date to the respective contractual maturity dates is as follows.

As at 31st March 2014	Up to 3 Months Rs.	3 to 12 Months	1 to 3 Years Rs.	3 to 5 Years	More than 5 Years	Total as at 31/03/2014 Rs.
Assets						
Cash and Bank Balances	137,530,040	-	-	-	-	137,530,040
Repurchase Agreements	395,408,217	-	-	-	-	395,408,217
Placements with Banks & Financial Institutions	559,995,619	155,266,025	-	-	-	715,261,644
Financial Investments - Held for Trading	199,279,494	1,278,389,877	-	-	-	1,477,669,371
Loans and Advances	2,561,582,168	826,109,853	190,939,991	65,142,729	196,824	3,643,971,565
Lease rentals receivable & Stock out on hire	1,395,900,612	2,655,318,339	4,038,689,006	482,965,784	577,272	8,573,451,014
Hirepurchase rentals receivable & Stock out on hire	290,524,416	526,969,981	784,035,560	109,532,981	94,528	1,711,157,466
Financial Investments - Available for Sale	-	-	-	-	242,534,451	242,534,451
Other financial assets	81,421,285	20,170,897	42,432,573	10,780,865	8,061,996	162,867,616
Total Assets	5,621,641,851	5,462,224,972	5,056,097,129	668,422,360	251,465,071	17,059,851,384

Liabilities						
Due to Banks	576,771,398	693,740,455	752,775,269	75,716,394	85,712,969	2,184,716,485
Due to Customers	3,682,473,126	5,512,668,330	1,636,439,630	370,007,421	-	11,201,588,507
Debt Instruments Issued and Other borrowed funds	116,738,903	126,449,220	708,520,147	1,448,664,792	-	2,400,373,062
Derivative Financial Liabilities	-	-	-	-	-	-
Other Financial Liabilities	286,323,568	74,455,510	-	-	-	360,779,078
Total liabilities	4,662,306,995	6,407,313,515	3,097,735,046	1,894,388,606	85,712,969	16,147,457,132
Net Financial Assets/(Liabilities)	959,334,856	(945,088,543)	1,958,362,083	(1,225,966,246)	165,752,102	912,394,252

As at 31st March 2013	Up to 3 Months Rs.	3 to 12 Months	1 to 3 Years Rs.	3 to 5 Years	More than 5 Years	Total as at 31/03/2014 Rs.
Assets						
Cash and Bank Balances	151,455,670	-	-	-	-	151,455,670
Repurchase Agreements	422,906,198	-	-	-	-	422,906,198
Placements with Banks & Financial Institutions	415,326,786	47,965,491	5,421,440	-	-	468,713,717
Financial Investments - Held for Trading	222,746,370	19,101,873	-	-	-	241,848,243
Loans and Advances	2,759,837,355	372,559,968	182,967,948	56,447,189	962,900	3,372,775,361
Lease rentals receivable & Stock out on hire	1,051,673,776	2,335,014,650	4,235,758,555	851,699,429	1,936,930	8,476,083,340
Hirepurchase rentals receivable & Stock out on hire	278,794,268	608,068,493	1,104,762,412	200,805,854	880,952	2,193,311,980
Financial Investments - Available for Sale	-	-	-	-	176,822,297	176,822,297
Other financial assets	61,016,940	23,606,713	25,378,889	23,610,827	5,488,059	139,101,427
Total Assets	5,363,757,363	3,406,317,189	5,554,289,244	1,132,563,300	186,091,138	15,643,018,233
Liabilities						
Due to Banks	1,117,649,927	1,001,698,869	1,121,482,555	156,477,106	102,445,320	3,499,753,777
Due to Customers	3,095,976,201	3,941,191,437	1,680,628,201	284,085,379	-	9,001,881,219
Debt Instruments Issued and Other borrowed funds	624,012,058	528,295,160	249,760,624	786,480,000	-	2,188,547,842
Derivative Financial Liabilities	2,750,233	7,546,550	-	-	-	10,296,783
Other Financial Liabilities	238,904,683	75,686,895	-	-	-	314,591,579
Total liabilities	5,079,293,103	5,554,418,911	3,051,871,380	1,227,042,486	102,445,320	15,015,071,199
Net Financial Assets/(Liabilities)	284,464,260	(2,148,101,723)	2,502,417,864	(94,479,186)	83,645,818	627,947,034

Notes to the Financial Statements

46 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,

46.1 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.

For the Financial year ended 31st March 2014		2014	2013
		Rs.	Rs.
46.1.1 Key Management Personnel Compensation			
KMP's Emoluments			
	Short Term	33,832,812	33,073,770
	Long Term	5,088,117	3,618,042
		38,920,929	36,691,812
Directors Emoluments			
	Short Term	15,894,113	21,574,043
	Long Term	1,256,000	5,064,000
		17,150,113	26,638,043

46.1.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

Deposits and investments from key managerial personnel and their close family members are detailed below.

	2014	2013
	Rs.	Rs.
Fixed Deposits		
Fixed Deposits Accepted during the year	21,115,138	110,608,100
Fixed Deposits held at the end of the year	25,860,320	58,023,846
Interest payable on Fixed Deposits	1,790,936	2,267,349
Interest paid on Fixed Deposits	598,324	4,998,465
Debt Instruments Issued and other borrowed funds		
Debentures	9,300,000	9,300,000



46.1.3 Transaction, arrangements and agreements involving with Entities which are controlled, and/or jointly controlled by the KMP's and their CFMs or shareholders

Entity	Nature of Transaction / Facility	2014	2013
		Rs.	Rs.
M/S.Alfinco Insurance Brokers (Pvt) Ltd.	Fixed Deposits	21,263,615	3,000,000
	Commercial paper	29,027,927	-
	Commision Income	32,613,240	31,107,388
M/S.Alliance Management Services (Private) Limited	Fixed Deposits	628,416	1,700,559
M/S.Alliance Travel Services Ltd	Fixed Deposits	104,319	94,840
Mess.Alliance Agencies Ltd.	Fixed Deposits	-	13,368,965
	Lease rentals receivable & Stock out on hire	1,734,139	2,797,473
M/S.Alliance Graphic Services (Pvt) Limited	Fixed Deposits	2,410,754	6,543,944
	Lease rentals receivable & Stock out on hire	2,352,750	3,042,912
	Hire Purchase rentals receivable & Stock out on hire	-	170,416
M/S Xesol (Pvt) Ltd	Fixed Deposits	14,263,775	12,658,851
	Lease rentals receivable & Stock out on hire	-	6,484
M/S. Macbertan (Private) Limited	Lease rentals receivable & Stock out on hire	1,943,917	2,741,604
	Loan rentals receivable & Stock out on hire	2,393,553	-
	Hiring rentals receivables	-	389,200
Arpico Finance Co. Plc	Investments - During the year	-	40,000,000
	Commercial Papers	-	50,323,165
	Hiring rentals receivables	-	10,440
M/S.Alliance Tech Trading (Pvt) Ltd.	Fixed Deposits	1,013,558	-
	Hiring rentals receivables	5,320	-
M/S.Alliance Ventures (Private) Limited	Fixed Deposits	1,055,490	-

46.1.4 Parent and Ultimate Controlling Party

The Company does not have an identifiable parent of its own.

Notes to the Financial Statements

47 RISK MANAGEMENT

47.1 Introduction

Constantly assessing and being cognizant of the concept of risk is fundamental to the managerial philosophy of Alliance Finance Company PLC.

Consequent to the global, economic and financial crises, companies are placing greater emphasis on risk management by adopting comprehensive risk management framework to increasingly safeguard stakeholder interest. Due to diversified and geographic spread of the portfolio of businesses, Alliance Finance maintains a holistic risk management system that continuously monitors primary risk factors. Risk mitigation actions are also built in to the day - to-day operations of the Company. The Company's business divisions are closely monitored through a comprehensive computerized information system and employees, ranging from managerial credit and other officers, have been apprised and trained to adopt risk management practices as an integral part of their decision making.

Risk Coverage

The Company's Comprehensive risk management framework covers three major areas that comprise credit risk, liquidity risk, and market risk management.

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement, and monitoring, subject to the risk limits and their controls.

47.2 Credit Risk

47.2.1 Credit Quality By Class of Financial Assets

Credit risk is the risk that the company will incur a loss because its customers or counter parties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counter parties and industry concentrations, and by monitoring exposures in relation to such limits.

The Company has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counter parties, including regular collateral revisions. Counter party limits are established by the use of a credit risk classification system, which assigns each counter party a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans



47.2.1 Credit Quality By Class of Financial Assets (Contd.)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including hire purchases, lease receivables, other loans and advances and consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Risk Management

The Company generally bases its analyses on historical experience. However, when there are significant market changes the company would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The company may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Company's management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the company's overall policy.

As at 31st March 2014	Notes	Neither Past Due Nor Impaired Rs	Past Due But Not Impaired Rs	Total Rs
Assets				
Cash and Bank Balances	17	137,530,040	-	137,530,040
Repurchase Agreements		395,408,217	-	395,408,217
Placements with Banks & Financial Institutions		715,261,644	-	715,261,644
Financial Investments - Held for Trading	18	1,477,669,371	-	1,477,669,371
Loans and Advances	19	1,385,956,705	2,258,014,861	3,643,971,566
Lease rentals receivable & Stock out on hire	20	3,141,025,690	5,432,425,324	8,573,451,013
Hirepurchase rentals receivable & Stock out on hire	21	533,164,112	1,177,993,354	1,711,157,466
Financial Investments - Available for Sale	22	242,534,452	-	242,534,452
Other financial assets	24	162,867,616	-	162,867,616
Total Financial Assets		8,191,417,847	8,868,433,538	17,059,851,385

Notes to the Financial Statements

47.2 Credit Risk (Contd.)

47.2.1.1 Aging Analysis of past due(i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

As at 31st March 2014	Past Due But Not Impaired				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Loans and Advances	2,072,323,881	97,019,002	17,819,723	70,852,253	2,258,014,860
Lease rentals receivable & Stock out on hire	2,013,821,426	1,297,713,242	778,011,376	1,342,879,281	5,432,425,325
Hirepurchase rentals receivable & Stock out on hire	374,096,270	241,725,935	185,752,423	376,418,726	1,177,993,353
	4,460,241,576	1,636,458,179	981,583,522	1,790,150,261	8,868,433,538

As at 31st March 2013	Notes	Neither Past Due	Past Due But	Total
		Nor Impaired	Not Impaired	
		Rs	Rs	Rs

Credit risk - Credit Quality by class of Financial Assets

Assets

Cash and Bank Balances	17	151,455,670	-	151,455,670
Repurchase Agreements		422,906,198	-	422,906,198
Placements with Banks & Financial Institutions		468,713,717	-	468,713,717
Financial Investments - Held for Trading	18	241,848,243	-	241,848,243
Loans and Advances	19	1,336,761,210	2,036,014,151	3,372,775,361
Lease rentals receivable & Stock out on hire	20	3,557,916,769	4,918,166,570	8,476,083,340
Hirepurchase rentals receivable & Stock out on hire	21	834,075,957	1,359,236,022	2,193,311,980
Financial Investments - Available for Sale	22	176,822,298	-	176,822,297
Other financial assets	24	139,101,427	-	139,101,427
Total Financial Assets		7,329,601,489	8,313,416,743	15,643,018,232

47.2.1.1 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				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Loans and Advances	1,974,179,740	18,611,572	8,477,934	34,744,904	2,036,014,151
Lease rentals receivable & Stock out on hire	2,360,629,839	1,445,211,952	702,439,519	409,885,261	4,918,166,570
Hirepurchase rentals receivable & Stock out on hire	630,940,469	346,720,460	227,395,371	154,179,722	1,359,236,022
	4,965,750,048	1,810,543,984	938,312,824	598,809,887	8,313,416,743



47.2.2 Analysis of Risk Concentration

47.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector wise Breakdown	Cash and Bank	Financial		Financial		Total
	Balances	Investments -	Loans and	Investments -	Other	
		Held for	Advances	Available for	financial	Financial
		Trading		Sale	assets	Assets
Agriculture & Fishing	-	-	1,461,615,727	-	-	1,461,615,727
Construction	-	-	257,783,371	-	-	257,783,371
Food, Beverages & Tobacco	-	-	45,676,457	-	-	45,676,457
Financial Services	137,530,040	-	-	-	715,261,644	852,791,684
Industry	-	-	660,339,804	-	-	660,339,804
Tourism	-	-	40,248,691	-	-	40,248,691
Government	-	1,411,340,327	-	80,694,064	395,408,217	1,887,442,608
Transport	-	-	3,445,438,184	-	-	3,445,438,184
Services	-	-	888,119,708	-	162,867,616	1,050,987,325
Consumption	-	-	2,476,335,966	-	-	2,476,335,966
Other	-	66,329,044	4,653,022,137	161,840,388	-	4,881,191,569
Total	137,530,040	1,477,669,371	13,928,580,045	242,534,452	1,273,537,478	17,059,851,385

47.2.3 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 countries.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved monthly by the Risk Commity.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measure are outline below.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a 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.

Notes to the Financial Statements

47.2.2.1 Industry Analysis (Contd.)

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.

47.3 Liquidity Risk & Funding Management

"Liquidity risk refers to the availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes 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.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

Liquidity risk management process

The Company's liquidity management process, as carried out within the Company and monitored by a separate team in Company Treasury, includes:

Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.

Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

Monitoring the liquidity ratios of the Statement of Financial Position against internal and regulatory requirements; and

Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets

Company Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.



47.3.1 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 2014, the Company maintained Statutory Liquid Asset ratio at 23.63%.

47.3.2 Analysis of Financial Assets And Liabilities By Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31st March 2014.

	On Demand	Less than 03 Months	3-12 Months	12-60 Months	Over 60 Months	Total
	Rs.	Rs.	Rs.	Rs.		Rs.
Financial Assets						
Cash and Bank Balances	137,530,040	-	-	-	-	137,530,040
Repurchase agreement	395,408,217	-	-	-	-	395,408,217
Placement with banks & Other financial institution	559,995,619	155,266,025	-	-	-	715,261,644
Financial Investments - Held for Trading	-	199,279,494	1,278,389,877	-	-	1,477,669,371
Loans and Advances	-	2,561,582,168	826,109,853	256,082,720	196,825	3,643,971,565
Lease rentals receivable & Stock out on hire	-	1,395,900,612	2,655,318,339	4,521,654,791	577,272	8,573,451,014
Hirepurchase rentals receivable & Stock out on hire	-	290,524,416	526,969,981	893,568,541	94,528	1,711,157,466
Financial Investments - Available for Sale	-	-	-	-	242,534,451	242,534,451
Other financial assets	-	81,421,285	20,170,897	53,213,438	8,061,996	162,867,616
Total Financial Assets	1,092,933,876	4,683,974,000	5,306,958,947	5,724,519,489	251,465,072	17,059,851,385
Financial Liabilities						
Due to Banks	132,581,401	444,189,996	693,740,455	828,491,662	85,712,969	2,184,716,485
Due to Customers	-	3,682,473,126	5,512,668,330	2,006,447,051	-	11,201,588,507
Debt Instruments Issued and Other borrowed funds	-	116,738,903	126,449,220	2,157,184,939	-	2,400,373,062
Derivative Financial Liabilities	-	-	-	-	-	-
Other Non Financial Liabilities	-	286,323,568	74,455,510	-	-	360,779,078
Total Financial Liabilities	132,581,401	4,529,725,593	6,407,313,515	4,992,123,652	85,712,969	16,147,457,132
Total Net Financial Assets/(Liabilities)	960,352,475	154,248,407	(1,100,354,568)	732,395,837	165,752,103	912,394,253

Notes to the Financial Statements

Assets held for managing liquidity risk

The Company holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Company's assets held for managing liquidity risk comprise:

- * Cash and balances with central banks;
- * Certificates of deposit;
- * Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- * Secondary sources of liquidity in the form of highly liquid instruments in the Company's trading portfolios.

47.4 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.

47.4.1 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. The Board has established limits on the non-trading interest rate gaps for stipulated periods. The Company's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

47.4.2 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's Income Statement & Equity.

Currency of Borrowings/ Advance	Increase (Decrease) in basis points 2014	Rs. Sensitivity of Profit or Loss 2014	Rs. Sensitivity of Equity 2014
Long Term Loans linked to AWPLR	+100/(-100)	(9,832,555)/9,832,555	(9,832,555)/9,832,555



47.4.3 Interest Rate Risk Exposure on Non Trading Financial Assets & Liabilities

The table below analyses the company's interest rate risk exposure on financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	Up to 03 Months Rs	03-12 Months Rs	01-05 Years Rs	Over 05 Years Rs	Non interest bearing Rs	Total as at 31/03/2013 Rs
Assets						
Cash and Bank Balances	-	-	-	-	137,530,040	137,530,040
Loans and Advances	2,561,582,168	826,109,853	256,082,720	196,824	-	3,643,971,565
Lease rentals receivable & Stock out on hire	1,395,900,612	2,655,318,339	4,521,654,791	577,272	-	8,573,451,014
Hirepurchase rentals receivable & Stock out on hire	290,524,416	526,969,981	893,568,541	94,528	-	1,711,157,466
Financial Investments - Available for Sale	-	-	-	-	242,534,451	242,534,451
Other financial assets	-	-	-	-	162,867,616	162,867,616
Total Financial Assets	4,248,007,196	4,008,398,173	5,671,306,051	868,624	542,932,107	14,471,512,151
Financial Liabilities						
Due to Banks	576,771,398	693,740,455	828,491,662	85,712,969	-	2,184,716,485
Due to Customers	3,682,473,126	5,512,668,330	2,006,447,051	-	-	11,201,588,507
Debt Instruments Issued and Other borrowed funds	116,738,903	126,449,220	2,157,184,939	-	-	2,400,373,062
Derivative Financial Liabilities	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	360,779,078	360,779,078
Total Financial Liabilities	4,375,983,427	6,332,858,005	4,992,123,652	85,712,969	360,779,078	16,147,457,132
INTEREST SENSITIVITY GAP	(127,976,231)	(2,324,459,832)	679,182,399	(84,844,345)	182,153,028	(1,675,944,981)

47.5 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.

48 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 is 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.

Notes to the Financial Statements

48 CAPITAL(Contd.)

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the regulators of the financing markets where the entities within the Company operate;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Central Bank of Sri Lanka, for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Company maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the Authority which takes into account the risk profile of the Company.

The regulatory capital requirements are strictly observed when managing economic capital. The Company's regulatory capital is managed by each month by board of directors and comprises two tiers:

- **Tier 1 capital**
Tier 1' Capital is capital which is permanently and freely available to absorb losses without a finance company being obliged to cease trading. An example of Tier 1 Capital is the paid up ordinary share capital of a finance company. Tier 1 Capital is important because it safeguards both the survival of a finance company and stability of the financial system
- **Tier 2 capital:**
Tier 2 Capital is capital which generally absorbs losses only in the event of a winding up of a finance company, and so provides a lower level of protection for depositors and other creditors. Tier 2 Capital includes revaluation reserve, general provisions and hybride capital instruments and approved subordinated term debts.

Equity Investments in Unconsolidated Financial and Banking subsidiaries are deducted from Tier 1 and Tier 2 capital to arrive at the Capital Base.

The risk weighted assets are measured using the Risk Weight % and Principal Amount of On Balance Sheet Items.

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 March 2014 and 2013. During those two years, the Company has complied with all of the externally imposed capital requirements to which they are subject.



Capital Adequacy Ratio

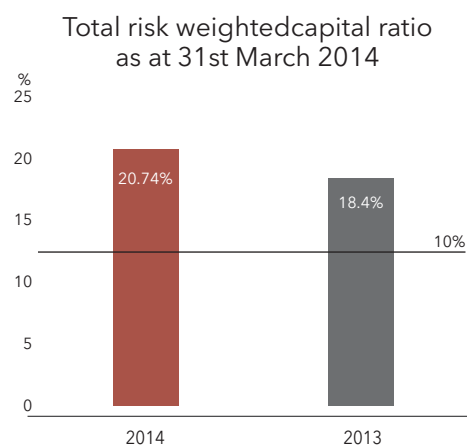
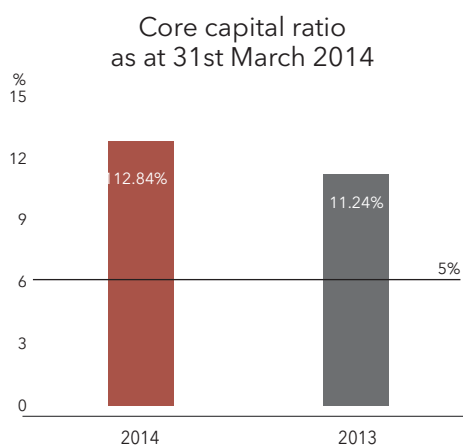
Assets	Notes	Risk Weight	31.03.2014	31.03.2014	31.03.2013	31.03.2013
			Principal amount of on balance sheet item	Total Risk Weighted Assets	Principal amount of on balance sheet item	Total Risk Weighted Assets
Cash and Bank Balances	17	0%	137,530,040	-	151,455,670	-
Repurchase Agreements		0%	395,408,217	-	422,906,198	-
Placements with Banks & Financial Institutions		20%	715,261,644	143,052,329	468,713,717	93,742,743
Financial Investments - Held for Trading	18		1,477,669,371	-	241,848,243	-
Government of Sri Lanka Treasury Bills		0%	1,411,340,327	-	162,346,537	-
Quoted equities		100%	66,329,044	66,329,044	79,501,706	79,501,706
Loans and Advances	19		3,643,971,566	-	3,372,775,361	-
Term loan receivable		100%	640,878,659	640,878,659	449,504,005	449,504,005
Gold Loans		10%	2,174,932,775	217,493,277	2,730,800,313	273,080,031
Pledge Loans		100%	90,144,787	90,144,787	78,409,783	78,409,783
Micro Grameen Loan		100%	605,577,858	605,577,858	-	-
Loans Against Fixed Deposits		0%	114,668,570	-	95,155,940	-
Staff Loans - Secured By Provident Fund		100%	14,548,233	14,548,233	17,013,302	17,013,302
Staff Loans - Not Secured By Provident Fund		0%	980,818	-	1,012,064	-
Operating Lease Debtors		100%	2,239,865	2,239,865	879,955	879,955
Lease rentals receivable & Stock out on hire	20	100%	8,573,451,013	8,573,451,013	8,476,083,340	8,476,083,340
Hire purchase rentals receivable & Stock out on hire	21	100%	1,711,157,466	1,711,157,466	2,193,311,980	2,193,311,980
Financial Investments - Available for Sale	22		242,534,452	-	176,822,297	-
Government of Sri Lanka Treasury Bonds		0%	80,694,064	-	58,181,462	-
Quoted equities (Note 22.1)		100%	103,735,489	103,735,489	78,019,567	78,019,567
Unquoted equities (Note 22.2)		100%	58,104,898	58,104,898	40,621,269	40,621,269
Other financial assets	24	100%	162,867,616	162,867,616	139,101,427	139,101,427
Real Estate & Other Trading Stock	23	100%	93,241,656	93,241,656	240,519,961	240,519,961
Other Non Financial Assets	25	100%	126,984,240	126,984,240	87,555,817	87,555,817
Income Tax Refund Due	26	100%	7,771,001	7,771,001	77,211,499	77,211,499
Investments In Associates	27	100%	123,442,479	123,442,479	125,414,272	125,414,272
Property, Plant & Equipment	28	100%	1,120,354,307	1,120,354,307	1,074,238,256	1,074,238,256
Deferred Tax Assets		100%	194,820,518	194,820,518	243,558,590	243,558,590
Total Assets			18,726,465,587	14,056,194,738	17,491,516,627	13,767,767,501

Capital Adequacy Ratio

Before Dividends

Capital Base	31.03.2014	31.03.2013
Tire 1: Core Capital		
Issued and Paid up Share Capital	350,000	350,000
Statutory Reserve Fund	377,657,400	327,757,400
General Reserves	931,958,848	931,879,306
Published Retained Profit	494,269,442	288,036,456
Total Tire 1: Capital	1,804,235,690	1,548,023,162
Tire 1: Supplementary Capital		
Capital Reserves (Revaluation)	239,953,322	239,953,322
Shares issued against Approved Reserves	11,975,000	11,975,000
General Provisions	-	-
Eligible Approved Unsecured Subordinated Term Debt	902,117,845	752,470,000
Total Tire 2: Capital	1,154,046,167	1,004,398,322
Deductions		
Equity Investments in unconsolidated banking and financial subsidiaries	46,309,974	19,712,500
Capital Base	2,911,971,882	2,532,708,984

	31.03.2014	31.03.2013
Capital Adequacy Ratio		
Core Capital Ratio (Minimum 5%)	Tire 1 Capital Risk Weighted Assets 12.84%	11.24%
Total Risk Weighted Capital Ratio (Minimum 10%)	Capital Base Risk Weighted Assets 20.74%	18.40%



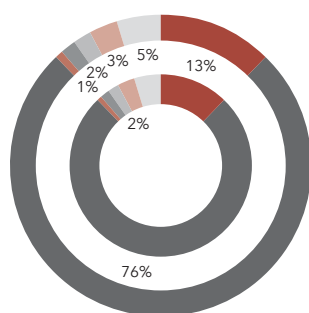


Contribution to National Economy

Sources and Utilisation of Income

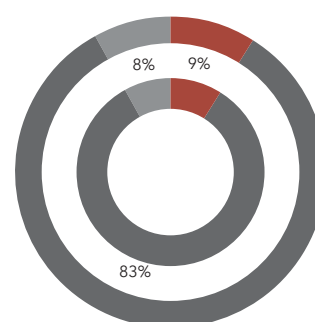
For the year ended 31st March	2014	%	2013	%
	Rs.		Rs.	
Sources of Income				
Loans and Advances	478,675,314	12.47%	633,661,587	18.18%
Lease, Hire purchases and Consumer Durables	2,908,709,330	75.59%	2,516,637,859	72.16%
Government Securities	30,610,841	0.80%	39,108,727	1.12%
Placements with Banks & Financial Institutions	61,100,710	1.59%	35,468,773	1.02%
Other Investments	73,647,102	1.92%	30,692,596	0.88%
Net Fee and Commission Income	121,774,409	3.17%	120,023,089	3.44%
Other Income	163,370,246	4.26%	112,377,794	3.22%
Total Income	3,837,887,952	100.00%	3,487,970,425	100.02%
To Employees				
Personnel Expenses	348,880,392	9.09%	457,945,731	13.13%
To suppliers				
Interest paid	2,299,280,718	59.91%	1,891,109,361	54.22%
Other Expenses	534,530,767	13.93%	399,478,641	11.45%
Depreciation	69,249,072	1.80%	57,067,839	1.64%
Impairment for loans and other losses	299,260,083	7.80%	88,154,013	2.53%
	3,202,320,640	83.44%	2,435,809,854	69.83%
To Government				
Value added Tax & Other Taxes	15,764,886	0.41%	37,012,395	1.06%
Income Tax	(21,285,803)	(0.55%)	75,064,643	2.15%
	(5,520,917)	(0.14%)	112,077,038	3.20%
To Shareholders				
Dividends	36,450,000	0.95%	109,350,000	3.14%
Invested in the business	255,757,836	6.66%	372,787,803	10.69%
	292,207,836	7.61%	482,137,803	13.82%
	3,837,887,951	100.00%	3,487,970,425	100.00%

Sources of Income - 2013/14



● Loans and Advances ● Placements with Banks & Financial Institutions
● Lease, Hire purchases and Consumer Durables ● Other Investments

Utilization of Income - 2013/14



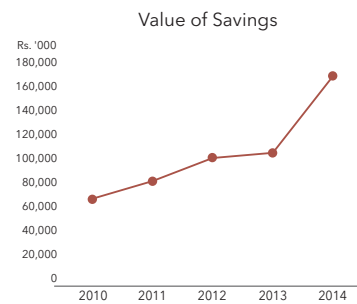
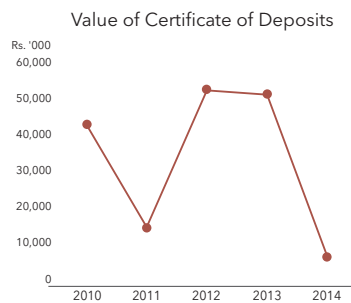
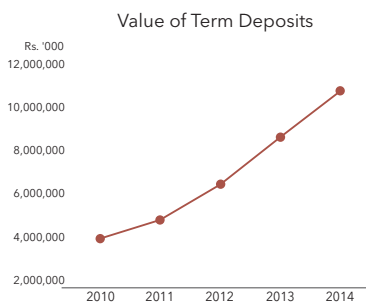
● To Employees ● To Government
● To suppliers ● To Shareholders

Depositor's Information

Analysis of Deposit Base

a) Value of Deposit Base and Certificate of Deposits

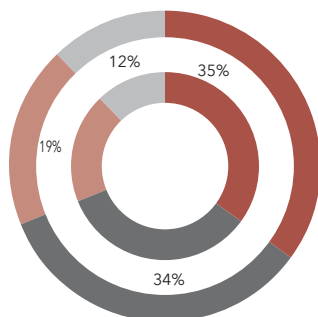
Value of Deposits	2010	2011	2012	2013	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Value of Term Deposits	3,919,310	4,783,914	6,419,122	8,611,827	10,746,932
Value of Certificate of Deposits	42,714	14,322	52,228	51,035	6,206
Value of Savings	66,344	81,036	100,267	104,566	168,436
	4,028,368	4,879,272	6,571,617	8,767,428	10,921,574



b) Rate of Interest Basis on Term Deposits

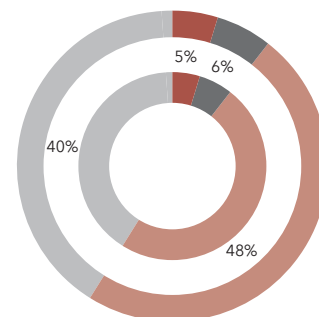
	As at 31st March 2014			As at 31st March 2013		
	No. of Deposits	Value Rs.'000	% of Total	No. of Deposits	Value Rs.'000	% of Total
Less than 13%	4,676	3,720,240	34.60%	779	422,246	4.87
More than or equal to 13% and less than 15%	3,797	3,706,657	34.47%	1,191	514,096	5.93
More than or equal to 15% and less than 17%	2,803	2,047,775	19.04%	6,457	4,171,905	48.16
More than or equal to 17% and less than 19%	1,301	1,248,281	11.61%	4,203	3,469,180	40.05
More than or equal to 19%	40	30,185	0.28%	221	85,434	0.99
Total	12,617	10,753,738	1.00	12,851	8,662,862	100.00

Deposit Base Rate Wise- 2013/14



- Less than 13%
- More than or equal to 13% and less than 15%
- More than or equal to 15% and less than 17%
- More than or equal to 17% and less than 19%
- More than or equal to 19%

Deposit Base Rate Wise - 2012/13



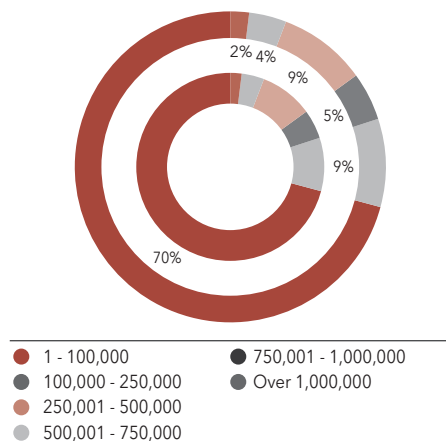
- Less than 13%
- More than or equal to 13% and less than 15%
- More than or equal to 15% and less than 17%
- More than or equal to 17% and less than 19%
- More than or equal to 19%



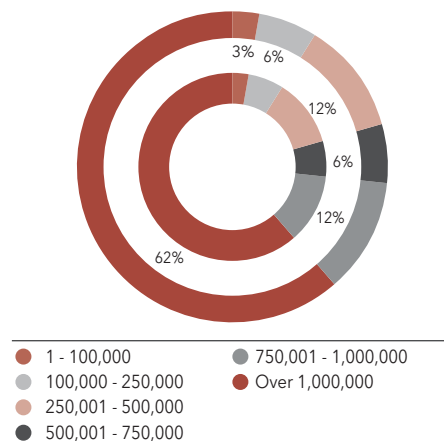
c) Capital Range on Term Deposits

	As at 31st March 2014			As at 31st March 2013		
	No. of Deposits	Total Deposits	%	No. of Deposits	Total Deposits	%
1 - 100,000	3,722	210,038	2	3,928	227,036	3
100,000 - 250,000	2,565	456,679	4	2,679	478,847	6
250,001 - 500,000	2,493	1,013,364	9	2,565	1,041,197	12
500,001 - 750,000	833	525,987	5	840	525,692	6
750,001 - 1,000,000	1,073	1,019,783	9	1,105	1,048,055	12
Over 1,000,000	1,931	7,527,287	70	1,734	5,342,035	62
	12,617	10,753,138	100	12,851	8,662,862	100

Capital Range of Term Deposits - 2013/14



Capital Range of Term Deposits - 2012/13

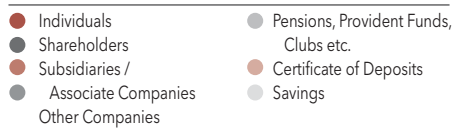
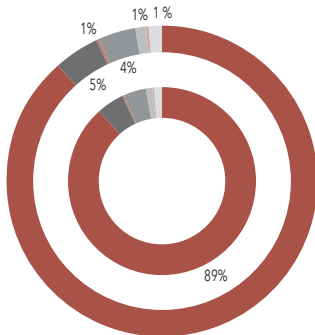


Depositor's Information

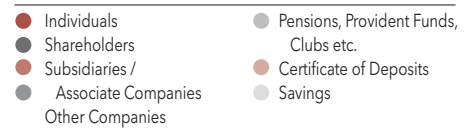
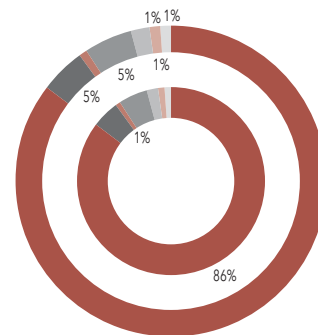
d) Deposits Analysis

	As at 31st March 2014		As at 31st March 2013	
	Rs.'000	%	Rs.'000	%
Individuals	9,658,566	88.44	7,541,292	86.01
Shareholders	487,533	4.46	416,329	4.75
Subsidiaries / Associate Companies	56,686	0.52	53,991	0.62
Other Companies	420,848	3.85	452,171	5.16
Pensions, Provident Funds, Clubs etc.	123,299	1.13	148,044	1.69
Certificate of Deposits	6,206	0.06	51,035	0.58
Savings	168,436	1.54	104,566	1.19
	10,921,574	100.00	8,767,428	100.00

Deposit Analysis - 2013/14



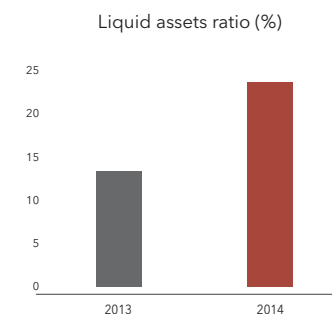
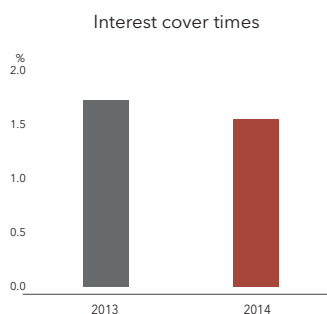
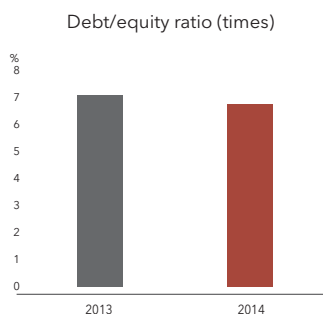
Deposit Analysis - 2012/13





Debenture Investor Indicators

	2013	2014
Debt/equity ratio (times)	7.09	6.75
Interest cover times	1.72	1.55
Liquid assets ratio (%)	13.39	23.74

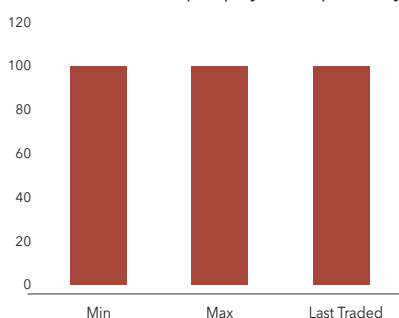


Market Value Per Debenture During Financial Year 2013/14

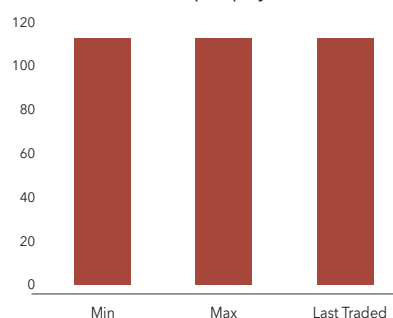
Debenture 2012-2017 Market Price (Rs.)

	Issued Price	Min	Max	Last Traded
3 Years - 18.5% p.a payable quarterly	100.00	100.00	100.00	100.00
5 Years - 20.0% p.a payable Monthly	100.00	112.35	112.35	112.35

Debenture 2012-2017 Market Price (Rs.)
3 Years - 18.5% p.a payable quarterly



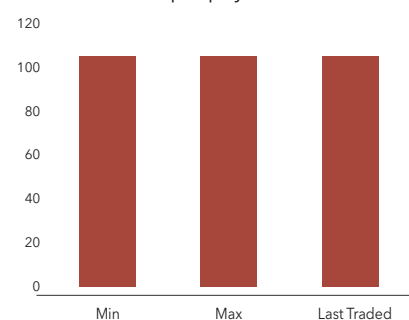
Debenture 2012-2017 Market Price (Rs.)
5 Years - 20.0% p.a payable Monthly



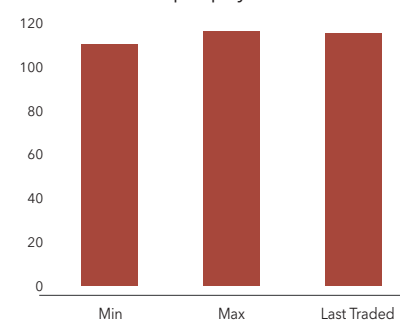
Debenture 2013-2018 Market Price (Rs.)

	Issued Price	Min	Max	Last Traded
3 Years - 15.5% p.a payable semi-annually	100.00	105.04	105.04	105.04
5 Years - 16.5% p.a payable semi-annually	100.00	110.25	116.24	115.32

Debenture 2013-2018 Market Price (Rs.)
3 Years - 15.5% p.a payable semi-annually



Debenture 2013-2018 Market Price (Rs.)
5 Years - 16.5% p.a payable semi-annually



Ten Year Summary

(In Rupees Million)

For Year Ended 31 March	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
OPERATING RESULTS										
Income	524.21	614.99	769.61	973.07	1,346.86	1,527.78	1869.41	2270.91	3,487.97	3,837.89
Profit before Tax	60.28	94.93	100.10	73.92	70.65	78.68	234.79	492.72	586.18	287.32
Income Tax	5.66	27.65	32.57	(11.53)	9.08	10.83	50.00	36.98	75.06	(21.29)
Profit after Tax	54.62	67.28	67.53	85.45	61.57	67.85	184.79	455.74	511.11	308.60

BALANCE SHEET

Assets

Cash, Cash Equivalent & Deposits	147.90	120.03	91.32	73.03	79.51	237.16	467.29	527.37	1,043.08	1,248.20
Receivables	216.02	199.17	193.20	397.94	845.99	947.59	705.37	1,220.85	1,126.05	1,226.77
Stocks	1,418.57	2,058.40	2,646.36	3,315.36	3,492.58	3,628.76	5,775.25	9,366.68	13,477.41	12,997.64
Investments	324.29	278.34	479.84	601.52	730.79	846.01	1035.80	785.08	770.74	2,113.50
Property, Plant & Equipment	294.09	519.65	612.96	665.81	679.32	654.63	623.25	754.01	1,074.24	1,120.77
	2,400.87	3,175.59	4,023.67	5,053.66	5,828.19	6,314.14	8,606.97	12,653.99	17,491.52	18,726.47

Liabilities

Term Deposit	1,576.06	1,717.51	2,058.86	2,590.06	3,355.68	4,176.99	5,001.75	6,732.81	9,001.88	11,201.59
Bank Overdraft/Loans	325.42	636.65	975.81	1,473.48	1,283.73	919.42	2269.00	4,213.29	6,070.41	4,945.87
Provisions & Other Liabilities	231.45	315.27	423.42	344.75	488.32	455.10	171.76	240.20	357.37	187.70
	2,132.93	2,669.43	3,458.09	4,408.29	5,127.73	5,551.51	7,442.51	11,186.30	15,429.66	16,335
Shareholders' Funds	267.94	506.16	565.59	645.37	700.47	762.64	1,164.45	1,467.69	2,119.08	2,391.31

CHANGES IN FINANCIAL POSITION

Sources of Funds

Operations	99.47	206.42	238.44	104.49	250.46	90.71	635.37	717.93	820.61	(904.12)
Sale of Fixed Assets	1.80	23.60	36.34	26.27	15.64	57.56	69.87	59.98	36.01	21.4
Term Deposits	120.61	152.78	350.57	455.60	765.62	821.31	830.05	1,731.06	2,269.07	2,199.71
Bank Overdraft/Loans	146.82	311.23	278.47	334.39	(191.54)	(180.26)	715.26	2,168.21	1,812.02	(1,103.21)
Others	(26.02)	(24.28)	(30.68)	(53.38)	(95.29)	(66.04)	(44.93)	(50.95)	(105.27)	(165.36)
	342.68	669.75	873.14	867.37	744.89	723.28	2,205.61	4,626.22	4,832.44	48.45

Application of Funds

Capital Expenditure	79.21	134.80	183.26	137.93	97.75	82.82	84.86	237.85	158.35	137.36
Portfolio Disbursements	343.18	564.50	806.57	939.73	683.78	301.11	2,190.98	4,169.62	4,654.30	20.34
Deposits	(59.99)	(3.94)	(65.84)	(36.75)	28.59	(1.35)	3.72	(110.79)	10.17	66.37
Income Tax	10.23	13.45	20.72	24.40	32.98	32.28	64.63	42.56	1.89	1.14
Dividends	4.05	4.86	8.10	5.67	6.48	5.67	5.67	105.30	109.35	36.45
Other	(45.75)	(23.69)	(47.27)	(58.53)	(80.80)	(40.30)	(16.81)	164.93	(130.93)	(199.30)
Changes in available resources	11.75	(20.23)	(32.40)	(145.08)	(23.89)	343.05	(127.43)	16.75	29.31	(13.93)
	342.68	669.75	873.14	867.37	744.89	723.28	2,205.61	4,626.22	4,832.44	48.45

NO. OF SHARES

	1,620,000	1,620,000	1,620,000	1,620,000	1,620,000	1,620,000	1,620,000	2,430,000	2,430,000	2,430,000
--	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------

INDICATORS OF PERFORMANCE

Return on Shareholders Funds % (After Tax)	25.40	17.38	12.60	14.11	9.15	9.27	21.68	34.63	28.50	12.48
Return on Total Assets % (After Tax)	2.59	2.41	1.88	1.88	1.13	1.12	2.52	3.38	3.38	1.70
Earnings per Share Rs.	33.72	41.53	41.69	52.75	38.01	41.88	76.05	187.55	210.33	127.00
Market Value per Share (Rs.)	105.00	168.00	210.00	175.00	175.00	419.00	850.10	630.00	800.10	769.80
Price Earning Ratio	3.11	4.05	5.04	3.32	4.60	10.00	11.18	3.00	3.80	6.06
Rate of Dividend %	30.00	50.00	35.00	40.00	35.00	35.00	275.00	450.00	400.00	200.00
Dividend per Share (Rs.)	3.00	5.00	3.50	4.00	3.50	3.50	27.50	45.00	40.00	20.00
Gross Dividend	4.86	8.10	5.67	6.48	5.67	5.67	44.55	109.35	97.70	48.60
Dividend cover (times)	11.24	8.31	11.91	13.19	10.86	11.97	4.42	4.67	5.26	6.35
Net Assets per share (Rs.)	165.40	312.44	349.13	398.37	432.39	470.77	581.34	603.99	872.05	986.41

MARKET VALUE PER SHARE

DURING THE YEAR ENDED

Highest Value Recorded During the Year (Rs.)	115.00	191.25	248.75	235.00	220.00	485.00	1,100.00	824.90	702.00	820.00
Lowest Value Recorded During the Year (Rs.)	80.00	95.00	140.00	168.00	175.00	185.00	700.00	516.00	849.00	730.00
Market Value as at 31st March (Rs.)	105.00	168.00	210.00	175.00	175.00	419.00	850.10	630.00	800.10	769.80

FINANCIAL HIGHLIGHTS

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets	2,401	3,176	4,424	5,054	5,828	6,314	8,607	12,654	17,492	18,726
Liabilities	2,133	2,669	3,458	4,408	5,128	5,552	7,443	11,186	15,372	16,335
Shareholders Funds	268	506	566	645	700	763	1,164	1,468	2,119	2,391



Shareholders' Information

20 Major Shareholders

No.	Name of Shareholder	As at 31st March 2014		Name of Shareholder	As at 31st March 2013	
		No. of Shares	%		No. of Shares	%
1	Mr.R.K.E.P. de Silva	640,075	26.34	Mr.R.K.E.P. de Silva	636,381	26.19
2	Motor Service Station (Pvt) Ltd.,	327,564	13.48	Motor Service Station Ltd.,	295,164	12.15
3	Miss D.M.E.P. Perera	187,536	7.72	Miss D.M.E.P. Perera	258,132	10.62
4	Mr.J.E.P.A. de Silva	151,530	6.24	Mr.J.E.P.A. de Silva	151,530	6.24
5	Mr.D.F.W.S.K. Perera	99,630	4.10	Mr.D.F.W.S.K. Perera	99,630	4.10
6	Orient Hotels Ltd.,	97,956	4.03	Orient Hotels Ltd.,	97,956	4.03
7	Mr.N. Amarasinghe	74,340	3.06	Mr.N. Amarasinghe	74,340	3.06
8	Mrs.S.E. Canekeratne	44,154	1.82	Mrs.S.E. Canekeratne	44,154	1.82
9	Mr.D.L.S.R. Perera	39,920	1.64	Mr.D.L.S.R. Perera	39,920	1.64
10	Mrs.S.R.L. Marcelline	36,936	1.52	Mrs.S.R.L. Marcelline	36,936	1.52
11	Dr.(Mrs) S. Maine	30,000	1.23	Auto Sales & Finance Co.Ltd.	32,400	1.33
12	Mrs.C.R. Cooray	27,000	1.11	Mrs.C.R. Cooray	27,000	1.11
13	Mr. D.F.W. Perera	23,292	0.96	Mr. D.F.W. Perera	23,292	0.96
14	Miss R.E.W Jayasuriya	23,220	0.96	Ms.D.D.P.T. Perera	21,460	0.88
15	Ms.D.D.P.T. Perera	21,460	0.88	Mrs.P. Weththasinghe	21,397	0.88
16	Mrs.P. Weththasinghe	21,397	0.88	Mrs.A.S. Wijewardena	19,440	0.80
17	Mrs.A.S. Wijewardena	19,440	0.80	Ms.D.C.M.A. Perera	17,000	0.70
18	Mrs.L.S. Semage	17,958	0.74	Dr.S. Maine	16,000	0.66
19	Ms.D.C.M.A. Perera	17,000	0.70	Miss R.E.W Jayasuriya	15,480	0.64
20	WML/Mr.H.M. Abdulhussein	15,017	0.62	Dr.(Mrs) K.G.G.S.L. Perera	14,500	0.60
		1,915,425	78.82		1,942,112	79.92

Distribution of Shares

Holdings	31st March 2014			31st March 2013		
	No. of Holders	Total	%	No. of Holders	Total	%
1 - 1,000	552	79,832	3.29	509	80,098	3.30
1,001 - 10,000	94	321,164	13.22	89	308,722	12.70
10,001 - 100,000	25	722,299	29.72	24	699,973	28.81
100,001 - 1,000,000	4	1,306,705	53.77	4	1,341,207	55.19
Over 1,000,000	-	-	-	-	-	-
	675	2,430,000	100.00	626	2,430,000	100.00

Analysis of Shareholding

	31st March 2014			31st March 2013		
	No. of Shareholders	Total Holding	%	No. of Shareholders	Total Holding	%
Institution	19	467,747	19.25	19	454,506	18.70
Individual	656	1,962,253	80.75	607	1,975,494	81.30
	675	2,430,000	100.00	626	2,430,000	100.00

Public Shareholding

	31st March 2014	%	31st March 2013	%
Total Holding	1,406,676	57.89	1,182,592	48.67

Glossary of Financial Terms

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.

Amortization (Depreciation)

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

C

Carrying Amount

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

Cash Equivalents

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

Contingencies

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

Corporate Governance

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

Cost to Income Ratio

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

Current Tax

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

D

Dealing Securities

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

Deferred tax liabilities

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

Defined Benefit Plans

Are 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.

Discretionary Provision

This includes provision for bonuses and incentives.

Dividends

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

Dividend Cover

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

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues.

E

Earnings per Share (EPS)

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

Efficiency Ratio

The Non Interest Expenses divided by total income.



G

General Reserves

Reserves set aside for future

Gross NPA (NPL) Ratio

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

Gross Dividend

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

I

Impairment

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

Investments 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-Performing Accommodations (Advances/ Loans) - NPA

Accommodations 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 number of ordinary shares in issue.

Net NPA Ratio

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

Net Interest Income

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

Net Interest Margin

Net interest income divided by total average assets

O

Off Balance Sheet Transactions

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

P

Portfolio

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

Price Earning (P/E) Ratio

The Market Price of an ordinary share divided by the Earnings per Share.

Glossary of Financial Terms

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.

Rate of Dividend

Gross dividend as a percentage of total par value of shares

S

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 plus capital and revenue reserves.

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 among 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 Fifty Eighth Annual General Meeting of Alliance Finance Company PLC, will be held on Monday, 30th June 2014 at 10.00 a.m., at the "The Light House" No. 24, Horton Place, Colombo 07, Sri Lanka. The business to be brought before the Meeting will be:-

1. To receive and consider the Report of the Directors and the Statement of Accounts for the Financial Year ended 31st March 2014.
2. To declare a Dividend.
3. To re-elect a Director
Lt. Col. A.R. Samarasinghe retires under Articles numbered 130 and 131
4. To re-appoint Auditors to hold office until the next Annual General Meeting and to fix their remuneration.
5. To authorize the Directors to determine and make donations.
6. To consider any other business of which due notice has been given.

By order of the Board

(Sgd.)

ALLIANCE MANAGEMENT SERVICES (PRIVATE) LIMITED

Secretaries

6th June 2014.

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 the Registered Office of the Company, No.84, Ward Place, Colombo 7, not less than 48 hours before the time appointed for the holding of 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 Cards of the Proxy holders on the form of proxy. Only registered proxy holders will be permitted to attend the Annual General Meeting.



Form of Proxy

I/We
(in block letters)

of

being a member/members of the above-named Company hereby appoint Sunil Karunanayake, or failing him, Romani Kumar Eardley Patrick de Silva, or failing him, Dissanayakage Lawrence Stephen Rohan Perera, or failing him, Athula Ranmal Samarasinghe, or failing him, Ramani Nelun Ponnambalam, or failing her,

..... ofNIC No.

as my/our proxy to represent me/us and to *vote for me/us on my/our behalf at the Fifty Eighth Annual General Meeting of the Company to be held on 30th June 2014 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. Resolution No.1 The Ordinary Resolution No.1 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No.2 The Ordinary Resolution No.2 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
3. Resolution No.3 The Ordinary Resolution No.3 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
4. Resolution No.4 The Ordinary Resolution No.4 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
5. Resolution No.5 The Ordinary Resolution No.5 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of2014.

.....
Shareholder N.I.C. No./Co. Reg. No./P.P. No.

.....
Signature

Instructions as to completion of Form of Proxy given overleaf

INSTRUCTIONS AS TO COMPLETION OF THE FORM OF PROXY

1. A Proxy holder need not be a member of the Company.
2. The **Full Name** and 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 Registered Office of the Company, 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

Name of the Company

Alliance Finance Company PLC

Statutory Status

Quoted Public Limited Liability Company Incorporated under the Companies Ordinance No.51 of 1938

Approved and Registered under the
Finance Business Act No. 42 of 2011
Finance Leasing Act No.56 of 2000

An approved Credit Agency under the
Mortgage Act No.6 of 1949
Trust Receipt Ordinance No.12 of 1947

Company Registration

No. PQ 93

Registered Office

Alliance House
No.84, Ward Place, Colombo 07

Telephone: (94) 11 2 673 673

Fax: (94) 11 2 697 205

E-mail: info@alliancefinance.lk

Board of Directors

Mr. Sunil Karunanayake
Chairman

Mr. Romani de Silva
Deputy Chairman & Managing Director

Mr. D. L. S. R. Perera
Finance Director

Lt. Col. (Retd) A. R. Samarasinghe
Independent Non-Executive Director

Mrs. R. N. Ponnambalam
Non-Executive Director

Advisory Council

Mr. Pratapkumar de Silva, FICM (SL), FICM (Eng.), JP

Mr. R. M. Canekeratne

Mr. B. Ponnambalam

Mrs. K.S.K. de Silva

Mr. Abbas Akbarally - Chairman, Akbar Brothers Group of Companies

Mr. K. Kanag Isvaran LLB (London) of Lincoln's Inn Barrister, President's Counsel

Mr. S. P. Morawake - Former Registrar of Companies

Audit Committee

Mr. Sunil Karunanayake - Chairman

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

Remuneration Committee

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

Mr. Sunil Karunanayake

Auditors

M/s. HLB Edirisinghe & Co.

Chartered Accountants

No.45, (2nd Floor), Braybrooke Street, Colombo 2.

Internal Auditors

KPMG

Chartered Accountants,

32A, Mohamed Macan Marker Mawatha,

P.O.Box 186, Colombo 3.

Legal Consultants

Gunawardena & Ranasinghe Associates

Sudath Perera Associates

Secretaries

Alliance Management Services (Pvt) Ltd.

No.84, Ward Place, Colombo 7.

Bankers

Sampath Bank PLC

Seylan Bank PLC

Public Bank Berhad

Hatton National Bank PLC

Commercial Bank PLC

Bank of Ceylon

Nations Trust Bank PLC

NDB Bank PLC

DFCC Vardhana Bank PLC



Designed & produced by REDWORKS

Digital plates & Printed by Softwave Printing & Packaging (Pvt) Ltd

