



the
GAME CHANGER

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the GAME CHANGER

While political tremors and uncertainty threatened to change the game in general, our wins were oftentimes hampered, as faced by many in the industry. However it may have affected our checks and balances, the year proved that our vision of sustainable and balanced business practices continued to be a target in the moves we made.

However, instead of competing against challenges, we outsmarted them by being a responsible and socially aware corporate citizen that consistently remained entrenched in the values of sustainable business that are inherently local with global standards. Our sustainable initiatives not only transformed the areas in which we operate but gave us a renewed purpose as to how we should conduct business in a fair and ethical manner. Alliance Finance, changing the game one move at a time.

Chess teaches us foresight, by having to plan ahead; vigilance, by having to keep watch over the whole chess board; caution, by having to restrain ourselves from making hasty moves; and, finally, hope, by steadfastly searching for the solutions to our problems.

- Benjamin franklin -

It is due to the use of these elements of strategy associated with chess , that we are using this metaphor for this report.



This chess board is specially crafted by artisans in Kandy, bringing an inherently local flare of Kandyan-styled chess pieces, to the global game; using our rich traditions and history as a guide, that has sustained many a generation.

Each piece is carved from sustainably farmed Mahogany timber, and the board out of Teak.



Our Purpose Statement

“Make the world a better place
through sustainable financing”

- Our Purpose Statement





- Our Core Values

About the Integrated Report

Our Annual Report has been prepared as an Integrated Report in line with the <IR> Framework providing a balanced assessment, showcasing our sustainability embedded business strategy, performance, stakeholder value creation and our contribution towards local and global priorities in the environmental and social spheres.

Scope and Boundary

GRI-102-10 GRI-102-45 GRI-102-46 GRI-102-48 GRI-102-49 GRI-102-50 GRI-102-51 GRI-102-52

This report is Alliance Finance Company PLC's (AFC) 63rd Integrated Annual Report and serves as the primary source of communication to all our stakeholders. Accordingly the report covers AFC's operations for the period of 01st April 2018 to 31st March 2019 and other material events after this period and up to 01st July 2019, as approved by the Board of Directors have been included for completeness. Unless specified, all the financial and non-financial information disclosed herein pertains only to the parent Company. During the year under review there were no significant changes to the Company size, shareholding or supply chain. Following the annual report cycle, this report has been produced subsequent to the most recent report for the financial year ended 31st March 2019. In addition, there were no significant restatements of previously reported economic, social or environmental information.

Key Concepts

Materiality: This report has been produced through the application of Principles of Materiality to determine the content to be included. Accordingly, the most material aspects to the Company have been identified through a structured process, as detailed in page 50 to 52 of this report. The material topics represents our stakeholder interests, risks, opportunities and other factors that could have a material impact on the ability of AFC to create value.

Capitals: In the interest of providing a more comprehensive view of the stakeholder value creation process, the report also contains a section (Pages 72 to 113) graphically detailing how we use the various forms of capital to achieve our performance expectations in the short term and drive our medium term objectives within the context of our core purpose.

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

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

Reporting Frameworks **GRI-102-12** **GRI-102-54**

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

Board Responsibility Statement

All relevant business units and department heads have approved the contents of this annual integrated report. The content has thereafter been reviewed by the audit committee prior to being recommended to the board of directors for approval.

The board acknowledges its responsibility to ensure the integrity of the annual integrated report and is of the opinion that the report addresses all material issues that it believes to have a bearing on the Company's capacity to create value over the short, medium and long term.

The report was unanimously approved by the board on 26th June 2019 and is signed on its behalf by:



Romani de Silva
*Deputy Chairman and
 Managing Director*

Forward Looking Statements

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

Assurance **GRI-102-56**

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

Further, we have continued to hire independent service providers to assess and assure various aspects of the business operations, including elements of external reporting, including;

- Auditing of the financial statements by external auditors, Baker Tilly Edirisinghe & Co.

- An independent audit conducted by Baker Tilly Edirisinghe & Co. to verify compliance with GRI Standards disclosure requirements in accordance with the core option.

Feedback **GRI-102-53**

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

The Chief Financial Officer
 Alliance Finance Company PLC
 84, Ward Place, Colombo 7, Sri Lanka
 Email: info@alliancefinance.lk

About the Integrated Report

Triple Bottom Line Value Creation

	Unit	2018/19	2017/18	YoY change (%)	
Profit	FINANCIAL CAPITAL				
	Performance				
	Net interest income	Rs. Mn	3,589	3,272	10
	Profit after tax	Rs. Mn	306	728	(58)
	Total assets	Rs. Mn	32,132	31,781	1
	Return on average assets (post tax)	%	0.96	2.36	(1)
	Return on equity	%	6.95	17.42	(10)
	Cost to income ratio	%	57	55	1
	Gross NPL ratio	%	7.69	4.34	3
	Earnings per share	Rs.	9.09	21.62	(58)
	Net asset value per share	Rs.	133.85	127.58	5
	Dividend per share	Rs.	1.00	6.40	(84)
	Market price per share	Rs.	53.60	65.70	(18)
	People	MANUFACTURED CAPITAL			
Property, Plant and Equipment		Rs. Mn	1,746	1,682	4
Capital expenditure		Rs. Mn	199	194	3
HUMAN CAPITAL					
Employees	Number	1,400	1,222	15	
Investment in training and development	Rs. Mn	7.8	7.6	3	
Training hours	Hours	17,786	9,313	91	
People	SOCIAL AND RELATIONSHIP CAPITAL				
	Customers	Number	117,872	140,857	(16)
	Customer touch points	Number	91	93	(2)
	Female customer base	%	56	66	(15)
	Social sustainability initiatives	Rs. Mn	6.57	5.30	24
	CSR Initiatives	Rs. Mn	2.83	2.39	18
	Planet	NATURAL CAPITAL			
		Electricity consumption (H/Os)	kWh	403,603	355,168
Fuel consumption(H/Os)		liters	14,458	11,023	31
Water consumption (H/O)		Cubic Meters	8,627	8,099	7
Paper consumption		T	12.90	14.80	(13)
Environmental sustainability initiatives		Rs. Mn	14.59	0.56	2,505

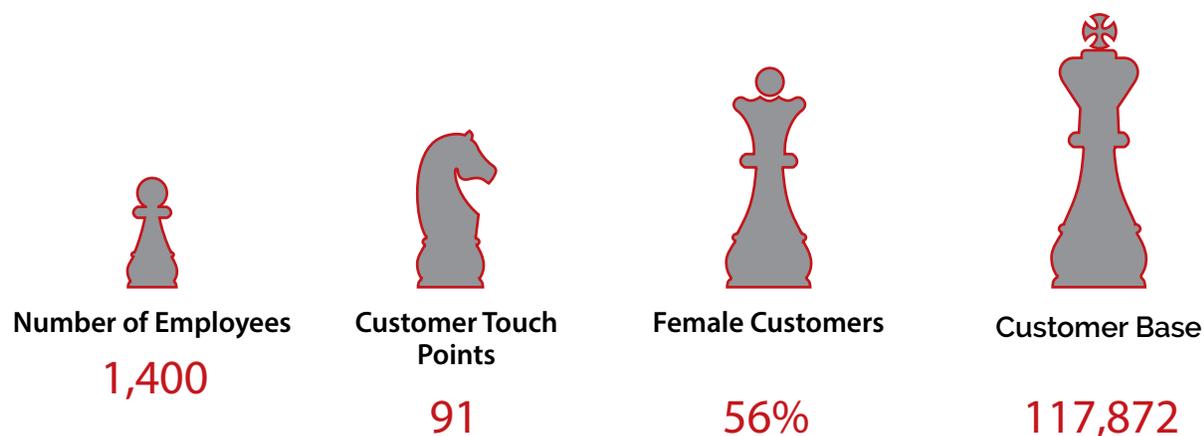
About AFC GRI 102-1 GRI 102-2 GRI 102-4 GRI 102-5 GRI 102-6 GRI 102-7 GRI 102-8

Alliance Finance Company PLC (AFC) is the 3rd oldest finance company, in Sri Lanka that was incorporated in 1956 as a licensed finance company, registered under the Central Bank of Sri Lanka. Over the years we have built a solid brand, based on the principles of trust and integrity. For more than six decades, AFC has been one of the few financial institutions in the country, which can claim to have served four generations of Sri Lankans. The Company offers a range of products and services to the customers, including leasing, gold loans, term loans and other credit products while mobilizing deposits. We also carry out vehicle trade-in services and Ezy drive vehicle fleet services as well under our Commercial Division. Our network of 91 touch points across the island reach out to serve more than 117,000 customers - individuals, micro entrepreneurs and small and medium enterprises in Sri Lanka.

Inspired by the success we have achieved so far, we are now seeking to evolve as architects of change for a more sustainable business paradigm. Taking the first impactful step in 2017, AFC became the 1st Institution in the Banking and Finance sector of Sri Lanka to commit to the Karlsruhe Resolution, thereby agreeing to work towards achieving the Sustainable

Development Goals and the Paris Climate Agreement. We are also working towards becoming the first certified Sustainable Financial Institution in Sri Lanka, by obtaining the global certification of Sustainability Standards and Certification Initiative (SSCI) developed for value creating financial institutions.

To deliver on this commitment, our team of 1,400 highly motivated and performance driven individuals work diligently every day to bring to life AFC's core purpose, "Make the world a better place through sustainable financing".



Investment in Sustainability Initiatives

Rs. **26** Mn

Portfolio

Rs. **27** Bn

Profit Before Tax

Rs. **600** Mn

Value Added Statement - Company GRI 201 - 1

For the year ended 31st March	2019		2018	
	Rs.	%	Rs.	%
VALUE ADDED				
Income	7,029,001,945		6,730,646,602	
Interest Expense	(3,244,034,169)		(3,206,900,561)	
Cost of External Services	(2,075,302,887)		(1,389,132,666)	
	1,709,664,889		2,134,613,375	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries & other benefits	780,351,399	45	800,789,586	38
To Government				
Taxes	522,924,549	31	490,624,582	23
To Providers of Capital				
Dividend	33,696,000	2	215,654,400	10
To Expansion & Growth				
Depreciation	136,086,759	8	115,121,215	5
Reserves	236,606,183	14	512,423,592	24
	372,692,941	22	627,544,806	29
	1,709,664,889	100	2,134,613,375	100

Ownership and Organisational Structure GRI 102 - 5



Our Products and Services GRI 102 - 2

AFC offers a range of attractive financial solutions catering to a diverse group of customers in the market in a responsible and inclusive manner. Our products are designed to assist individuals, small businesses and micro entrepreneurs all around Sri Lanka, to increase their access, meet their financial goals and secure their future finances.

Our business approach is based on understanding our customers and their needs to offer them the most relevant solution. We strive to foster long-term relationships with our clients through ensuring that our customers are serviced by a team of professionals dedicated to cater to all their needs. We always apply a holistic approach by using insights from our close customer relationships to continuously develop our products and services.

Products and Services

	Regional Financial Services	Development Finance	Gold Loans	Commercial Division	Deposits
Products/ Services Offered	<ul style="list-style-type: none"> • Leasing facilities for vehicles and equipment • Pledge loans • Mortgage loans • Quick Cash 	<ul style="list-style-type: none"> • Group Loans • Micro leasing • Personal loans 	<ul style="list-style-type: none"> • Short-term advances collateralised against gold 	<ul style="list-style-type: none"> • Trading vehicles • Rental service • Service centre 	<ul style="list-style-type: none"> • Fixed deposits • Savings deposits including special products for senior citizens and minors
Highlights	Portfolio: Rs. 23,076 Mn Customers: 48,301	Portfolio: Rs. 2,222 Mn Customers: 46,160	Portfolio: Rs. 1,316 Mn Customers: 14,112	Vehicle fleet: 80	Deposit base: Rs. 12,494 Mn Investors: 180,413

Our Excellence

Sustainability Awards

2019	Merit award for Local Economic Development, ADFIAF Awards, Philippines
2018	Sustainability Leader of the year, Merit Award, EOSD Global, Sustainable Finance Awards, Germany
2014	Green Leadership Winner, Asia Responsible Entrepreneurship awards, Singapore
2013	Best innovation in Sustainable Financial Services Merit award, EOSD Global Sustainable Finance Awards, Germany

Business Excellence Awards

2016	Marketing Campaign of the year award for AFC Motorbike Show 2016, at CMO Asia Awards for Excellence in Branding and Marketing
2012	Joint Gold award in NBFI sector category at National Business Excellence Awards 2011, organized by National Chamber of Commerce in Sri Lanka
2012	Silver award for Best Management Practices in the BFI sector category at National Business Excellence Awards, organized by National Chamber of Commerce in Sri Lanka
2013	Silver award for performance in BFI sector category at National Business Excellence Awards, organized by National Chamber of Commerce in Sri Lanka



HRM Excellence Awards

- 2016** Merit award in the large scale of the service sector category at Social Dialogue and Work Place cooperation Awards, organized by Department of Labour Ministry of Labour and Trade Union Relations, Sri Lanka
- Certificate of Recognition for Best employer with outstanding employee culture in Sri Lanka at Employer Brand Awards organized by Employer Branding Institute, India.

Annual Report Awards

- 2018** Certificate of Compliance, in NBFi sector category at ICASL Annual Report Awards
- 2018** Certificate of Merit, in NBFi sector category at CMA Annual Report Awards
- 2017** Certificate of Compliance, in NBFi sector category at ICASL Annual report awards
- 2016** Certificate of Compliance, in NBFi sector category at ICASL Annual report awards
- 2015** Certificate of Recognition, in NBFi sector category at ICASL Annual report awards
- 2013** Certificate of Recognition, in NBFi sector category at ICASL Annual report awards
- 2012** Certificate of Recognition, in NBFi sector category at ICASL Annual report awards
- 2011** Certificate of Recognition, in NBFi sector category at ICASL Annual Report Awards



Our Journey

	<p>1956 AFC was incorporated on 18th July 1956</p>		<p>1959 Quoted in the Colombo Brokers Association (Prior to the formation of Colombo Stock Exchange).</p>
<p>1981 Commemorated AFC Silver Jubilee</p>		<p>1995 Introduced the concept of Collaboration Finance, customized financial packages for entrepreneurs</p>	
	<p>1998 Became a subscriber to the formation of "Alfinco Insurance Brokers"</p>		<p>2000 Became the first Financial institution to be awarded the ISO 9001:1994 status by DNV (later upgraded into ISO 9001: 2015)</p>
<p>2003 Opened the first Collection Centre in Kurunegala Launch of quick cash loan plan for depositors</p>		<p>2005 First Finance Company to introduce Savings Accounts</p>	<p>2008 Entered the Gold Loan market</p>

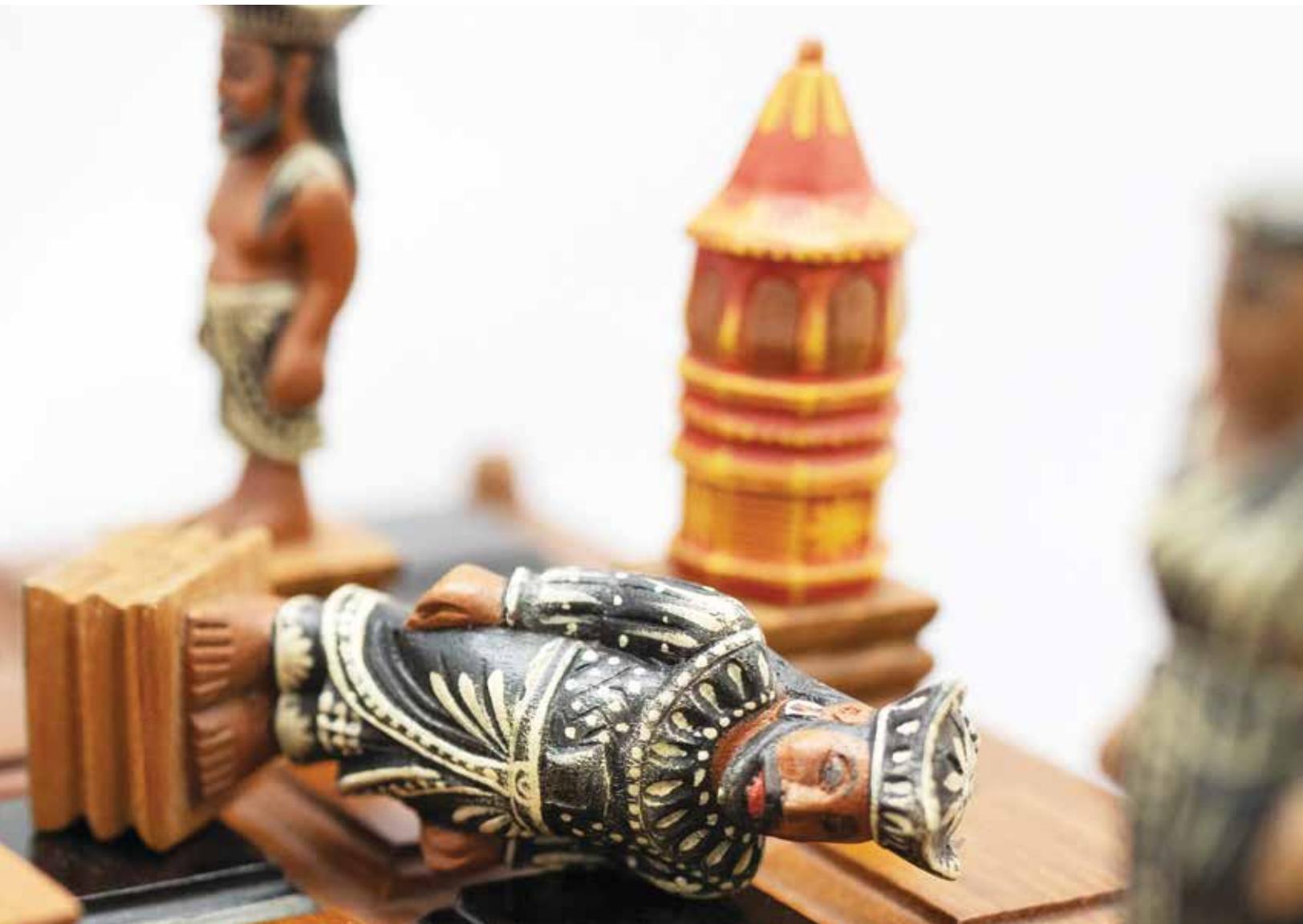
<p>2012</p> <p>Formal adoption of the Triple bottom Line philosophy (People, Planet, Profit) across the Group</p>		<p>2013</p> <p>Launch of Micro Finance Division</p>	<p>2015</p> <p>Obtained AFC's inaugural strategic foreign funding line from Triple Bottom Line based prestigious DFI, Triodos Bank of Netherlands.</p>
	<p>2017</p> <p>Secured an investment grade credit rating of BBB- with a stable outlook from ICRA Lanka</p> <p>AFC obtained the first USD subordinated debt from Triple Bottom Line DFI, Triodos Bank of Netherlands.</p>		<p>2017</p> <p>First time in the CSE history, AFC has managed three issues respectively covering subdivision of shares, capitalization of reserves and rights issue of shares.</p>
<p>2018</p> <p>Recorded the highest profit in the AFC history.</p> <p>USD 3.5 Mn of foreign debt was approved by DWM (Developing World Markets)</p>		<p>2018</p> <p>The Managing Director received international recognition for his commitment and leadership in driving the sustainability mandate of the Company ("Sustainability leader of the year 2018", at Sustainable Finance Awards, Karlsruhe, Germany)</p>	<p>2018</p> <p>Launched "AFC Thuru Mithuru" tree planting programme, with a pledge to plant 1 Mn by 2023, to offset the Carbon Foot print of AFC Motor vehicle leasing customers (50 trees/lease).</p> <p>Planted 176,000+ trees on World Environment Day 2018, with 990 schools; 371,000+ school children and completed planting 216,213 saplings during the year</p>
<p>2018</p> <p>Launch of CASE tractor brand in Sri Lanka</p> <p>Launch of AUTOSURE division</p> <p>IFC partnered with AFC by offering a loan of 5 Mn USD and technical assistance to further improve business strategy and process</p>	<p>2019</p> <p>Highest profit allocation for sustainability initiatives (over 4% of the previous year profit)</p> <p>Obtained the membership of Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and Biodiversity Sri Lanka.</p>		<p>2019</p> <p>AFC was bestowed a Merit Award under the Outstanding Development Project Awards at ADFIAP Awards 2019 held in the Philippines</p>

Checkmate

We're battling the issues of climate change, with our foray into offsetting our carbon footprint



- *The AFC Thuru Mithuru programme goal of one million trees by 2023 is gaining rapid ground*
- *Over 200,000 saplings planted with an investment of Rs. 10.2 Mn in the year under review*
- *Engagement of over 370,000 school children from 990 schools on Earth Day 2018*



Chairperson's Statement



A truly successful sustainable business to AFC is a business that understands, its purpose is more than just making profit. It has a clear sense of how value is created in environmental and social spheres today and also for generations to come. By delivering on this purpose whilst contributing towards the environment and society, we seek to grow as a profitable business and use our resources for true sustainable value creation.

Dear Stakeholder,

Presenting the Annual Report and Financial Statements of Alliance Finance Company PLC for the year ended 31st March 2019, it is with pleasure that I note the resilience AFC has shown in overcoming the challenges in a backdrop of constraining economic conditions in the country.

Overall, 2018 has been a challenging year for Sri Lanka, marked by a muted growth in key sectors including agriculture, construction and transport. GDP growth dropped to 3.2% from 3.4% in 2017 due to political instability with a general slowdown in global trade and investments being partly responsible for the country's subdued economic performance in 2018.

The weak performance of the agriculture sector had a cascading effect on the NBFIs sector, particularly on the companies that had proportionately higher presence in rural agriculture, where a notable deterioration in asset quality was observed leading to rising NPLs. Industry-wide credit growth also slowed on the back of the CBSL's efforts to curb vehicle imports, which saw the loan to value ratio being further tightened along with new revisions to the vehicle import duty structures. The sharp rupee depreciation in September 2018 as well as the rising interest rate environment also greatly hampered the industry prospects.

Despite the challenges and constraints that prevailed, AFC was able to maintain a marginal loan growth to be on par with expectations, enabling the Company to meet its income targets for the year. AFC's gross income for the year under review was Rs. 7,244 Mn, up by 5% from the Rs. 6,893 Mn reported in the previous year. Profitability on the other hand was affected by several factors, some beyond the Company's control. The higher impairment provisions caused by high NPLs was one of the major contributors that affected the profitability. This was evident across the industry, while AFC's NPLs further increased after the directive issued by the government offering debt relief to women micro entrepreneurs in 12 drought and flood affected districts. The weak economic climate also had a greater negative impact on portfolio quality deterioration, that led to increased NPLs. Nonetheless, our robust strategies enabled AFC to generate a PBT of Rs. 600 Mn although it was affected by the Debt Repayment Levy introduced in October 2018.

In Search of a New Strategic Blueprint

During the 63 years of firm standing in the industry as a pioneering Finance Company, AFC has realized the importance of adapting to the industrial, social and economic changes that are happening at both local and global levels. AFC was an early adopter of the Triple Bottom Line approach as the businesses were shifting their focus from the double bottom line oriented approach to the new Triple Bottom Line approach. As a result, the value creation for society and the environment which has always been a priority of the Company since its inception was further strengthened. However, with the national and global focus on the subject of Sustainability being heightened in recent years, it necessitated that AFC too reconsider the strategies and approaches that needed to be developed or changed to embrace a Sustainable business conduct to be in line with fast changing

Chairperson's Statement

In 2018, AFC became one of just three companies worldwide to be accepted into the Sustainability Standards and Certification Initiative (SSCI), in recognition of AFC's business practices that have contributed towards sustainable value creation over the last several years. The SSCI is a global initiative promoted by the European Organization for Sustainable Development and supported by the Association of Development Financing Institutions in Asia and the Pacific as well as the Association of African Development Finance Institutions. Following the appointment to the SSCI, AFC will now serve as a member of this pioneering initiative and help draft the first global standard for Sustainable Banking and Finance, which I see as a monumental achievement for the Company that would also ultimately raise the Country profile and bring Sri Lanka within the international sustainability radar.

sustainability needs and trends. A truly successful sustainable business to AFC is a business that understands that its purpose is more than just making profit. It has a clear sense of how value is created in environmental and social spheres today and also for generations to come. By delivering on this purpose whilst contributing towards the environment and society, we seek to grow as a profitable business and use our resources for true sustainable value creation.

AFC had little to reinvent in transforming its strategy to pave the way towards becoming the most sustainable Finance Company in the country. However, taking a further step in this direction, we began the process of revamping our business model centred around the Triple Bottom Line philosophy, to come up with a new strategic blueprint for a renewed business focus. We expect this approach to support our efforts and commitment to the Karlsruhe Resolution which highlights the role that the financial services sector can play in achieving Sustainable Development Goals and battling Climate Change. This is required most prominently in global priorities and particularly in Sri Lanka where we have been identified as the second most affected country in the world due the adverse impacts of Climate Change.

Awards and Accolades

I am pleased to note that our new purpose places AFC on par with other global sustainability oriented organizations. In 2018, AFC became one of just four companies worldwide to be accepted into the Sustainability Standards and Certification Initiative (SSCI), in recognition of AFC's business practices that have contributed towards sustainable value creation over the last several years. The SSCI is a global initiative promoted by the European Organization for Sustainable Development and supported by the Association of Development Financing Institutions in Asia and the Pacific as well as the Association of African Development Finance Institutions. Following the appointment to the SSCI, AFC will now serve as a member of this pioneering initiative and help draft the first global standard for Sustainable Banking and Finance, which I see as a monumental achievement for the Company that would also ultimately raise the Country profile and bring Sri Lanka within the international sustainability radar. In February 2019, AFC has been recognized internationally once again with a merit award at the ADFIAP Awards Ceremony 2019, in Oman for our contribution towards developing the local economy by promoting Social Entrepreneurship, as a partner of the Ath Pavura reality TV programme. In addition, our Managing Director was also felicitated with a merit award in the category of Sustainability Leader of the year, at the EOSD Sustainability Awards programme held in Karlsruhe, Germany in 2018 for his unwavering commitment towards sustainability.

Governance Structure Changes

The governance structure of the Company has been further strengthened during the year under review, with the appointment of two highly experienced members to the AFC Board of Directors. We welcomed Mr. Ravi Rambukwelle; an industry veteran with over 35 years of experience and expertise in the Leasing business, who held Board positions in a respected Finance Company and was responsible for driving it towards success. He has assumed the

role of Director Credit Operations and Marketing, guiding the entire business operations and marketing aspects with his proven capability to deliver results.

We also welcomed Mrs. Priyanthi de Silva to serve the Board in the capacity of an Independent Non Executive Director. She brings 30 years of diverse industry experience and specialized expertise in Finance and Accounting, adding further value to the Company and our governance structure.

I would like to take this opportunity to warmly welcome them and wish them well in performing their duties as members of the Board.

Looking Ahead

Going forward, we will strive to uphold our new purpose, “Make the world a better place through Sustainable Financing”, by increasing our focus to inculcate sustainability in every aspect of our operations. This means our strategy will need to be continuously reviewed in order to face changes and take advantage of the opportunities that may arise from time to time.

Admittedly, it is quite an ambitious undertaking which I expect will keep us focused through relentless efforts for the next few years. I look forward to these exciting times and eagerly anticipate the next moves that would bring AFC closer to its goal of becoming the first ever sustainability certified financial institution in Sri Lanka.

Appreciations

In closing, I would like to take this opportunity to thank my colleagues on the Board, for their wise counsel and unstinted support given to me at all times. I also wish to extend a special word of thanks to our Managing Director whose leadership continue to facilitate the journey of the Company in realising its vision. A very big appreciation also to the entire AFC team for their exceptional commitment and loyalty towards the Company. Last but not least, to all our shareholders, I thank you for your continued trust and confidence placed in AFC. I invite each and every one of you to join us in AFC’s voyage in delivering its purpose to make the world a better place through Sustainable financing.



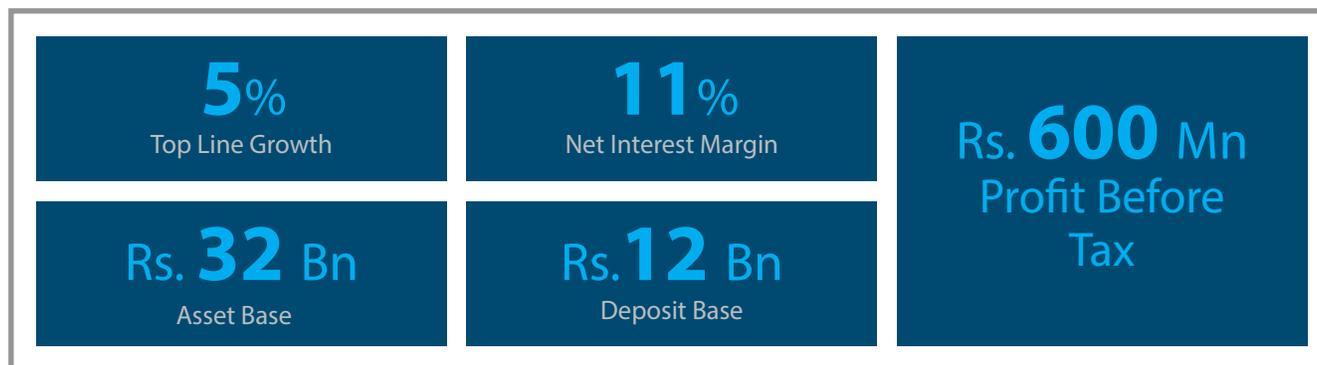
Ramani Ponnambalam (Mrs.)
Chairperson

26th June 2019

MD's Statement GRI 102-14



Though the year under review has been quite challenging from an operational perspective, the year has been a tremendous success in terms of driving our strategic sustainability mandate forward with many important milestones being achieved along with significant integration of our commitment into the business processes of the Company. In the light of CBSL guidelines to promote a more sustainable leasing and finance sector in line with global best practices, it is envisaged that these strategic initiatives will deliver competitive advantage in the years to come.



Dear Stakeholder

I take pleasure in presenting to you our 63rd annual report and audited financial statements for the year ended 31st March 2019. The year under review was a challenging period for the entire finance industry. AFC has also endured difficult operating conditions and numerous other challenges mainly ascribed to the weak economic scenario in the country, which further deteriorated due to the adverse impacts of Climate Change.

Though the year under review has been quite challenging from an operational perspective, the year has been a tremendous success in terms of driving our strategic sustainability mandate forward with many important milestones being achieved along with significant integration of our commitment into the business processes of the Company. In the light of CBSL guidelines to promote a more sustainable leasing and finance sector in line with global best practices, it is envisaged that these strategic initiatives will deliver competitive advantage in the years to come.

Resilient Performance

Although the overall performance of the Company remained at lower levels than expected, we were able to maintain the majority of our key performance metrics in line with the lower expectations set. The net interest income grew by 10% to Rs. 3,589 Mn making a contribution of 95% to the operating income. As a result, the operating income recorded a growth of 7% reaching Rs. 3,785 Mn compared to Rs. 3,524 Mn in the previous year. The interest income from the leasing business, with a significant growth of 15% has greatly contributed to this growth. The Net Interest Margin also increased to 11.2% for the period under review from 10.6% in the previous year, as a result of the changes to the strategic product mix that were implemented during the year. The Non Interest Income component witnessed a marginal reduction of 1% by reaching Rs. 411 Mn in the year under review from Rs. 414 Mn in the previous year.

The Impairment cost recorded a sharp rise of 59%, reaching Rs. 813 Mn this year from Rs. 513 Mn in the 2017/18 financial year, due to a multitude of reasons; mainly due to the increased NPLs that led to increases in the provisioning costs. The sluggish economic conditions that prevailed in the country and the agriculture sector that has been continuously influenced and beaten by the adverse impacts of climate change, hampered the repayment capacity of the customers across the island leading to a hike in industry

MD's Statement

NPLs. Adding to the woes, the government announced a debt write off package for the micro financing group loan customers in 12 districts affected by the floods and drought, which announcement was misinterpreted by micro financing customers from other unaffected parts of the country leading to a massive wave of non-payment. As a solution to minimize its impact, we have decided to minimize the risk of the portfolio by reducing our exposure to this product significantly along with other timely risk management strategies. Despite the measures taken, the Company had to bear the burden of a Rs. 377 Mn write off as bad debts for year 2018/19.

The total Operating Cost was Rs. 2,141 Mn for the year ended 2018/19, reflecting a 10% increase compared to Rs. 1,943 Mn in the previous year, mainly due to the 15% increase in the staff base. The Commercial Division which was revamped in the previous year had a significant contribution with its high marketing and administration costs attributing to drive the operating costs up. The resultant cost to income ratio increased marginally to 57%, compared to 55% in the previous year.

On the backdrop of these conditions, the pre-tax profit of the Company declined by 26% to Rs. 600 Mn in the year under review compared to Rs. 810 Mn in the previous year. The poor performance of the Microfinance portfolio, that resulted in a loss of Rs. 205 Mn in 2018/19, significantly contributed towards this loss. The main reasons attributed to the poor performance were the surge of non-repayments that followed the announcement of the debt relief scheme and the government directive issued in December 2018 placing an interest rate cap on Microfinance lending. More broadly, this turbulent and non-conducive business environment and the repercussions of the government policy

initiatives being beyond the control of our Company, has mainly led to the modest performance of AFC in 2018/19.

Judicious Growth

We have strived to maintain our prudent growth strategy, especially as our core lending businesses remained under pressure due to the tightening regulatory controls and policy measures. Our leasing business continued to be challenged on many fronts, most significantly; due to the loan-to-value ratio, the depreciation of the Rupee and frequent revisions to the vehicle import duty structure. The September 2018 decision by the Monetary Board of the CBSL to impose a 100% margin requirement against Letters of Credit opened with the commercial banks for the import of non-commercial motor vehicles, also dealt a severe blow to our business. Nonetheless, by strategically realigning our lending efforts to deepen the penetration into the registered three-wheeler segment, we succeeded in growing our leasing portfolio by 8% year-on-year.

With 40% of the AFC Development Finance Group Loan portfolio falling within the designated zone, we saw a significant increase in the default ratio in the Group Loan category in the immediate aftermath of the debt write off announcement and consequently were compelled to make necessary adjustments to our impairment provisions and curtail investment. Amidst this backdrop of events, we reviewed our stance and adopted a measured approach towards lending through the largely unsecured Group-loan based model and instead actively focused on more secure asset-backed lending models. Despite competitive market conditions, the Gold Loan business presented strong opportunities for growth. In order to capitalize on the robust demand from several regions across the country, we

stepped up our marketing and promotional activities to gain traction in these areas, which I am happy to report yielded good results as evidenced by the 11% year-on-year growth in AFC's Gold Loan portfolio.

We also made satisfactory progress in strengthening the Commercial Division which was set up in the previous financial year. The division's "Autosure" brand was the main focus for the year which saw the launch of www.autosure.lk, a dedicated website to promote our product proposition across a wider customer base creating a platform for the online vehicle buyers and sellers to meet, whilst also opening up trade-in opportunities for registered vehicles. It is envisaged that this brand, once fully developed will synergistically drive leasing business volumes very effectively. The launch of the CASE tractor in September 2018 was another significant milestone for the Commercial Division.

Our business activities for the year were resourced through our pipeline of lower-cost funding lines made available by our overseas funding partners and our bank borrowings which increased by 14% year-on-year. Although aggressive deposit mobilization was not a strategy that we actively pursued in 2018/19, retaining the existing customer base remained a key priority.

Reinventing for Success

During the year we have laid the foundation for several major strategic changes in the Company, One major initiative was the broad ranging process re-engineering exercise that was undertaken with IFC (a member of the World Bank Group) with the intention of transforming our core operational framework to become a more sustainable platform from which we could safely scale up the business in the next decade.

Through this endeavor we seek to change our credit approval model to be more centralized. By doing so, we hope to significantly improve the quality of our portfolio. This eight-month project consists of three phases; phase 1 - Business process re-engineering covering credit and recoveries models, phase 2 - Credit organization and operating model design and the final phase which would involve Portfolio management and scorecard development. Based on the IFC's recommendation to streamline the existing branch architecture, a strategic decision was taken to form one fully fledged branch network, amalgamating the RFS, Development Finance and Gold Loan service centres within the same area under the "One Team - One AFC" theme, where each branch will have the capacity to offer AFC's full range of products and serve all the segments of the market. Stemming from this, a total of 16 DF branches were merged with the nearest RFS branches in the respective area. I am pleased to note that benefits of combining the physical infrastructure are becoming evident and I expect that over time there would be more productivity and efficiency related improvements which will result from the consolidation of the management and supervisory structures as well.

Reinforcing Our Support Architecture

In parallel to the "One Team - One AFC" programme and credit process re-engineering exercise, our core technology infrastructure and IT support systems are also being strengthened with the adaptation of a more robust lending system which will significantly improve the efficiency of our workflow systems which I expect would translate into credible results for our top line and bottom line in time to come.

Aside from the core IT system, we also made a number of other investments to strengthen IT support in several other areas, among them was the purchase of a system for the Commercial Division, a new online backup solution to strengthen DR infrastructure, the expansion of the HRIS solution, as well as the implementation of the G-suite internal communication platform.

Being a pioneer in Sustainable value creation, sustainability has always been an integral component of our business model and throughout the past few years we have been further strengthening our sustainability mandate. We are in the process of fine tuning the concepts of sustainability with our products and business practices, to create the outcome we expect where we will contribute towards national and global sustainability goals.

As a signatory to the Karlsruhe Resolution in 2017, which seeks the co-operation of the global financial services industry in achieving the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement (COP21), collectively referred to as 'Agenda 2030', AFC has adopted several projects and initiatives to the list of activities during the year, that ensures the compliance to the commitment made. Community and Livelihood Development (page 104 and 105), Climate Change (page 108, 110 and 112), Biodiversity Conservation (page 111), Supporting Social Enterprises (page 104 and 105) and Promoting Best Practices of Sustainability (page 108 and 110) are some of the major Sustainability focus areas we are working in with regard to the above commitment.

Going beyond our activity driven mandate, we began the process of transforming our entire business and strategy to be

It is with pride that we record that our sustainable business philosophy has been recognized with global acclaim through multiple awards in the Europe and Asia Pacific region in the last seven years. This strategy has enabled us to attract reputed DFI's from many different countries who have funded our portfolio growth with USD 39.5 Mn and provided us with much needed advice, support and technical assistance.

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sustainability driven by embedding sustainability thinking into the DNA of our Company. We initiated this strategic transformation by replacing the traditional vision and mission approach by adopting an all encompassing purpose statement that represents the fundamental premise our business is built on. We want our long-term vision and mission to be defined by a single purpose - to "Make the world a better place through sustainable financing". This adoption was also timed with our intention to be the first financial institution in Sri Lanka to receive the International certification of the Sustainability Standards Certification Initiative , certifying the level of sustainability practices in the Company.

In order to embed our purpose into our day-to-day operations, we also revised our business philosophy in line with the Triple Bottom Line approach, with special priority assigned to social and environmental sustainability aspects. Further, to convert these intentions to action, we took the first steps towards developing an Environmental and Social Management System that would apply to all aspects of AFC's business across the Company. Marking the first phase of this exercise, we incorporated environmental and social screening into our lending model which is a part of the IFC recommended Risk-Acceptance-Criteria (RAC) aimed at improving the credit approval process.

It is with pride that we record that our sustainable business philosophy has been recognized with global acclaim through multiple awards in Europe and the Asia Pacific region in the last few years. This strategy has enabled us to attract reputed DFIs from many different countries who have funded our portfolio growth with USD 39.5 Mn and provided us with much needed advice, support and technical

assistance. These funds are of much longer tenure than our local borrowings and enables the Company to significantly reduce the inherent asset / liability maturity mismatch with a much more stable funding base.

Going Forward

With the new purpose based goals and strategies in place we are well prepared to move forward with the next phase of our restructuring programme and expedite the revamping of our credit management and oversight procedures under the guidance of the IFC. Our ultimate aim of adopting these initiatives is to pursue a conservative and steady growth via a sustainable lending model that is equipped to deliver more consistent results even in tough times.

To support the above we will remain fully focused on developing our IT platform to create synergies for our business particularly in the areas of product development, customer experience and recovery management. We will continue to invest in our employees, providing them with the requisite training and skills needed to drive the business, and more importantly remain motivated and satisfied as a member of the "One AFC" team.

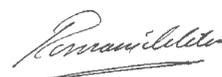
Moreover, we expect to continue with our social and environmental efforts by undertaking more impactful projects that will contribute towards improving our Country's socioeconomic indicators as well as bring widespread benefits for the environment and society. While I accept that our investments in the community and the environment will mean certain trade offs in the shorter term, I am confident that the long term benefits to our Country and its people will far outweigh the immediate cost implications.

Appreciations

In closing, I would like to thank our 117,000+ depositors and customers across the country, for their loyal support. It is indeed a pleasure and an honour to serve each and every one of you. I also want to thank the Chairperson for her astute leadership, and my colleagues on the Board for their steadfast support and wise counsel at all times.

I wish to extend my heartfelt gratitude to the 1400 strong AFC team for their immense commitment and dedication in working towards our common goal during a very difficult year. I take this opportunity also to thank the officials of the Central Bank of Sri Lanka for the valuable guidance and support extended throughout the year.

Finally to our shareholders, I thank you for your unwavering trust and confidence while seeking your continued support in positioning AFC as the most sustainable finance institution in Sri Lanka.



Romani de Silva
*Deputy Chairman and
Managing Director*

26th June 2019

Board of Directors

<p>▶ Mrs. R.N. Ponnambalam <i>Chairperson</i></p>				<p>◀ Mr. Romani de Silva <i>Deputy Chairman/ Managing Director</i></p>
	<p>▶ Mr. Mahinda Gunasekera <i>Executive Director Sustainability</i></p>		<p>▶ Mr. Kusal Jayawardana <i>Executive Director Finance and Operations</i></p>	
		<p>◀ Mr. Ravi Rambukwelle <i>Executive Director Credit Operations and Marketing</i></p>		<p>◀ Lt. Col. (Retd) A.R. Samarasinghe <i>Independent Non Executive Director</i></p>
	<p>▶ Dr. L.A.P. Medis <i>Consultant Director Marketing</i></p>			
		<p>◀ Mrs. Priyanthi de Silva <i>Independent Non Executive Director</i></p>		

Board of Directors

Mrs. R.N. Ponnambalam

Chairperson

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

Skills and experience: She has held several Senior Management positions in large private sector entities and has served in key roles in International negotiations for securing and Development of Business opportunities for local enterprises. She holds a Diploma in Directorship from the Singapore Management University.

Other appointments

Managing Director of Macbertan (Pvt) Limited, Director of Macbertan Holdings (Pvt) Ltd., Director of Pidilite Lanka (Pvt) Limited, Non-Executive Director / Audit Committee Member – Kingsbury PLC and Amaya Leisure PLC.

Board Member – Women’s Chamber of Industry & Commerce.

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

Deputy Chairman/ Managing Director

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

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

Other Appointments

He is a Life member of the Sri Lanka Institute of Directors and a Member of the Chamber of Young Lankan Entrepreneurs. He is a Council Member of The Finance Houses Association of Sri Lanka (FHASL- The representative body of the Non-

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

Awards and accolades: He is the pioneer of Collaboration Financing - a unique financing concept designed to provide finance for entrepreneurs to expand their businesses. He was awarded two Bronze Awards for this innovation at Provincial and National levels at the Sri Lanka Entrepreneur of the Year 2001 competition. In 2018 he won the Sustainability Leader of the Year Merit award, at the Karlsruhe Sustainability Conference organized by the European Organization for Sustainable Development, for his unwavering commitment and contribution towards Sustainable Development. He also represents the Company through its Foundation as a founder investor on the pioneering “Ath Pavura” reality TV Programme in Sri Lanka which aims to create a Social Enterprise and the impact investing culture in the country.

Mr. J.M. Gunasekera

Executive Director-Sustainability

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

Skills and experience: An industry expert in rural financing, he counts over 30 years of experience in Microfinance, SME financing, livelihood development and agribusiness in Sri Lanka, Afghanistan, Bangladesh and Nepal. He has also served in multi-lateral agencies such as US Agency for International Development and undertaken special assignments with the World Bank/ IFC, the ADB and US based INGOs/ PVOs in many markets such as Philippines, Thailand, Japan and the United States.

He holds an MBA, BSc in Agriculture and Microfinance training from the University of Colorado. He has previously functioned as Managing Director/CEO of 3 MFIs, one in Afghanistan and two in Sri Lanka.

Mr. W.P.K. Jayawardana

Executive Director- Finance & Operations

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

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

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

Other Appointments

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

Mr. Ravi Rambukwelle **Executive Director-Credit Operations and Marketing**

Appointed to the Board on 06rd September 2018. (Member of one committee)

Skills and experience: Mr. Ravi Rambukwelle's wealth of experience spans over 35 years in Management both in Sri Lanka and overseas and his expertise and extensive knowledge of the industry is his hallmark.

His last position was Director Marketing and Operations in one of the largest Non - Bank Financial Institutions in the country, where he was employed for twenty-four years until his retirement in June 2018.

He possesses a Bachelor's Degree in Economics and Political Science from the Peradeniya University, a Diploma in Marketing from the Chartered Institute of Marketing UK and a Diploma in Commerce from the Institute of Commerce UK.

Other appointments: N/A

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

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

Skills and experience: A retired Army Officer, having served for 20 years; he has had the opportunity of commanding two Reinforcement Battalions in the Infantry role and two Signals Regiments in its classic role of the Signals Corps and functions as an Enterprise Information Security Strategist.

He holds a Bachelor's Degree in Information Technology from the University of Colombo and an MSc in Computer Science (Security) from the University of Moratuwa.

Other appointments: N/A

Dr. L.A.P. Medis **Consultant Director-Marketing**

Appointed to the Board in August 2016

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

Other Appointments

Currently attached to the academia of the University of Kelaniya.

Mrs. Priyanthi de Silva **Independent Non-Executive Director**

Appointed to the Board on 9th August 2018 (Chairperson of the Audit Committee and member of three committees)

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

She has over 30 years of experience in the FMCG, Leisure, Healthcare, Travel, and Financial Services sectors in Sri Lanka and Australia. The senior positions held by her in Sri Lanka include Manager Compliance at SriLankan Airlines and Manager Finance and Systems at SriLankan Catering, Financial Controller of Hemas Holdings PLC, Finance Manager at Arpico Finance PLC, Manager Finance and MIS at Eagle NDB Fund Management and in Australia as a Financial Specialist at Goston Avend Pty Ltd, and as an Accountant at GE Money and Coles Express.

Corporate Management Team

	◀ Mr. E.C.S.R. Muttupulle <i>Chief Operating Officer</i>		◀ Michael Benedict <i>Chief Recovery Officer</i>	
▶ Chamindra De Silva <i>Chief Financial Officer</i>				◀ Andrew Samuel <i>Chief Continuous Improvement Officer</i>
	▶ Aruna Rodrigo <i>Chief Credit Officer</i>		▶ Suneth Sudasinghe <i>Chief Commercial Officer</i>	
▶ Sujith Fernando <i>Deputy Financial Controller – Corporate Planning / Business Support</i>				◀ Champa Nakandala <i>Assistant General Manager Deposit</i>
	◀ Roshan Rathnayaka <i>Assistant General Manager/Regional Head</i>		◀ Sujan Cooray <i>Assistant General Manager/Regional Head</i>	

	<p>◀ Thamara Rathnayake <i>Assistant General Manager-Compliance and Financial Reporting</i></p>		<p>◀ Prabhath Rangajeewa <i>Assistant General Manager - Gold Loan</i></p>	
<p>▶ Sanjaya Seneviratne <i>Assistant General Manager - Treasury</i></p>				<p>◀ Udaya Suranjith <i>Regional Head</i></p>
	<p>▶ Wasantha Maldeniya <i>Regional Head</i></p>		<p>▶ Mallika Jayathilaka <i>Regional Head</i></p>	
<p>▶ Selvarathnam Nishanthan <i>Regional Head</i></p>		<p>▶ Saman Medagoda <i>Regional Head</i></p>		
	<p>◀ Isanka Gayan <i>Regional Head</i></p>		<p>◀ Suresh Motha <i>Head of Risk Team</i></p>	

Senior Management Team

	◀ S.S. Sathiyadaran <i>Head of IT</i>		◀ Ganeshalingam Mathieswarann <i>Head of MIS</i>	
		◀ Achala Wanniarachchi <i>Head of Legal</i>		◀ Dillon Thajudeen <i>Head of Marketing</i>
	Lakmal Maniksagara <i>Head of QM & BCMS</i> ▶		▶ Manoj Siriwardana <i>Head of Business Channel Developments</i>	
▶ Chanuka Dilhani <i>Head of Sustainability and Strategic Planning</i>		▶ Nohan Krishantha <i>Deputy Regional Head</i>		
	◀ Duminda Neranjan <i>Deputy Regional Head</i>		◀ Nalin Kodagoda <i>Deputy Regional Head</i>	

	◀ Poorna Pothduwage <i>Deputy Regional Head</i>		◀ Dharshana de Silva <i>Head of Yard Vehicle Sales</i>	
		◀ Kapila Bandara <i>Head of Tractor Sales</i>		◀ Tiran Abeysekara <i>Product Head- Gold Relief</i>
	▶ Nadith Surendra Rodrigo <i>Deputy Head of Gold Loan</i>		▶ Sachinthani Meeriyagalla <i>Acting Head – Human Resources</i>	
▶ Ranil Perera <i>Manager - Branch Operations & Performance</i>		▶ Thanubaalasingam Kumarathas <i>Regional Manager- Gold Loan</i>		
	◀ Viduppriya Fernando <i>Regional Manager -Colombo Super Branch</i>		◀ Prasad Gunarathne <i>Regional Manager - Credit</i>	

Senior Management Team

	<p>▶</p> <p>Chrisanthi Wavita <i>Senior Manager - Deposits</i></p>		<p>▶</p> <p>Lolita Papalie <i>Manager - Deposits</i></p>	
<p>▶</p> <p>Rohana Dissanayake <i>Manager- Commercial Trade</i></p>		<p>▶</p> <p>Roshan De Silva <i>Manager - Recoveries</i></p>		
	<p>◀</p> <p>Anupa Jayasekara <i>Manager - Premises Management</i></p>		<p>◀</p> <p>Chatura Senarathne <i>Head of Procurement</i></p>	
<p>▶</p> <p>Harsha Wijesinghe <i>Manager- Credit Operations</i></p>		<p>▶</p> <p>Navarethinarajah Ramunahar <i>Manager-Process Improvement</i></p>		
	<p>▶</p> <p>Saman Kumara <i>Senior Branch Manager</i></p>		<p>▶</p> <p>Upul Pathirana <i>Senior Branch Manager</i></p>	

<p>▶ Udeni Sampath <i>Senior Branch Manager</i></p>		<p>▶ Hirosh Ramanayake <i>Senior Branch Manager</i></p>		
	<p>◀ Charuka Ranathunga <i>Senior Branch Manager</i></p>		<p>◀ Priyantha Guruge <i>Senior Branch Manager</i></p>	
<p>▶ Pradeep Kumara <i>Senior Branch Manager</i></p>		<p>▶ Thusitha Karunarathne <i>Senior Branch Manager</i></p>		
	<p>▶ Manoj Chanaka <i>Senior Branch Manager</i></p>			

Double Attack

Sustainable value creation is a prime objective of the sustainability mandate of AFC



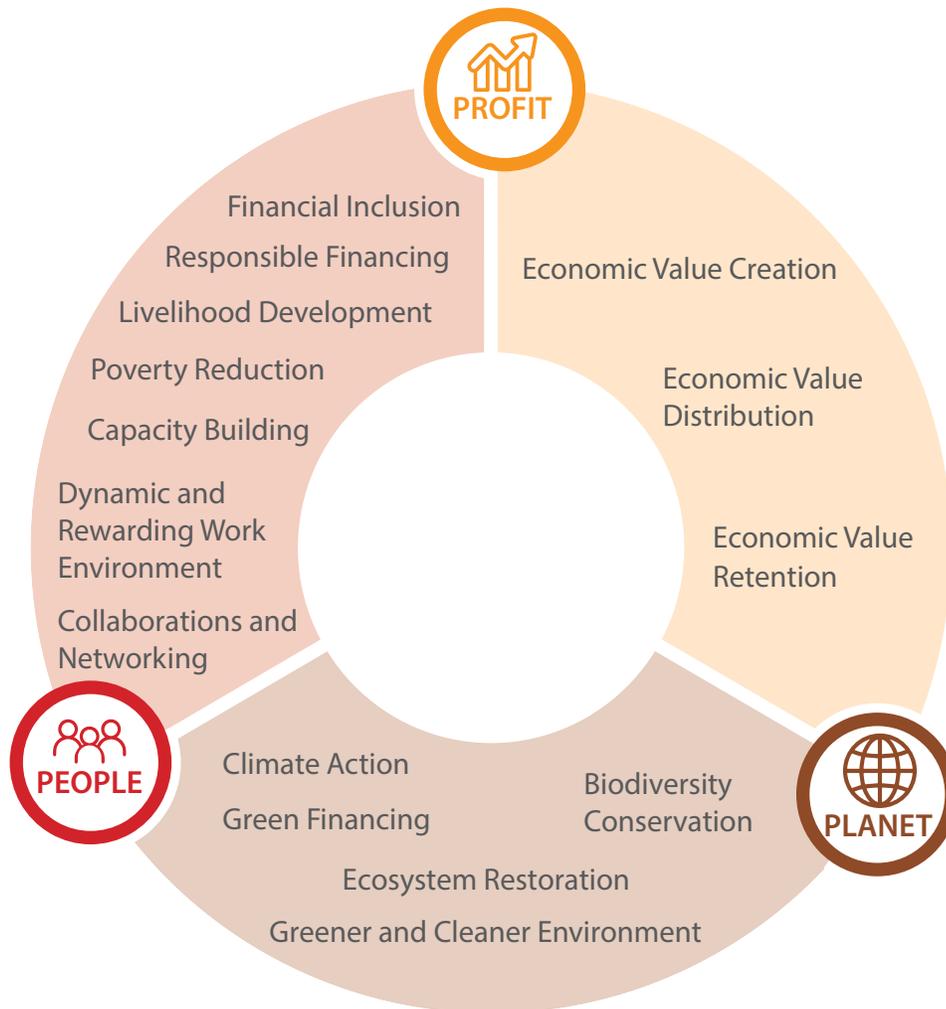
- *Creating an impact on environment and society by investing Rs. 5.7 Mn on the Ath Pavura social business platform.*
- *Mr. Romani De Silva; Deputy Chairman/Managing Director participates as a Tusker/ Founder Investor in the above platform, created to support social businesses, in this reality TV programme.*
- *Our long-term goal is to allocate further funding into our initiatives, the benefits of which will trickle down to all our stakeholders and the environment at large.*



Our Business Philosophy

Our business philosophy is strongly entwined with the Triple Bottom Line approach and it is about creating a better world through sustainable, inclusive and responsible financing. As a strong advocate of the Triple Bottom Line approach, currently we are in the process of further integrating social and environmental sustainability aspects into the core of the business so that it is reflected in all we do and embedded in our culture. AFC's new purpose statement and core values encapsulate the Company's commitment in giving priority to the social and environmental concerns. Resonating across every aspect of the business, the Triple Bottom Line serves as the foundation that will determine AFC's growth trajectory for the foreseeable future.

Our Approach



Our commitment to Sustainability

Driven by a Triple Bottom Line oriented purpose and business philosophy, AFC has been expanding its horizon in Sustainability Development over the last few years to achieve the ultimate goal of becoming the first ever certified Sustainable Financial Institution in Sri Lanka.

Pledging our commitment to global Sustainable Development and Climate Action movements of the world, in 2017 AFC has become the first Sri Lankan NBF signatory to the Karlsruhe Resolution on Sustainable Finance, in Germany. In recognition of the genuine interest and commitment of the Company towards Sustainability, in 2018 AFC has been accepted into the Sustainable Standards and Certificate Initiative (SSCI); making AFC one of just three companies worldwide who were given the privilege of acceptance. SSCI is the first global standard developed for value creating financial institutions, promoted by the European Organization for Sustainable Development (EOSD) and supported by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) as well as the Association of African Development Finance Institutions (AADFI). With the acceptance to the SSCI, AFC now serves as a member of the committee that drafts the standard and will be one of the first institutions in the world to receive the Certification.

Sustainability Governance GRI 102-21



AFC has a clearly defined governance structure to drive the sustainability mandate of the Company and well formulated policy frameworks that enable the entire Company to be geared towards achieving the desired sustainability objectives. Spearheaded by the Managing Director, the Director Sustainability manages the overall supervision of the sustainability function, with the appointed Head office and regional members of the sustainability team to instill and drive the sustainability thinking and mission of the Company across the branch network.

Our Contribution

AFC has an annual allocation of 3% of the profit for Sustainability initiatives of the Company. In 2018/19 we have surpassed this allocation by investing 4% of the profit on short term and long term Sustainability initiatives that add value to our sustainability agenda.

Sustainability Initiative	2019 Rs.	2018 Rs.
Environmental initiatives	14,590,079	560,000
Social initiatives	6,566,014	5,296,119
Climate impact relief	2,211,565	973,700
CSR activities	2,833,312	2,392,974
Total	26,200,970	9,222,793



02 New Network partners of 2018/19

ADFIAP
Association of Development Financing Institutions in Asia and the Pacific

BIODIVERSITY SRI LANKA
Biodiversity Sri Lanka

17 PARTNERSHIPS FOR THE GOALS

18km The conservation corridor extent

22 Mammal species encountered

19 No of leopards identified to date

15 LIFE ON LAND

215,913 Trees planted

60 Locations

22% of target achieved

13 CLIMATE ACTION

22,391 Leases given during the year

91 Customer Touch points

100% District presence

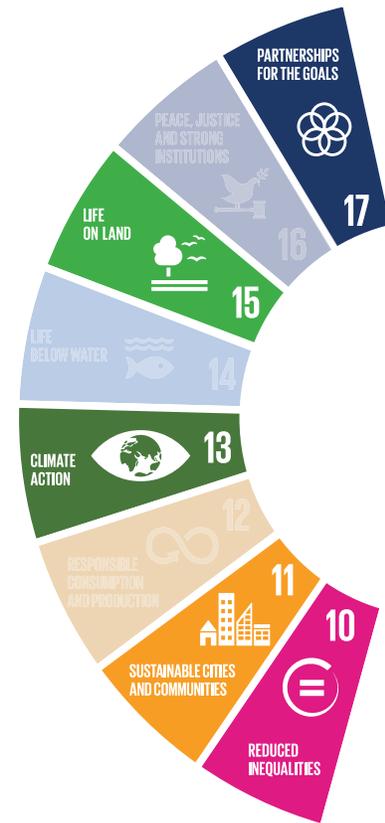
11 SUSTAINABLE CITIES AND COMMUNITIES

69% branches outside Western province

32% of branches in rural and marginalized areas

63% of portfolio outside Western Province

10 REDUCED INEQUALITIES





1 NO POVERTY

80% Portfolio in income generation activities

27 Bn Total lending portfolio

32% portfolio in rural and marginalized areas

2 ZERO HUNGER

6 Bn Portfolio in the Agri Sector

24% of portfolio in the Agri Sector

3.3 Mn investment in climate smart agriculture

4 QUALITY EDUCATION

13 Average training hours / employee

7.8 Mn Training Cost

1,481 No of EDS participants

5 GENDER EQUALITY

28% Female Employee Base

56% Female customers

30% Lending to women customers

7 AFFORDABLE AND CLEAN ENERGY

100 Low emission three wheel gas conversion kits

5% Hybrid and Electric vehicle portfolio

2% Reduction in energy intensity

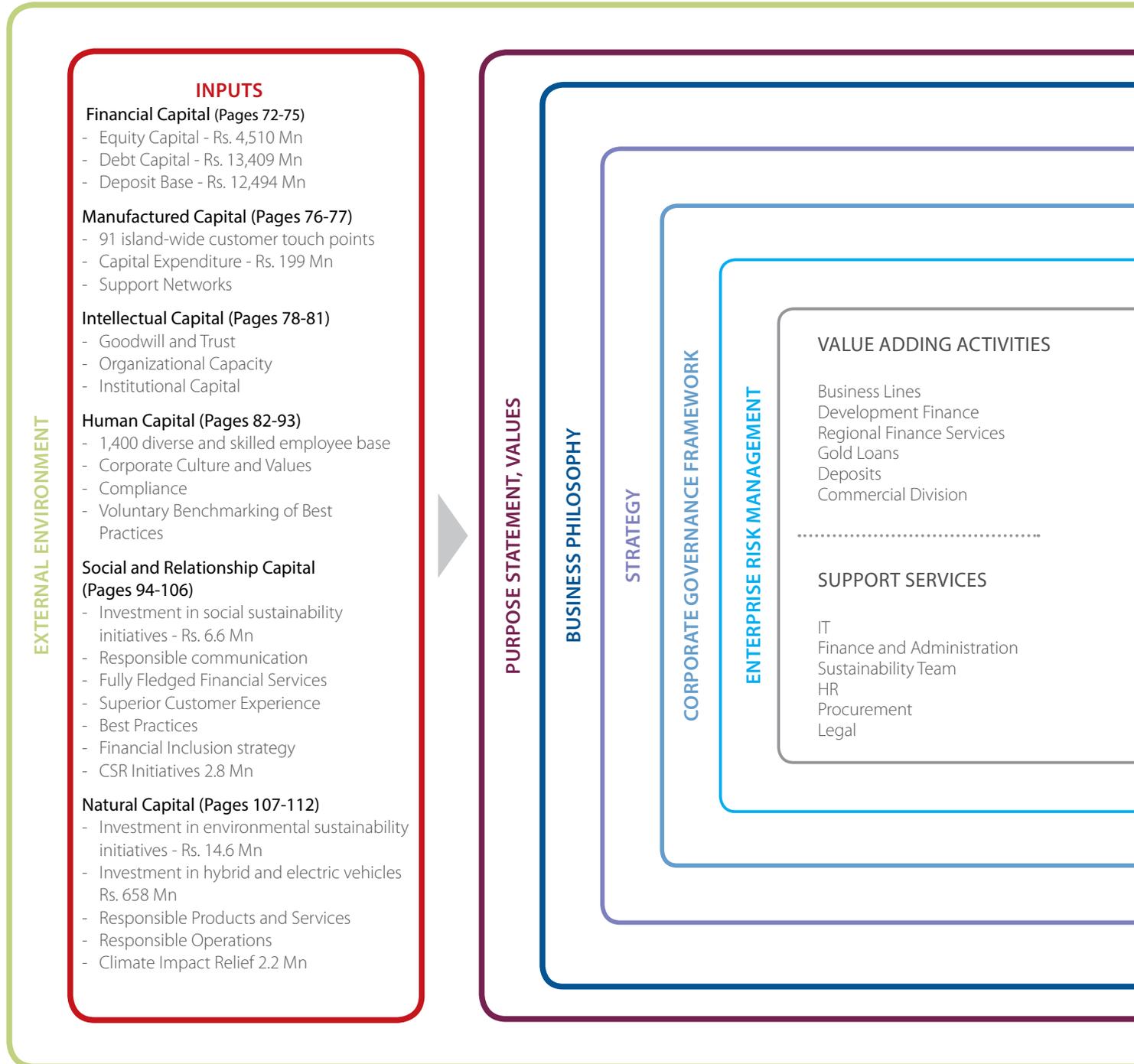
8 DECENT WORK AND ECONOMIC GROWTH

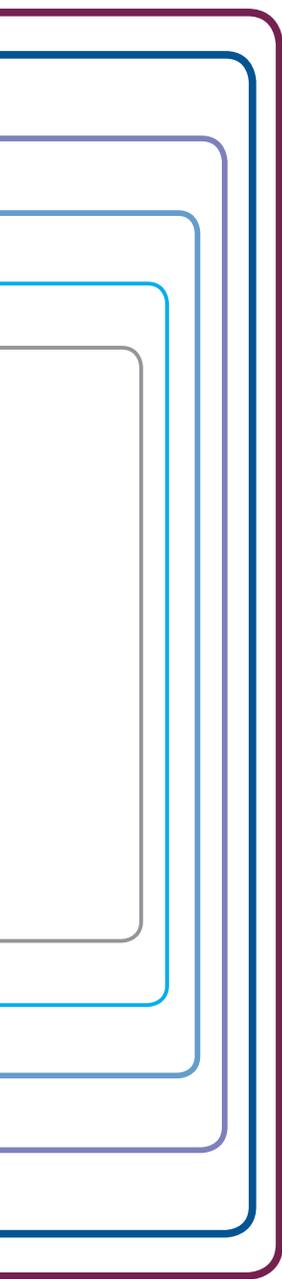
780 Mn Value created for employees

113 External and internal trainings

6% Promoted

Creating Value through our Strategy





EXPECTED OUTPUTS FOR AFC

Financial Capital

Revenue - Rs. 7,244 Mn
 Profit after tax - Rs. 306 Mn
 ROE (After Tax) - 7%
 EPS - Rs. 9.09

Manufactured Capital

Customer touch points - 91
 New super branch
 PPE - Rs. 1,746 Mn

Intellectual Capital

Brand value - Rs. 889 Mn
 Training investment - Rs. 7.8 Mn
 Investments in IT infrastructure - Rs. 61.5 Mn

Human Capital

Strengthened staff base by - 15%
 Training hours - 17,786
 Investment in employee health and safety - Rs. 8.4 Mn

Social and relationship Capital

No of customers - 117,872
 EDS programs - 1,481
 Number of CSR activities - 66

Natural Capital

Head office carbon footprint - 3,100MT
 No of trees planted - 215,913
 Investment on climate action - Rs. 11.6 Mn

STAKEHOLDER OUTCOMES

Value created for employees - Rs. 780 Mn
 Value created for the Government - Rs. 523 Mn
 Interest expense - Rs. 3,244 Mn

Customer loyalty and retention

Improved outreach for better access
 Increased efficiency in service delivery
 Market share growth

Brand visibility

Enhanced organizational capabilities
 Well groomed, skilled employee base
 Access to untapped markets

Employee motivation and satisfaction

Increased employee wellbeing
 Employee empowerment and development
 Employee loyalty and retention

Financial inclusion

Customer satisfaction and brand loyalty
 Community empowerment
 Community wellbeing

Sustainable best practices

Sustainability embedded organizational culture
 Contribution to offsetting carbon footprint
 Cost effective sustainable business practices

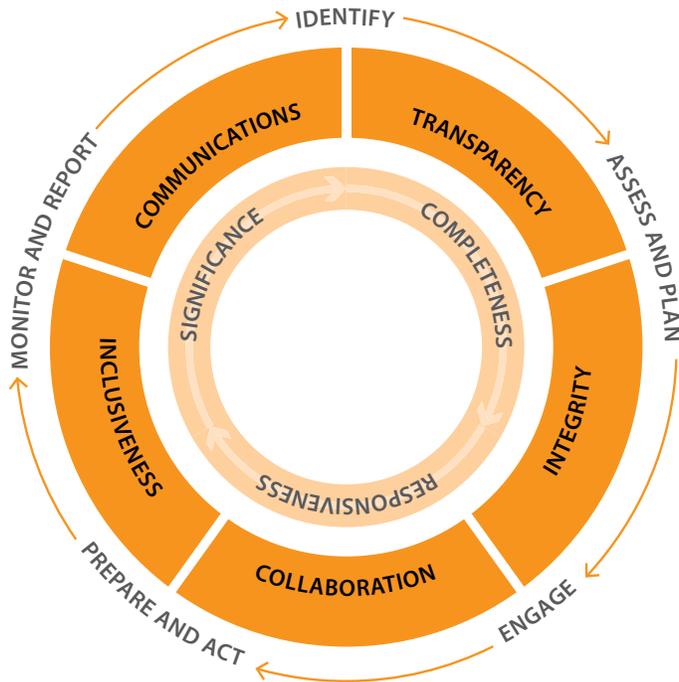
Stakeholder Management GRI 102 - 40 GRI 102 - 42 GRI 102 - 43 GRI 102 - 44

Stakeholder Management is a vital element of the sustainability of a company since stakeholders are an integral part of the business. AFC's Stakeholder engagement approach follows the process given in the below model which is based on three strategic principles (Significance, Completeness and Responsiveness) and five operational principles that cascaded through into the different stages of the process.

We strive to achieve the following objectives by managing our stakeholders effectively.

- Build constructive relationships with the stakeholders
- Facilitate maintaining a mutually beneficial relationship with all stakeholders
- Open up for new stakeholders in a responsible and ethical manner.
- Engage them in a positive manner to provide maximum value to all stakeholders

Stakeholder Engagement Process GRI 102 - 43



Identify GRI 102 - 42

AFC has clearly identified the major stakeholders who have a vested interest in our business. There are internal and external stakeholders whose importance is decided by the level of interest and level of influence they have in the business. We believe that, correct identification of the stakeholders is important to engage them properly and effectively.

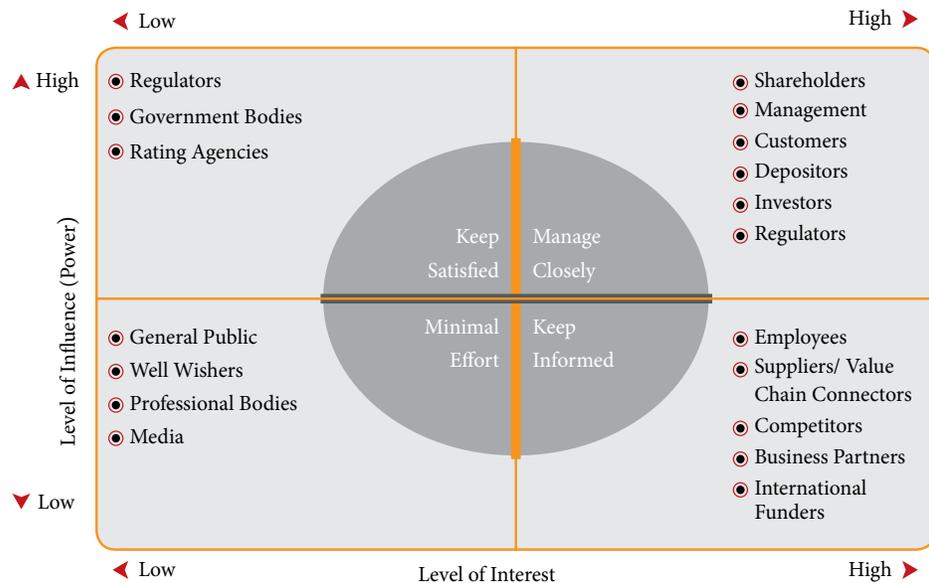
Our Major Stakeholders GRI 102 - 40



The below matrix illustrates AFC's Stakeholder map based on their interest and the influence. The model also illustrates how each category is managed by the Company.

Stakeholder Mapping: Interest-Power Matrix

Assess and Plan GRI 102 - 43



Stakeholder Management

Stakeholder assessment is an ongoing process in the Company, where the findings are incorporated into the regular decision making process and used to plan the long-term approaches that will be aligned with the Company's Strategic Plan.

We assess our major stakeholders regularly (mostly annually) and the others periodically. The assessments are mainly done through surveys, where we conduct annual surveys for our employees and customers. We also assess suppliers time to time using the same method. The feedback obtained is then used for policy changes and rectify the course of actions taken to address any issues identified. The assessments are carried out with continuous refining to obtain precise feedback, maintaining the highest level of transparency and information quality.

Engage **GRI 102 - 43** **GRI 102 - 44**

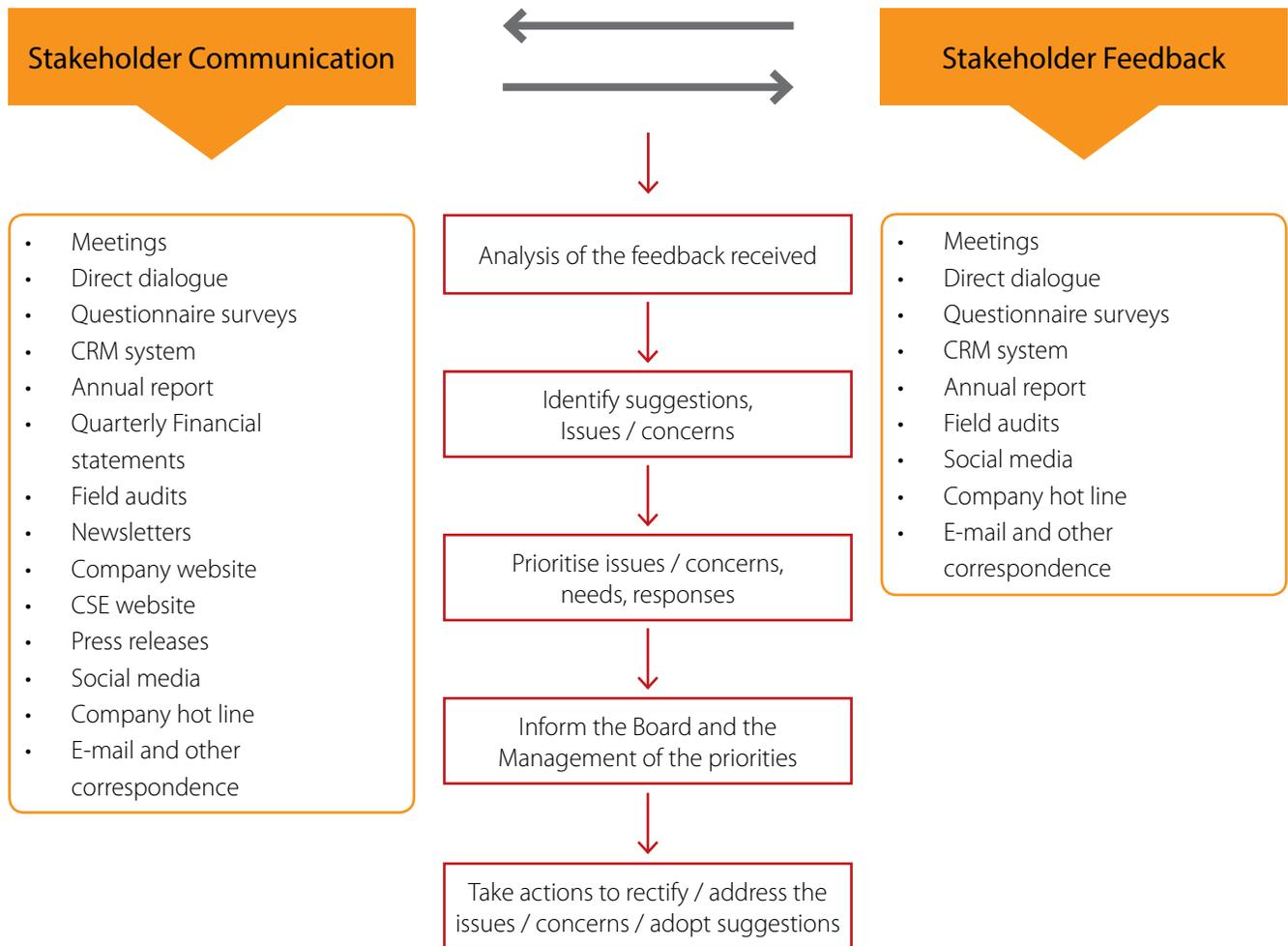
Stakeholder	How we engage	Areas of interest/Expectations in 2018/19	Stakeholder management approach and response
Shareholders 1,275 Shareholders, comprising 30 institutional Shareholders and 1,245 individual investors	<ul style="list-style-type: none"> AGM and Annual Report (annually) Interim financial statements (quarterly) Corporate website (continuous basis) Announcements to the CSE (continuous basis) Press releases (continuous basis) 	<ul style="list-style-type: none"> Sustainable growth Adequate risk return balance Corporate governance and risk management framework Corporate reputation and brand Transparency and credibility of disclosures 	Our strategy is directed towards creating sustainable, long-term value to Shareholders. We also provide our Shareholders with timely, relevant and complete information to facilitate effective and informed decision making Relevance to strategy: Growth, Profitability, Environmental sustainability, Social sustainability
Customers We serve over 117,872 credit and deposit customers across the island	<ul style="list-style-type: none"> Customer satisfaction survey (bi-annually/quarterly) Customer relationship management function (continuous) Customer exit surveys in Microfinance (annual) Customer hotline (continuous) Customer education programmes (continuous) Online and social media platforms (continuous) 	<ul style="list-style-type: none"> Value for money Convenience and accessibility Innovative product offerings Security of deposits Ease of transacting Quality of service 	Our customer value proposition is based on personalised service, innovative products and trust. Relevance to strategy: Growth, Social sustainability

Stakeholder	How we engage	Areas of interest/Expectations in 2018/19	Stakeholder management approach and response
Employees Our team comprises 1,400 individuals recruited from across the island	<ul style="list-style-type: none"> Employee feedback survey (annual) Performance appraisal (annual) Multi-level staff meetings (continuous) Open door policy (continuous) Training need assessment (annual) Social media platforms (continuous) Work-life balance initiatives (continuous) 	<ul style="list-style-type: none"> Competitive remuneration Equal opportunity Opportunities for skill development and career progression Work-Life balance 	We seek to provide ongoing opportunities for skill and career development in a dynamic and challenging work environment Relevance to strategy: Growth, Profitability, Social sustainability
Business Partners and Suppliers We have partnered over 770 suppliers who are an integral part of our business.	<ul style="list-style-type: none"> Direct dialogue (continuous) Service quality survey (annual) Stakeholder feedback survey (annual) 	<ul style="list-style-type: none"> Ease of transactions Business expansion Capacity building and financial support Equitable and on-time payments 	We strive to nurture long-term partnerships with our diverse supplier base and propagate sustainable business practices along our supply chain Relevance to strategy: Growth, Profitability, Social sustainability
Regulators/ Government Our main regulators are the Central Bank of Sri Lanka, the SEC and CSE.	<ul style="list-style-type: none"> Regulatory reporting (continuous) CBSL audits (annual) Special meetings for regulatory clarifications (need basis) Press releases and CSE publications (continuous) 	<ul style="list-style-type: none"> Good governance and compliance Sustainable business practices Ethical business 	We engage in a productive and constructive dialogue with the regulators and the government to ensure a conducive industry environment. Relevance to strategy: Growth, Profitability, Environmental sustainability, Social sustainability
Community We maintain proactive and mutually beneficial relations with the communities in which we operate in.	<ul style="list-style-type: none"> CSR initiatives (periodic) Press releases and publications (continuous) Engagement through branches (continuous) 	<ul style="list-style-type: none"> Employment generation Livelihood and community development Commitment towards preserving the environment 	We maintain cordial and mutually respectful relationships with the communities in which we operate in. Relevance to strategy: Environmental sustainability, Social sustainability

Stakeholder Management

Prepare and act

Our process of responding with actions to manage the received stakeholder feedback is illustrated in the below diagram.



Monitor and Report

Monitoring the management and the engagement aspects is a continuous process that AFC undertakes. Accordingly regular and periodic information sharing is done, so that all the Stakeholders are properly informed about the progress of the activities undertaken.

Process	Method	Frequency
Reviewing Engagement	<ul style="list-style-type: none"> • Company Performance Reviews • Market and competitor analysis • Analysis and surveys • Identification of issues 	Monthly, Quarterly, Annually Quarterly Periodically Regularly
Reporting and Communication	<ul style="list-style-type: none"> • Meetings and Direct dialogue • Progress Reports / Meeting minutes • Surveys / Assessment Reports • Website and Social Media • Newsletters / Interim Reports / Annual Report 	Regularly Monthly, Quarterly Periodically Periodically Quarterly, Annually
Follow Up	<ul style="list-style-type: none"> • Assessment and Surveys • Call Centre • Obtaining feedback in meetings and through direct dialogue 	Periodically Regularly Periodically

Material Topics GRI 102-47 GRI 103-1 GRI 103-2

Materiality Assessment is about identifying the most important and significant economic, social and environmental aspects that impact the AFC and our stakeholders, and the magnitude of impact each of them has on the business.

The Material Topics identified through this process goes on to inform our business strategy and redirect our resources in order to deliver on our economic, environmental and social value goals.



Material Topic	Topic Boundary	GRI Relevance	Why is it Material?	Our Management Approach	Implementation (Page No.)
Financial Performance	Internal / External		Safeguards AFC's ability to provide consistent returns to all stakeholders after retaining sufficient reserves to drive growth	Implement dynamic strategies to leverage on all available opportunities to accelerate AFC's growth trajectory	180-273
Governance and Risk	Internal	102 -11 102 -15 102 -16 102 -17 102 -18 102 -20 102 -22 102 -23 102 -25 102 -26 102 -27 102 -28 102 -29 102 -30 102 -31 102 -32 102 -35 102 -36 102 -37	Improves business resilience to ensure AFC can continue to grow even amidst negative headwinds	Proactive risk management combined with strong governance and oversight to ensure positive outcomes even in tough times	116-153 and 166-172
Brand Position	Internal / External	No Direct Relevance	Increases stakeholder confidence in the Company and helps to reinforce AFC's standing in the NBFi sector	Leverage on solid reputation to consolidate the Company's position under a new identity.	78, 79
Ethics and Integrity	Internal / External	GRI 102-16 GRI 102-17	Strengthens AFC's reputation and improves the credibility of the entire industry	Strive to achieve leadership in compliance as an early adopter of regulatory frameworks and benchmarking voluntary best practices	89
Geographical Outreach	Internal / External	No Direct Relevance	Determines AFC's outreach capacity and the ability to continue to service all target customer segments	Consolidate the Company's existing footprint, while strategically expanding the outreach as and when needed	77
Innovation and Digitization	Internal / External	No Direct Relevance	Paves the way for greater efficiency at all levels of the business, ultimately translating into enhanced value creation for all stakeholders	A forward-looking approach combined with continuous and ongoing investment in IT infrastructure, systems and processes to help re-engineer traditional modules and create more efficient and functional ways of working	80

Material Topics

Material Topic	Topic Boundary	GRI Relevance	Why is it Material?	Our Management Approach	Implementation (Page No.)
Product Range	Internal / External	No Direct Relevance	Underpins AFC's core business model and also creates a platform to improve the scalability of the business	Improve the market responsiveness of existing products while further diversifying the range through the release of more customer centric products.	9, 11, 94-96
Customer Experience	Internal / External	416 -1 416 -2 417 -3	Serves as a key differentiator that can be used to attract customers in a highly competitive industry	Adopt a 360 degree approach to ensure a holistic customer experience	96,100
Inclusive Employment Practices	Internal / External	401 -1 401 -2 402 -3 405 -1 405 -2 408 - 1 409 - 1	Helps to position AFC as an "Employer of Choice", which would allow the Company to attract and retain the best in-class talent	Treat all employees equally and fairly in alignment with local labour laws, industry norms and globally accepted best practices	83-85
Training and Development	Internal / External	404 -1 404 -2	Improves productivity and efficiency across the Company	Invest in systematic training activities to keep enhancing the knowledge and skill set of all employees	86-89
Rewards and Recognition	Internal	404 -3	Keeps employees motivated and reduces employee turnover	Set clear objective coupled with a structured methodology to evaluate employee performance and determine rewards	84
Employee Engagement	Internal	102 -43	Helps to build loyal employees who will remain committed towards the Company's growth	Maintain an open door policy to promote open communications	45, 47
Environmental Sustainability	Internal / External	301 -1 302 -1 302 -2 302 -3 302 -4 303 -1 304 -2 304 -3 304 -4 307 -1	Enables AFC to lead the way in creating a paradigm shift in favour of green business principles	Supporting the global effort to combat climate change in line with the SDG's	108-112
Social Investment	External	413 -1 413 -2	Provides an opportunity to contribute towards resolving important social issues in the country	Engage in meaningful social investment activities that create lasting value for the community	105-106
Supply Chain Management	Internal / External	308 -1 414 -1 102-9	Facilitates the smooth and uninterrupted functioning of business operations	Develop deep and meaningful business relationships by advocating the concept of shared value	47, 102,103

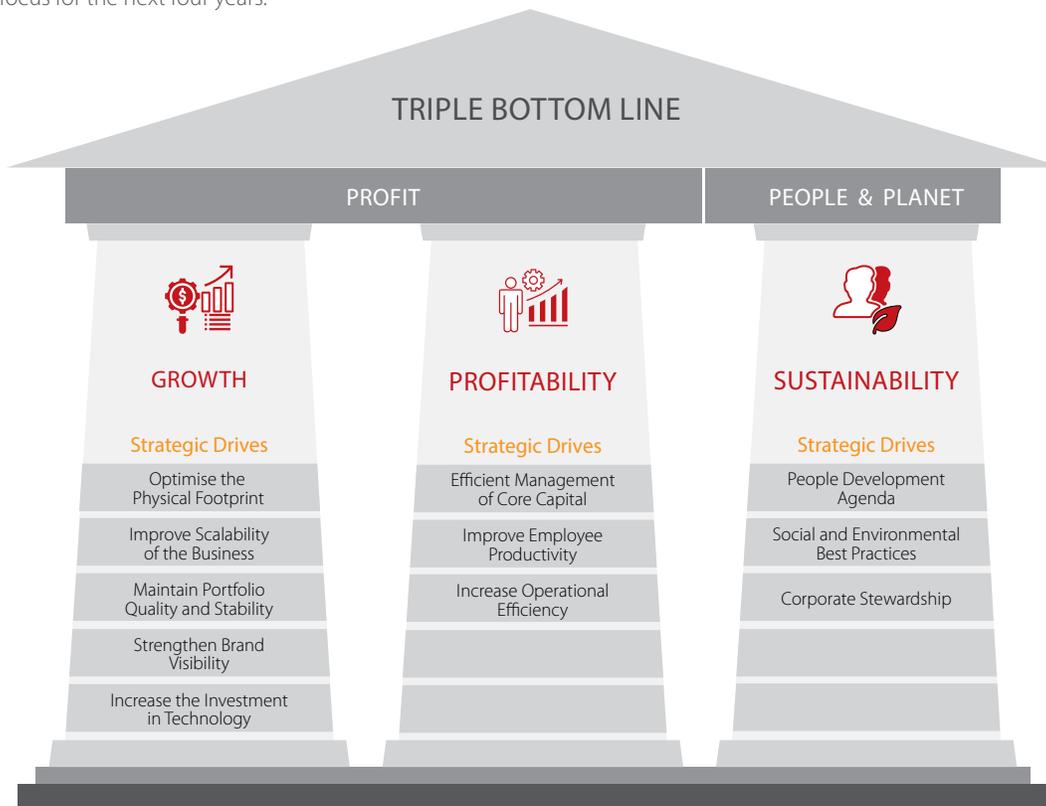
Strategy and Resource Allocation

In a rapidly changing operating environment we find that the evolving needs and behavior patterns of our stakeholders along with the technological, competitive and regulatory developments can present different challenges for the business. However, at the same time they may also present unique opportunities, the business can capitalize on. In order to overcome these challenges and take full advantage of potential opportunities, it is imperative that there is a sound and workable strategy which at the same time enables the Company to materialize the desired performance goals. We remain proactive in adjusting our plans, realigning our goals and targets and defining new strategies in order to fuel business growth, undertake investment opportunities within our risk appetite and build resilience to safeguard against adverse situations that may arise in the future.

In 2018/19 we have revised our strategy through a meticulous process, to set out a fresh action plan for the next four years. At the heart of this new strategy is AFC's new purpose statement which symbolizes the Company's intention to "Make the World a better place through sustainable financing". Driving this commitment is our new business philosophy and its underlying principle - the triple-bottom-line.

The new blueprint to improve AFC's alignment to the triple-bottom-line, has three key pillars of business foundation and success; Growth, Profitability and Sustainability that will underpin our focus for the next four years.

To bring our strategy to life, we seek to allocate the necessary resources to transform our capital inputs in a way that generates sustainable value for all our stakeholders. AFC's resource allocation process is a comprehensive one involving planning, budgeting and proper oversight for capital management thus ensuring that adequate capital resources are directed to areas of the business that require it the most.



Strategy and Resource Allocation

Strategic Action	Target set for the year	Key Highlights	Progress as at 31st March 2019	Capital Element
Consolidate the physical footprint	Amalgamate RFS and DF branches under the "One Team - One AFC" campaign to create fully fledged branches that offer all products under one roof	16 DF branches were merged with the nearby RFS branches to create 70 fully fledged AFC branches		Manufactured Capital
Improve Scalability of the Business	Increase Customer outreach	Progress made under the "One Team - One AFC" campaign		Social and Relationship Capital (Customer)
	Diversify the product range	Launch of "Autosure" and CASE tractor under the Commercial Division		Social and Relationship Capital (Customer)
	Increase management oversight to tap into market opportunities	Implemented a new Management Structure to strengthen the RFS model		Business Reviewed
	Enhance Customer Convenience	Investment in the Core financial solution Investment in a end-to-end ERP solution for the Commercial Division		Intellectual Capital
Maintain Portfolio Quality and Stability	Maintain a disciplined lending approach	Revised and Re-adjusted Implemented sector exposure limits to maintain control over lending to ailing sectors		Business Reviews
	Deploy additional manpower resources to focus on recoveries	Strengthen ground-level recoveries		Business Reviews
	Strengthen legal proceedings	Appointment of regional level Lawyers to expedite the litigation process against willful defaulters		Business Reviews
Strengthen Brand Visibility	Strategic re-branding to support the migration from "Alliance Finance" to "AFC"	Adoption of a new Purpose Statement and values to represent AFC's new direction as a sustainable financial institution		Intellectual Capital
		Revamping of branding material and branch branding		Intellectual Capital
Increase investment in technology	Focus on creating new digital solutions to improve internal efficiency and modernize customer interfaces	Investment in the core financial solution		Intellectual Capital
Efficient management of core capital	Maintain regulatory requirements for capital adequacy	Changed the portfolio mix to optimize returns and adopted risk based pricing		Financial Capital

Strategic Action	Target set for the year	Key Highlights	Progress as at 31st March 2019	Capital Element
Funding and technical capability acquisition	Partnering with International level, low cost funding agencies, technical assistance providers and likeminded funding agencies that supports our business philosophy.	Received a total of USD 15 Mn foreign funding from IFC and FMO agencies.		Financial capital
		Received technical assistance from IFC for credit reengineering and business process revamping.		Intellectual Capital
Improve Employee Productivity	Increase training for the employee base by 75%	Total training hours for the year 17,786 (9,313 in 2017/18) - 91% increase		Human Capital
Increase operational efficiency	Better workflow management through digital communication channels	Commissioning of G-suite, a cloud-based common platform to manage internal communications		Intellectual Capital
People Development Agenda	Strengthen the on-boarding process	A total of 336 new recruits were on-boarded through 18 induction training sessions		Human Capital
	Improve efficiency of backend HR processes	Roll out of a cloud-based HRIS to support all functions of the HR department (except Payroll)		Human Capital
	Further capacitate and motivate the best performing star employees	Recognized 09 best performing Regional staff by promoting them with additional responsibilities assigned.		Human Capital
Social and Environmental best practices	Incorporate social and environmental sustainability indicators into all aspects of the business	Roll out of a new Environmental and Social Management system (ESMS) which marks phase 1 of the Sustainability Performance Management System (SPMS)		Social and Relationship Capital (Customer) Natural Capital
Corporate Stewardship	Implement Carbon Neutral Projects	Launch of "Thuru Mithuru" tree planting campaign to plant one million trees by 2023 (20% of target achieved by March 2019)		Natural Capital
	Support social entrepreneurship	Assisted 08 new social entrepreneurs through the "Ath Pavura" programme with a investment commitment of Rs. 5.4 Mn		Social and Relationship Capital (Community)

 - In Progress  - Achieved

Risk and Opportunities PESTEL Analysis For 2018/19 GRI 102 - 15 GRI 201 - 2

The following PESTLE Analysis provides a summary of the key Political, Economic, Social, Technological, Legal (Regulatory) and Environmental risks and opportunities that influenced AFC's planning, investment, business expansion and product development processes in the year under review.

Risk	Context	Opportunity
<p>The situation that prevailed in the country caused a considerable uncertainty for the entire economy and the NBFIs sector. The result was a higher impact on collections and rising NPLs due to slower economic activities in the country</p> <p>Our response:</p> <ul style="list-style-type: none"> <i>Cautious approach was adopted on new business while more emphasis was placed on collections and recoveries</i> 	 <p>Political</p> <p>The Political instability that was initiated in October 2018 led to a hiatus in the country's policy framework.</p>	<p>The situation gave rise to new socio-political changes in the country presenting new opportunities to strengthen internal systems to suit for periods of uncertainty.</p> <p>Our response:</p> <ul style="list-style-type: none"> <i>Strengthened the risk management practices especially related to credit and recoveries</i> <i>Changed product mix focusing on low risk high yielding products</i>
<p>Micro and SME segments being AFC's main target markets, the Company saw a sharp increase in NPLs as customers found it difficult to service their debt commitments as their livelihood activities are affected by the poor economic situation of the country.</p> <p>Our response:</p> <ul style="list-style-type: none"> <i>Strengthened the credit and recovery monitoring and collection infrastructure.</i> 	 <p>Economic</p> <p>The 2018 economic downturn badly affected the Country's SME segment, while the Micro Entrepreneur segment remained under pressure due to poor performance of the agriculture sector over the past two years.</p>	<p>This situation made AFC to shift the focus to high yielding low risk products and diversification into related areas</p> <p>Our response:</p> <ul style="list-style-type: none"> <i>Increase focus on micro leasing such as Three-wheelers and Two-wheelers</i> <i>Refocus on automobile trading by launching Autosure brand that would support captive leasing business and help minimize auction losses of repossessed vehicles</i>
<p>Changing society and customer sophistication necessitates faster, convenient services, care for environment and value for money product offerings.</p> <p>Our response:</p> <ul style="list-style-type: none"> <i>Redefined our purpose in line with our sustainability focus</i> <i>Enhanced product range with the launch of Autosure</i> <i>Consistently improve our processes and systems to provide faster and efficient customer service</i> 	 <p>Social</p> <p>Changes in population demographics are causing unprecedented changes in lifestyle trends, social norms and behavior patterns, which has substantially widened the SME and Micro segments across the country.</p>	<p>Changing demographic and lifestyle changes presented a strong opportunity for AFC to grow its lending business.</p> <p>Our response:</p> <ul style="list-style-type: none"> <i>Streamline and improve processes to provide speedier customer service</i> <i>Introducing new products and services such as Tika Tika Ge Dora and Auto sure</i> <i>Plans to launch online and digital financial services under the Phase II of the new IT system</i>

Risk	Context	Opportunity
<p>Technology being an integral component of efficient business processes and better service quality, all the finance companies in Sri Lanka are heavily investing in it. Customers attract more towards those who offer fast and convenient services.</p> <p>Our response:</p> <ul style="list-style-type: none"> Invested in a Core Financial Solution that would facilitate end to end system driven services that will enhance customer experience 	 <p>Technological</p> <p>The rapid evolution in technology is causing the customer to expect robust financial solutions that are faster, convenient and more cost effective.</p>	<p>Provides an opportunity for AFC to upgrade exiting core IT infrastructure and invest in the latest technology available to improve efficiency and thereby strengthen the customer value proposition.</p> <p>Our response:</p> <ul style="list-style-type: none"> Invested in a new state of the art Core Financial Solution Launch of online and digital financial services under Phase II of the Core Financial Solution
<p>The debt relief scheme announcement being vague and misunderstood; led to an immediate uprise of non- payments causing the Microfinance NPL levels to rise sharply in AFC.</p> <p>Our response:</p> <ul style="list-style-type: none"> More credit restrictions were put in place to manage the risk of the group loan portfolio Launch of micro leasing in group loan branches Amalgamation of the branch network into a single platform to improve the sustainability of previous DF branches Changes to the product mix as a measure to address volume drop arising from changes to LTV rules 	 <p>Legal (Regulatory)</p> <p>The Debt Relief scheme introduced by the government in August 2018 sanctioning the write-off of loans granted to Micro finance customers in 12 drought hit districts. Tightening of LTV rules adversely impacted business volumes</p>	<p>Although the microlending product suffered, it opened up the opportunity for AFC to channel those human and other resources to further strengthen the other strong business lines of AFC.</p> <p>Our response:</p> <ul style="list-style-type: none"> Use the affected branch locations to promote micro leasing and gold loans Amalgamate the affected thus under-performing branches with the RFS to promote other products Train and re-direct the human resources to promote other products Changed the product mix to high yielding micro leasing such as 3W and 2W leasing

Risk and Opportunities PESTEL Analysis For 2018/19

Risk	Context	Opportunity
<p>Adverse climatic conditions have greatly affected the AFC customer base over the past few consecutive years, contributing to increase the non payments and thereby the NPLs particularly in the agriculture sector portfolio.</p> <p>Our response:</p> <ul style="list-style-type: none"> • <i>Strengthened the risk management practices to take proactive actions in terms of targeting, customer screening, product mix and lending terms</i> • <i>Provide relief and support to the affected to regain the economic capability</i> • <i>Embarked on a mega tree planting initiative to support the battle against climate change</i> • <i>Obtained an ESMS system to proactively manage the environmental and social risks and evaluate the impacts.</i> 	<div data-bbox="760 595 862 691" style="text-align: center;"> </div> <p style="text-align: center;">Environmental</p> <p>Recent global developments calling for financial institutions to play a bigger role in promoting environmental and social sustainability. Prolonged droughts and volatile weather conditions impacted the repayment capacity of rural and agricultural borrowers</p>	<p>Presented a strong opportunity for AFC to engage in the promotion of sustainable financing products. Also with the strong Triple Bottom Line oriented business philosophy, there are many opportunities to develop the Company as a certified sustainability oriented financial company. There is a global and local trend at present to promote sustainability, sustainable consumption, climate action and environmental protection especially among the youth. Thus, being a sustainability oriented company will present opportunities to attract new customer segments and open up new markets.</p> <p>Our response:</p> <ul style="list-style-type: none"> • <i>Re-defined the organizational purpose, core values, goals and strategies to become a sustainable financial institution</i> • <i>Preparation ongoing for the business to qualify and obtain SSCI global sustainability certification.</i> • <i>Support projects and initiatives that promotes environmental protection</i> • <i>Opening up platforms to support social enterprises that entail positive environmental impacts</i> • <i>Launch of the CASE tractor that is conceptualized as an energy efficient thus, a climate-smart agriculture product.</i>

Endgame

The recognition of our efforts has been twofold, with international standards and awards that will help us achieve more in sustainable best practices.

- *Investment of Rs. 2.27 Mn and partnering with Wilderness and Wildlife Conservation Trust (WWCT) in the 'Peak Ridge Forest Corridor Project'.*
- *The project conserves flora and fauna including our endemic leopards;*
- *Conserving Biodiversity, restoration of the ecosystem of the ridge and creating a lasting solution for the Human – Leopard encounters are the ultimate goals of this project.*



Operating Environment

Sri Lankan Economy

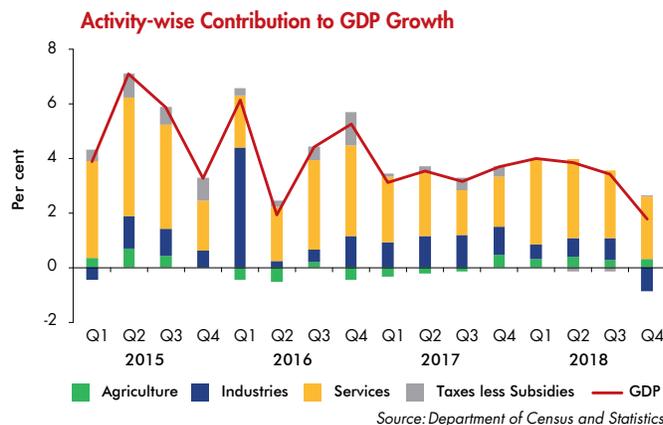
Sri Lanka's economy further moderated in 2018, with GDP sliding to 3.2%, from 3.4% in 2017. A notable deceleration in industry activities was observed amidst a significant contraction in the construction industry. In contrast, the Agriculture sector rebounded growing by 4.8% signaling a turnaround from the effects of adverse weather conditions seen over the past two years. The service sector, which has continued to expand consistently over the past few years, accelerated its growth trajectory, expanding by 4.7% in 2018 compared to 3.6% in 2017. Within the services sector, financial services was the key contributor to economic expansion.

Meanwhile, the political tensions that erupted in October 2018 also had widespread repercussions on the economy. It has significantly affected the tourism industry, which was just heading into its peak winter season starting in December 2018. To add to this, three major Credit Rating agencies, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, downgraded the country's sovereign credit rating causing investor confidence in the country to further declined.

Inflation

In contrast to the trend observed over the recent past, Inflation declined progressively throughout the year, and on occasion even dipped below the desired mid single digit levels. Accordingly, headline inflation based on CCPI declined to 2.8% as of end 2018 from 7.1% in 2017, while Headline inflation based on the National Consumer Price Index which temporarily peaked in July 2018, stayed at low single digit levels thereafter.

The deceleration in Inflation is attributed primarily to low food prices.



Interest Rates

The CBSL continued to maintain its tight monetary policy stance until April 2018, when the Standing Lending Facility Rate (SLFR) was reduced by 25 basis points to 8.50%. The Standing Deposit Facility Rate (SDFR) however remained unchanged at 7.25%.

Maintaining a neutral approach thereafter until later in the year, the CBSL reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks (LCBs) from 7.5% to 6.00% with effect from 16 November 2018. Amidst these conditions, lending rates of commercial banks remained high in 2018, with the Average Weighted Lending Rate (AWLR), increasing to 14.40% by the end 2018 from 13.88% at the end 2017.

External Sector

The External Sector remained under pressure in 2018, as Import expenditure once again grew at a faster pace than Export income, causing the trade deficit to widen beyond the Rs. 10 Bn mark for the first time. The overall trade deficit reached US dollars 10,343 Mn in 2018, up from US dollars 9,619 Mn in 2017. The trade deficit as a percentage of GDP also widened to 11.6% in 2018 from 10.9% in 2017 (CBSL Annual Report 2018).

Outlook

According to ADB and IMF forecasts, Sri Lanka's economy is set to grow by over 4% in 2019, bolstered by strong growth in agriculture and financial services. Nonetheless, the World Bank cautions that the upcoming election cycle in 2019 increases the risk of political uncertainty that could adversely have a bearing on activity across all sectors of the economy.

NBFI Sector

The NBFI sector continued to expand in 2018, albeit at a slower pace as the sectors' core vehicle financing business remained under pressure due to government-led efforts to curtail vehicle imports. Across the sector credit expansion took place at an average of 7.6% in 2018 compared to 9.8% in 2017.

Asset Growth

As a result of the low credit demand, the industry-wide Asset base grew at a rate of 5.6% compared to the 11.8% growth reported in 2017. Consequently, the asset base grew by only Rs. 76.3 Bn during the year reaching Rs. 1,431.3 Bn by end 2018. Loans and advances, accounted for 79.4% of the Assets and hence was the main growth driver for the year. Finance leases accounted for 52.8% of the loans and advances followed by other secured loans, which accounted for 38%.

Asset Quality

The NBFI sectors' Asset quality deteriorated in 2018 with the gross non-performing assets (NPA's) increasing to 7.7% by end-December 2018. The higher NPA's were mainly due to the pressure brought on by the economic slowdown as well as the prolonged pressure on the agriculture sector, which affected the repayment capacity of the SMEs, micro Entrepreneurs and Agri link enterprises and farmers.

Alongside the notable deterioration in asset quality, sector-wide provisioning costs also increased. A further increase in provisioning costs was evident after the August 2018 announcement by the Ministry of Finance and Mass Media introducing a Debt Relief programme for Micro Entrepreneurs in 12 drought affected districts. Moreover, the implementation of SLFRS 9 which calls for a change in the provisioning methodology led to a further escalation in overall provisioning costs.

Funding Mix

Accounting for 50.1% of the total liabilities, customer deposits remained the NBFI sectors' main funding source in 2018. Unusually though the sectors' funding mix appeared to change indicating an increased skew towards borrowings, which grew by 17.1% in 2018, moving up from negative growth recorded in the year 2017, while Deposit growth dropped to 4.4% from 29.4% in 2017.

Profitability

Net interest income of the sector grew at a slower rate of 6% in 2018 compared to 11.5% in 2017 causing a slight decline in net interest margins to 7.4% in 2018 from 7.7% in 2017. Non-interest income increased by 11.9% while non-interest expenses also increased by 1.5%. Loan loss provisions made against NPL's also increased, in turn affecting the profitability of the sector. Higher taxes in the form of the new Debt Repayment Levy introduced in October 2018 had a bearing on sector profits. In light of these developments, the sector tabled a profit after tax of Rs. 21.4 Bn, 17.2% lower than the figure reported in 2017.

Industry-wide ROA for 2018 declined to 2.7%, and ROE dropped to 12.1% from 3.2% and 16.1% in 2017 respectively.

Liquidity and Capitalization

The sector remained well capitalized and consistently above the minimum requirement during the year, demonstrating increased resilience towards any perceived adverse shocks. The total regulatory capital improved by Rs. 15.5 Bn, thanks to CBSL's efforts to enhance the minimum capital requirement up to Rs. 1 Bn by 01 January 2018.

The sectors' Core capital and total capital ratios decreased to 9.9% and 11.2% in 2018 from 12.4% and 13.1%, respectively in 2017.

Operating Environment

Regulatory Developments

	Regulation	Purpose
January 2018	Financial Customer Protection Framework	Introduction of minimum standards for customer protection in the areas of disclosure and transparency, financial education and awareness, responsible business conduct, complaint handling and redress, equitable and fair treatment and protection of customer data and privacy.
June 2018	Capital Adequacy Framework	To strengthen the capital of finance companies to ensure long-term sustainability of the sector.
July 2018	Debt Relief Scheme for the Microfinance segment	Instruction to write off Microfinance loans of up to a maximum of Rs. 100,000/- obtained by women entrepreneurs in 12 drought hit districts
October 2018	Revision of LTV Ratio	LTV ratios applicable for credit facilities in respect of electric, hybrid and other unregistered vehicles and registered vehicles, was revised to 50%
December 2018	Interest rate ceiling for Microfinance lending	35% effective interest rate Cap on Microfinance Loans

Our Operational Performance

Rs. **23** Bn
Portfolio

48,301 Nos
Customer Base

Facing uncertain operating conditions, the key priority for RFS business was to maintain the portfolio growth and manage the overall credit quality of the portfolio by means of strengthened recoveries and advances portfolio rationalisation.

REGIONAL FINANCIAL SERVICES

Operating Context

The year under review was a challenging one for the entire financial services sector with several extraneous factors leading to low credit demand. The demand for vehicle leasing in particular was affected by the tightening of the LTV ratio in January 2018, upward revisions to the vehicle import duty structure and the Rupee depreciation in September 2018.

Moreover, a deterioration in credit quality was observed across the industry as the county's weak economic performance brought pressure on the customers' capacity to service their loans.

Strategic Response

Facing uncertain operating conditions, the key priority for RFS business was to maintain the portfolio growth and manage the overall credit quality of the portfolio. Stronger emphasis was placed on the following areas to achieve the desired results.

Focus on Recoveries

The existing recovery model was strengthened, with multi-layered supervisory controls being imposed to

maintain proactive recovery monitoring. At the same time the island-wide staff cadre was enhanced by 13% over the course of the year and provided with extensive training to improve their efficiency, while new, more stringent KPI's were assigned to them in order to ensure that they maintain aggressive focus on recoveries. Activities at the outbound call centre were also further streamlined to support the overall recovery effort.

Rationalizing the Advances Portfolio

With many key sectors of the economy under stress, new exposure limits were imposed in order to manage the risk of new lending to these sectors. The customer screening process was also

made further stringent especially to limit non-asset backed lending. The focus was then shifted towards asset-backed lending (mainly leasing) activities, with renewed emphasis on increasing the exposure to the registered three-wheeler segment, where a consistent demand was evident throughout the year. In a bid to deepen the penetration into this segment, a new competitive pricing model was introduced accompanied by a series of BTL campaigns covering the entire country. A new regional sales management structure was also put in place to further strengthen the oversight and drive sales in the three-wheeler segment, while a number of internal process improvements were undertaken to enhance service delivery to the customers. Key among them were the efforts to streamline approval flows and thereby reduce the turnaround time of the different processes.

RFS Portfolio Growth



The RFS portfolio continued its upward growth reaching the Rs. 23 Bn mark in 2019, despite the challenges that prevailed in the external environment, including the sluggish economic condition in the country.

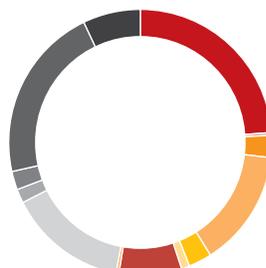
2% ↑

Our Operational Performance

AFC leasing facilities have been granted to 13 major sectors in total, of which the majority of the lending had been directed to the Agriculture sector.

24%
Agriculture, forestry and fishing

Leasing portfolio sector mix



Divisional Performance

The Next Move

The technical partnership with the IFC will play an important role in AFC's future strategic direction, with the IFC's recommendations to amalgamate the RFS and DF businesses being the main focus for the next 12 - 18 months. Accordingly, AFC will take on a transition from the segmented approach followed at present towards a more unified platform that would see the integration of RFS and DF branches under the "One Team - One AFC" theme, resulting in the full gamut of products being offered at every AFC branch.

With the foundations in place, growing the advances portfolio will be a crucial part of the strategy going forward. However, doing so while safeguarding credit quality will remain the overarching priority. This would mean easing away from non-asset backed loans, while maintaining a strong focus on recoveries. Equally important would be the sound credit evaluation practices that would ensure a good quality loan portfolio. The technical support received from the IFC will greatly enhance AFC's capacity in this context.

It is expected that the fully integrated process architecture and advanced functionality of the new core IT system will boost AFC's credit evaluation protocols. The roll out of the Environmental and Social Management System (ESMS) will be another key area that would feature prominently in AFC's future agenda. Designed to facilitate customer screening for environmental and social risks and impact, the ESMS is seen as the first step towards creating a sustainable platform from which to scale up lending activities in the medium term.

Rs. 2.2 Bn
Portfolio

46,160 Nos
Customer Base

Unfavourable market conditions necessitated AFC to take a strategic decision to gradually decrease the group loan portfolio and emphasize in the increasing asset backed lending portfolio.

DEVELOPMENT FINANCE Operating Context

The demand for Microfinance stayed more or less flat throughout the year under review as weak economic activity and persistent adverse weather prompted micro entrepreneurs across the country to scale back on their operations. The more serious problem however was the customers' inability to service their debts, being the result of unplanned multiple borrowings leading to over-indebtedness.

Several regulatory and policy challenges also affected the Microfinance business in 2018, among them was the announcement by the government to offer debt relief to micro entrepreneurs in 12 drought-ridden districts. The announcement, which came in July 2018 had an immediate visible impact leading to a significant increase in the default ratio in the Group Loan category from then onwards.

Meanwhile the 35% interest rate cap imposed by the government in December 2018 meant necessary re-pricing could not be done to cover additional risks associated with the traditional group-loan based Microfinance lending model.

Strategic Response

Given the challenges in the immediate operating environment, AFC's DF unit focused on consolidating its core Microfinance activities, vis-a-vis a three-fold approach;

Disciplined Lending

It was felt that the best course of action under the circumstances was to adopt a guarded approach with regard to lending through non-asset-backed Group Loan products, especially in high risk areas where above-average default rates were observed. Meanwhile following a review of the sector mix within the DF portfolio, new sector exposure limits were being assigned to manage the exposure to certain ailing sectors which came under pressure due to macroeconomic variables, and the agriculture which remained beleaguered by unfavorable weather for the second consecutive year.

In parallel, renewed emphasis was placed on asset-backed lending, where the risk is comparatively lower. A strong island-wide push to promote asset-backed products such as micro leasing and Gold Loans were spearheaded by several focused campaigns targeting micro entrepreneurs across the country.

Focus on Recoveries

The focus on recoveries was intensified with the manpower reinforcements being brought in to drive recoveries at the ground-level. To further complement the effort, a special incentive scheme was rolled out for the recovery staff, while customers were also suitably incentivized in return for prompt settlement of dues. At the same time, the legal process was also strengthened with the appointment of regional level lawyers to expedite the litigation process against willful defaulters.

Restructuring the Branch Model - Phase 1

Stemming from the strategic decision to reduce the risk associated with non-asset-backed loans, AFC undertook what is perhaps the largest restructuring initiative in the Company's 63 year history. As a first step, it was proposed that the existing granular product-based branch architecture be discontinued and replaced with a composite multi-product branch driven by the "One AFC" theme, where each branch will have the capacity to offer AFC's full range of products and

Our Operational Performance

serve all segments of the market. The broader objective here is to migrate to a leaner and more efficient branch model that will contribute towards improved productivity and lower operational costs in the long term. The process of amalgamating DF branches with RFS branches began in October 2018 and will be completed by 30th June 2019, with all branches being converted into multi – product Branches in line with the “One Team - One AFC” theme.

Divisional Performance

Development Finance Portfolio Growth

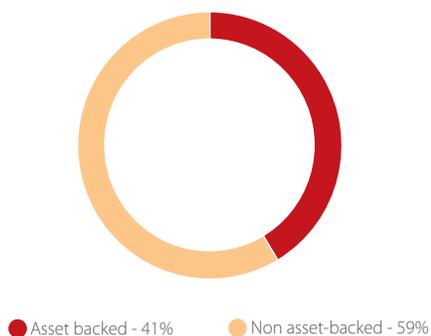


The portfolio of the DF division has decreased during the financial year, due to the strategic decision taken to gradually limit the group loan product in the context of non-conducive conditions that prevailed in the market.

(7)% ↓

DF Product Mix

(Non asset backed vs asset backed)



Non-asset backed loan exposure of the Development Finance product mix was reduced from 96% in the beginning of the year to 59%.

59% Non-asset backed loans

Rs. 1.3 Bn
Portfolio

14,112 Nos
Customer Base

Despite the aftermath of the 2014 Gold Loan crisis, the AFC Gold Loan product has bounced back to its former glory by achieving a steady growth throughout, owing to aggressive marketing and attractive product offerings.

GOLD LOANS

Operating Context

The Gold Loan market in Sri Lanka is characterized by stiff competition from industry peers as well as from banks. Nonetheless, the demand for Gold Loans has remained robust for the past few years. This together with the stability of world Gold prices continues to present a conducive setting to grow market share in this space.

Strategic Response

Growing market share being the obvious choice; AFC's Gold Loan unit focused on a three-pronged strategy to pursue growth objectives;

Aggressive Marketing and Promotion

The major initiative of the year under purview was the Mega Gold Loan campaign, an ATL campaign offering attractive rewards for new customers which was conducted between July 2018 and October 2018. To complement this effort, AFC's network of 38 Gold Loan centers were assigned to carry out localized BTL programs and pocket campaigns, while a dedicated team was tasked with conducting special promotional activities to reinforce AFC's presence in high potential areas.

Diversifying the Product Basket

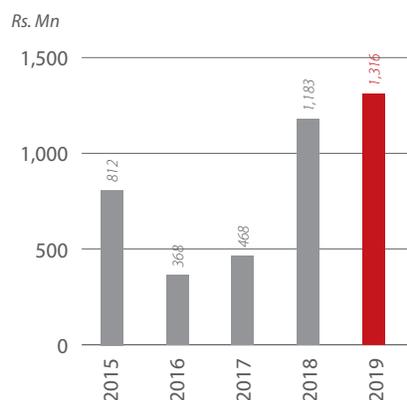
In response to the market demand, a new Gold Loan product for micro entrepreneurs was introduced in January 2019. This is a product which carries a higher advance limit and targets micro entrepreneurs with a registered business. Strict limits were put in place to control the risk of over exposure, while a comprehensive monitoring framework was introduced to ensure proactive follow up on collections.

Improving the Product Proposition

Given the intense competition in the Gold Loan market, sharpening AFC's competitiveness continued to be a key priority. In this context, the Gold Loan proposition was made more flexible with the introduction of the part payment option in September 2018, enabling customers to make part settlements as and when possible.

Performance Against Strategy

Gold Loan Portfolio Growth

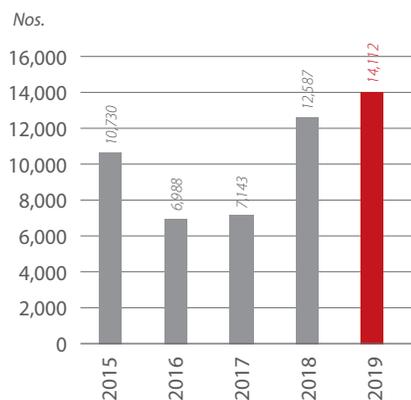


The Gold Loan product has shown a positive and accelerated growth trend during the past two years, surpassing Rs. 1.3 Bn, achieving a growth of 11% during the 2018/19 financial year.

Rs. 1.3 Bn
Portfolio

Our Operational Performance

Gold Loan Customer Base Growth



The Gold Loan customer base stood at 12,587 in the previous financial year which has been increased by 12% reaching 14,112 during the current financial year.

The aggressive ATL and BTL campaigns that were conducted during the year have been the main facilitating factor for this growth.

**14,112
Customers**

The Next Move

Going forward, the main priority would be to widen the outreach in the island-wide Gold Loan market. The first step towards achieving this goal would be to increase the outreach especially in high potential areas. Targeting to increase the existing outreach in the coming year, it is proposed that 10 new Gold Loan centers will be operationalized under the “One Team - One AFC” programme. Underpinned by the “One Team - One AFC” programme, the concept of dedicated Gold Loan centers will also be phased out and all existing dedicated Gold Loan centers will be merged with the nearest branch or converted into fully fledged branches subject to potential for the leasing business and regulatory approvals. The intention here is to create a fully fledged branch geared to offer the full gamut of AFC products under one roof.

Making the Gold Loan portfolio more versatile will also remain an important part of AFC’s future growth strategy, which is expected to result in the release of several new products in the coming year. At the same time, the Company will seek to leverage on digital technology to provide the best in-class customer convenience that would give AFC a distinct advantage in the market.

Rs. 12.5 Bn
 Deposit Base

180,413 Nos
 Deposit Investors

AFC Deposits has been one of the most trusted investment options for over four generations of loyal customers with a steady growth, owing to its attractive offerings and best in class customer service.

DEPOSITS

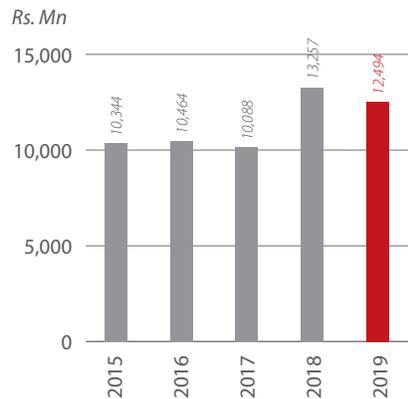
Operating Context

The financial year 2018/19 was a difficult one for most deposit-taking non-bank financial institutions. With unfavourable events surrounding some key players causing a negative impression against the entire industry, public confidence in the sector deteriorated making it increasingly difficult to mobilize deposits.

Strategic Response

In light of these developments, deposit mobilization was not seen as a cost effective source of funds for AFC, especially since the Company already had access to a pipeline of low-cost overseas funding lines. Accordingly, AFC did not pursue an aggressive deposit mobilization strategy in 2018/19 and instead shifted focus towards retaining the customer base. Staff were encouraged to leverage on AFC's robust deposit proposition as well as the Company's stability and solid reputation in the industry for the past six decades, in order to deepen relationships with existing customers. The key objective was to maintain a renewal ratio over 80%.

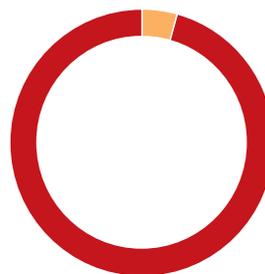
Performance Against Strategy Deposit Base Growth



The deposit base of the Company has reduced by 6% during the year settling at a Rs. 12.5 Bn deposit base at the year end, mainly due to the focus on low cost foreign funding sources..

**Rs. 12.5 Bn
 Deposit Base**

Deposit Mix 2019



● Fixed Deposit - 96%
 ● Saving Deposit - 4%

The total deposit mix is mainly comprised of Fixed Deposits which accounts to 96% of the total base. AFC has a loyal customer base of four generations who stood with AFC for the past 63 years, which is one of the key strengths of the Company.

**96%
 Fixed Deposits**

Our Operational Performance

Customer Retention Ratio

Year	Retention Ratio (%)
2015	80%
2016	80%
2017	81%
2018	80%
2019	80%

The Company has steadily maintained its Fixed Deposits renewal rate over 80% during the past five years.

80%
Renewal Rate

The Next Move

Going forward, AFC's deposit mobilization strategy will largely depend on the Company's funding requirements. Should the need arise, the priority would be to generate mainly low cost deposits through the island-wide branch network. In this regard, the fact that AFC's deposit proposition has been catering to four generations of depositors will prove to be a distinct advantage that would enable the Company to swiftly mobilize deposits as and when needed.

Rs. 56 Mn
 Trading Income

80 Nos
 Vehicle Fleet

Autosure has been a step towards related diversification, that helps boosting the bottom line of the Company with it's unique product and service offerings

COMMERCIAL DIVISION
Operating Context

The Commercial Division consists of three distinct segments - the recently launched Autosure Vehicle Trade in business, the CASE Tractors unit and the Ezy Drive (Rent-a-car) service. The Commercial Division also maintains an automotive servicing centre which complements both the Autosure and Ezy Drive business proposition.

The flagship product of the Commercial Division, "Autosure" leverages on the group synergies to offer the customer a highly cost-effective total solution enabling them to purchase / trade-in / rent the vehicle of their choice, obtain insurance cover and sign-up for a planned maintenance programme all in one go.

Strategic Response

Being the first full year of operations since the launch of the Commercial Division, the main thrust for 2018/19 was to position "Autosure" as the only fully-fledged product offering with end-to-end vehicle solutions to both mainstream and niche markets. Steps taken in this regard saw the launch of a dedicated website - www.autosure.lk along with a

series of focused promotional campaigns to build awareness among target segments regarding "Autosure". In parallel, the groundwork for a new vehicle showroom in Cotta Road, Rajagiriya also commenced in January 2019.

Meanwhile efforts to branch out into other sectors led to launch the CASE Tractor in September 2018 with a dedicated unit set up specifically to promote the product. The CASE Tractor, a leading global brand for climate-smart agriculture marks the first step towards supporting the AFC's strategic transformation to become Sri Lanka's pioneering sustainable financial institution. The move also reflects the Company's commitment to support the government efforts to promote agricultural best practices.



Launch of AUTOSURE Division

The Next Move

Developing the Commercial Division would be a key focus in the year ahead, with the flagship "Autosure" proposition likely to be the catalyst in expanding the end-to-end vehicle solution business. This would likely also require additional investments to upgrade both the Automotive servicing and the Ezy Drive businesses. Meanwhile deepening the penetration into the country's agriculture sector through the CASE Tractor segment will also remain a key priority for the Commercial Division in the years ahead.

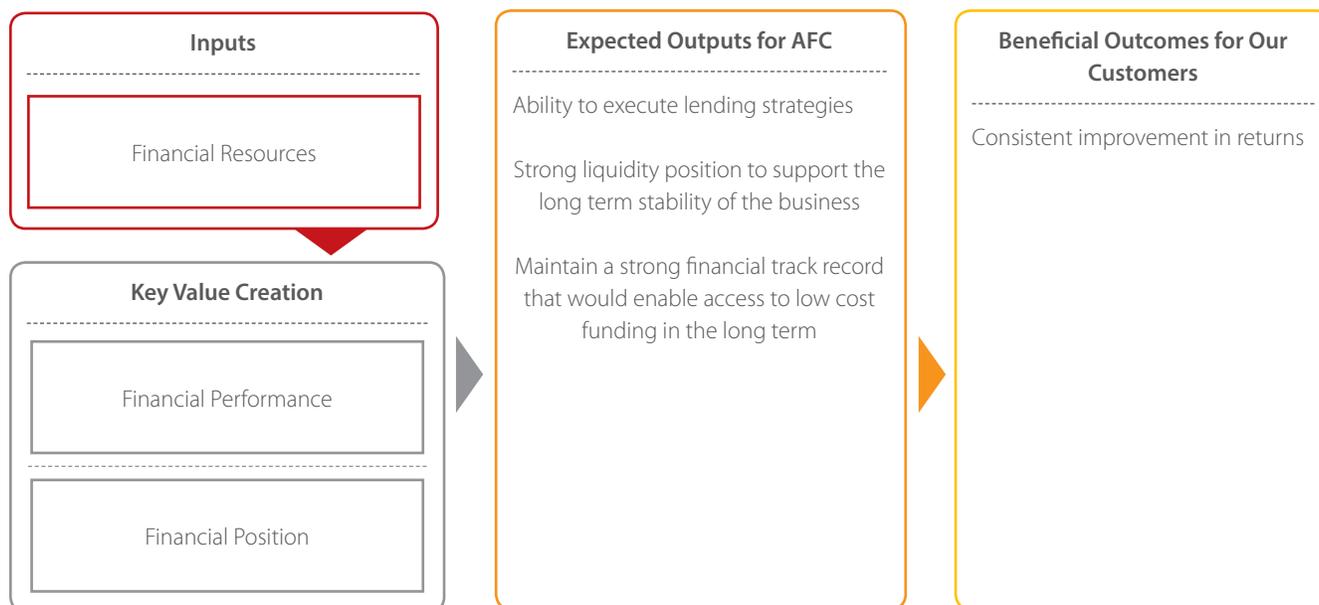


Launch of CASE tractor brand in Sri Lanka

Capital Management Report

FINANCIAL CAPITAL

Financial Capital is what fuels the business for the smooth conduct of its operations and generate the desired value for all stakeholders while attaining the organizational goals. Essentially the equity capital and funding sourced by way of deposits and from bank borrowings are used to invest in lending activities. Further, by applying financial capital effectively, we are able to strengthen our business by managing all resources efficiently.



FINANCIAL PERFORMANCE

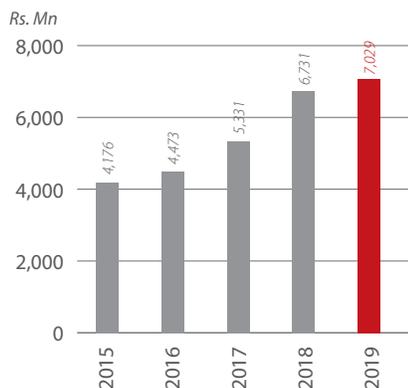
Net Interest Income (NII)

AFC's NII grew from Rs. 3,272 Mn in the previous year to Rs. 3,589 Mn in 2018/19, up by a 10% year on year, a satisfactory achievement amidst tough operating conditions. The performance is attributed to the steady improvement in Interest income throughout the year together with low growth in Interest Expenses.

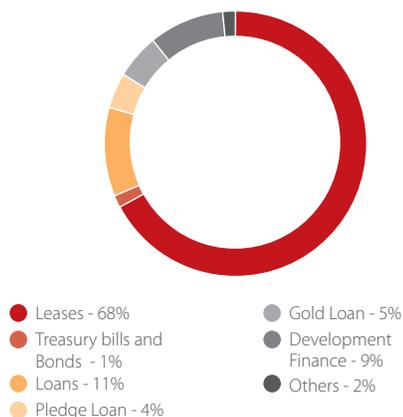
The Company's Interest Income increased by 5% to Rs. 6,833 Mn during the year. The Leasing segment accounted for 67% Interest Income, while the Loans and Advances segment accounted for another 30%. Interest Income from Leasing increased significantly in the year under review, growing by 15% year on year led by an aggressive promotional drive by the branch network. In the Loans and Advances category, a strong improvement was seen in the contribution made by Gold Loans on the back of persistent efforts by the Company to deepen the penetration into this segment. AFC's Interest Expenses on the other hand showed only a negligible 1% increase over the previous year thanks to the stringent focus on sourcing low cost funds.

Meanwhile AFC's NIM (Net Interest Margin) for the year under review increased to 11.2%, up from 10.6% at the end of previous financial year, as a result of changes to the product mix made during the year.

Gross Income



Income Composition 2019



Non-Interest Income

AFC's Non-Interest Income marginally reduced by 0.8% from Rs. 414 Mn in the previous year to Rs. 411 Mn in 2018/19. Net Fee and Commission Income declined due to increased capitalization of charges in response to competitive pressures, while Net Trading Income slipped to negative territory due to Rs. 40 Mn loss on share trading activities.

Impairment

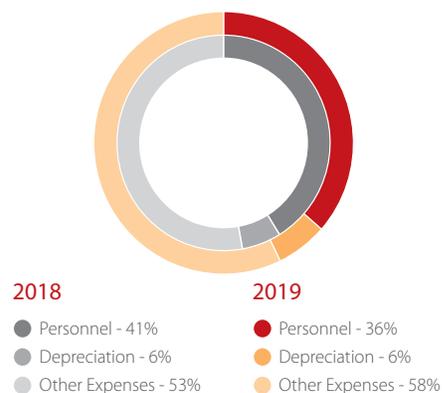
Impairment costs on Loans and Advances rose by 59% year in year, from Rs. 513 Mn in the previous year to Rs. 813 Mn in the current financial year. The increase was due to several factors; the higher provisioning costs caused by rising NPLs on the back of the general economic slowdown as well as the downturn in the agriculture sector which continued to damp the repayment capacity of Micro and SME customers alike. To add to this, the Government's August 2018 announcement to the write-off of loans granted to Micro entrepreneurs in 12 drought hit districts, further drove up NPLs.

Amidst this backdrop, renewed emphasis was placed on the recoveries, which enabled the Company to control a further escalation of NPLs. Appropriate risk management strategies were also initiated to limit further exposure to high risk segments and sectors. Despite these efforts however, a total of Rs. 377 Mn was written off as bad debts for 2018/19. It is also relevant to highlight that AFC has successful

Cost Management

Total operating costs increased by 10% from Rs. 1,943 Mn in the previous year to Rs. 2,141 Mn in the year under review, as Personnel expenses increased on the back of a 15% increase in the Company's staff cadre. Administrative and marketing expenses incurred by the Commercial Division in relation to the launch of "Autosure" and CASE tractors were also partly responsible for driving operating costs for the year. Consequently, the Company's cost-to-income ratio also increased to 57% in 2018/19 from 55% in the previous financial year.

Cost Breakdown



Profitability

AFC's pre-tax profit declined by 26% from 810 Mn in 2017/18 to Rs. 600 Mn in 2018/19, as Operating Profit before value added tax, reduced by 22%. The reduction in Operating Profit is attributed mainly to the poor performance of the Microfinance segment, which reported a loss of Rs. 205 Mn in the year under review as opposed to Rs. 51 Mn profit in previous year, a cumulative impact of Rs. 256 Mn. The main reason for the unsatisfactory performance of the Microfinance segment stems from two reasons; the first and most serious came in August 2018 following the announcement by the government to write off Micro loans obtained by customers in 12 drought hit districts. Reacting immediately to the announcement, customers began showing reluctance to service their commitments, causing the Company's default ratio to rise sharply in turn leading to higher impairment charges. Meanwhile the December 2018 government directive placing an interest rate cap on Microfinance lending had an impact on the fourth quarter lending activities.

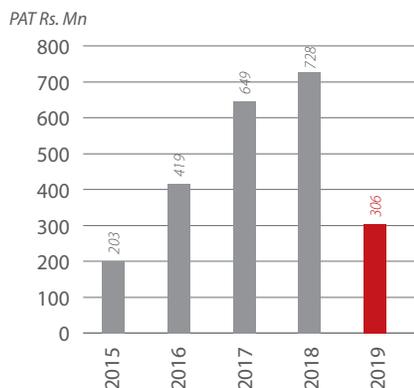
Capital Management Report

The Value Added Tax paid by the Company declined from Rs. 246 Mn in the previous year to Rs. 221 Mn in the year under review, a year on year drop of mainly as a result of reduction in profits. However the reduction would have been more if not for the additionally imposed debt repayment levy of Rs. 38 Mn during the year.

The Company's Tax liability for the year increased compared to the previous year, mainly on account of the Government's new tax directions disallowing the capital allowances of new leased assets which increased the taxable profit.

In light of these developments, the Company's pre-tax Return on Assets and Return on Equity declined to 1.9% and 13.6% respectively from 2.6% and 19.4% respectively in the year before.

Profitability

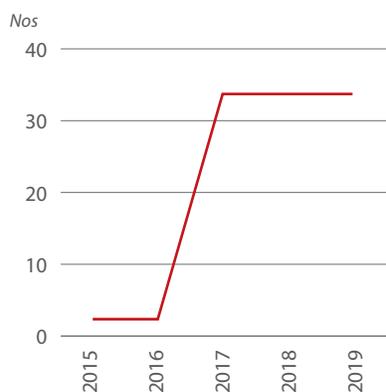


Shareholder Value

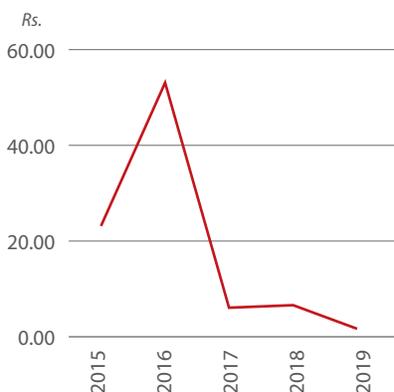
In light of the limited profitability, Earnings per Share (EPS) declined significantly from Rs. 21.05 in 2017/18 to Rs. 9.09 in 2018/19, a drop of 58% year on year. Under these circumstances, the Company declared a Dividend of Rs. 1 for the year under review.

Meanwhile amidst weak trading conditions at the Colombo Stock Exchange, AFC's share price declined from 18% from of Rs. 65.70 per share as at 31st March 2018 to Rs. 53.60 per share as at 31st March 2019.

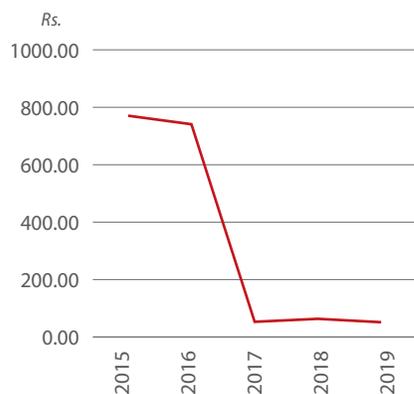
No of Shares



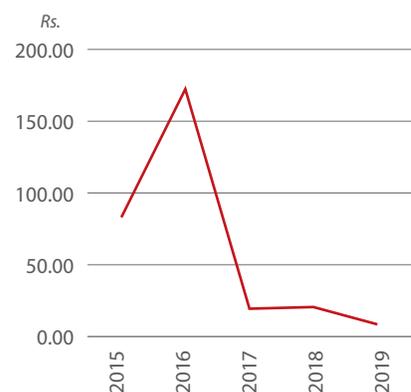
Dividend per share



Market Price Per Share



Earnings per share



FINANCIAL POSITION

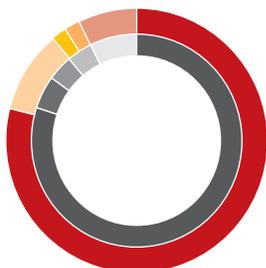
Total Assets

AFC's Total Assets expanded marginally to cross the Rs. 32 Bn mark to reach Rs. 32,132 Mn as at 31st March 2019. Growth for the year fueled by Credit Assets, mainly Leasing which meant the despite a marked increase in Trading Assets, the Company's Asset Base continued to be characterized by a 92:08 skew in favour of credit assets.

However notwithstanding the higher percentage of Credit Assets, strong liquidity management principles enabled AFC to comfortably maintain a 17.85% liquid asset ratio as at end-March 2019.

The Company revalued its Obeysekarapura property to Rs. 549 Mn, resulting in a fair value gain of Rs. 63 Mn.

Asset Composition



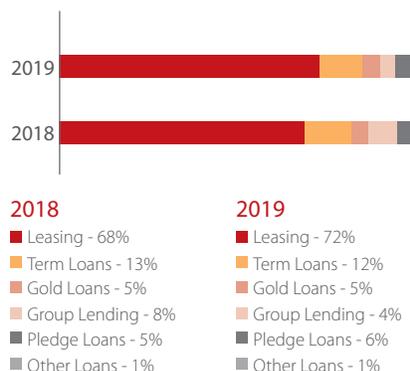
2018	2019
● Credit Assets - 80%	● Credit Assets - 79%
● Other Assets - 5%	● Other Assets - 10%
● Liquid Assets - 4%	● Liquid Assets - 2%
● Investments and Placements - 4%	● Investments and Placements - 2%
● PPE & Investment Property - 7%	● PPE & Investment Property - 7%

Portfolio Growth and Asset Quality

Despite the weakening credit appetite in the market, the Company witnessed a decent demand for its products, which led to a strong island wide push to grow volumes during the second half of the year, especially in asset-backed lending categories, which for obvious reasons are a safer lending option. Consequently the focus on Leasing was intensified, leading to a 8% year on year increase in the portfolio from Rs. 17,907 Mn at the end of the previous year to Rs. 19,377 Mn as at 31st March 2019. Meanwhile a strong emphasis on promoting Gold Loans drove up the Gold Loan portfolio by a solid 11% year on year.

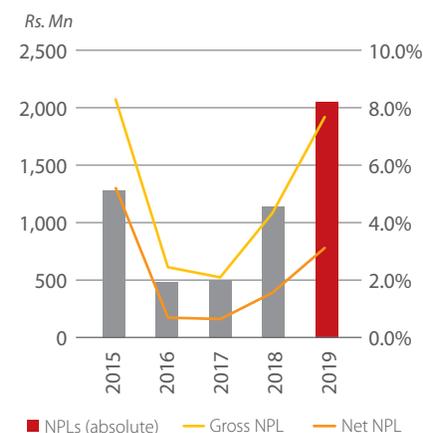
While accelerating its focus on the Leasing and Gold Loan segments, the Company took a strategic decision to move away from non-asset based lending, which saw AFC cut back on group lending. Consequently the group lending portfolio declined by over 46% year on year.

Portfolio Composition



The decision to scale back on non-asset backed lending forms part of a broader strategy to minimize NPLs, especially given the prevailing macroeconomic environment. This was coupled with renewed emphasis on strengthening recovery monitoring and follow up procedures in a bid to prevent an escalation in its NPL ratio.

Gross and Net NPLs



Despite these best efforts however the Company did see an increase in NPLs throughout the year. The situation was further exacerbated following the August 2018 announcement of the Government's Debt relief scheme for Microfinance

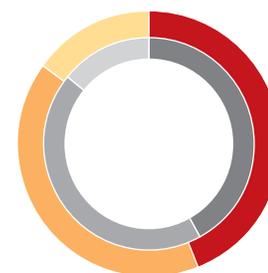
customers. A culmination of these factors saw the Company's NPL ratio increase to 7.7% from 4.3% in 2017/18.

Liabilities

Business activities for the year were funded through borrowing and customer deposits, with the Company successfully maintaining its 50:50 benchmark between the two funding sources.

The high interest rate environment during the year prompted the Company to source low cost funding from overseas, leading to a 14% increase in bank borrowings. And with deposit mobilization activities not aggressively pursued, the Deposit portfolio declined by 6% year on year. Nonetheless an average 80% renewal rate was maintained for Term Deposits.

Funding Profile



2018	2019
● Borrowings - 42%	● Borrowings - 44%
● Deposits - 44%	● Deposits - 41%
● Shareholders' funds - 14%	● Shareholders' funds - 15%

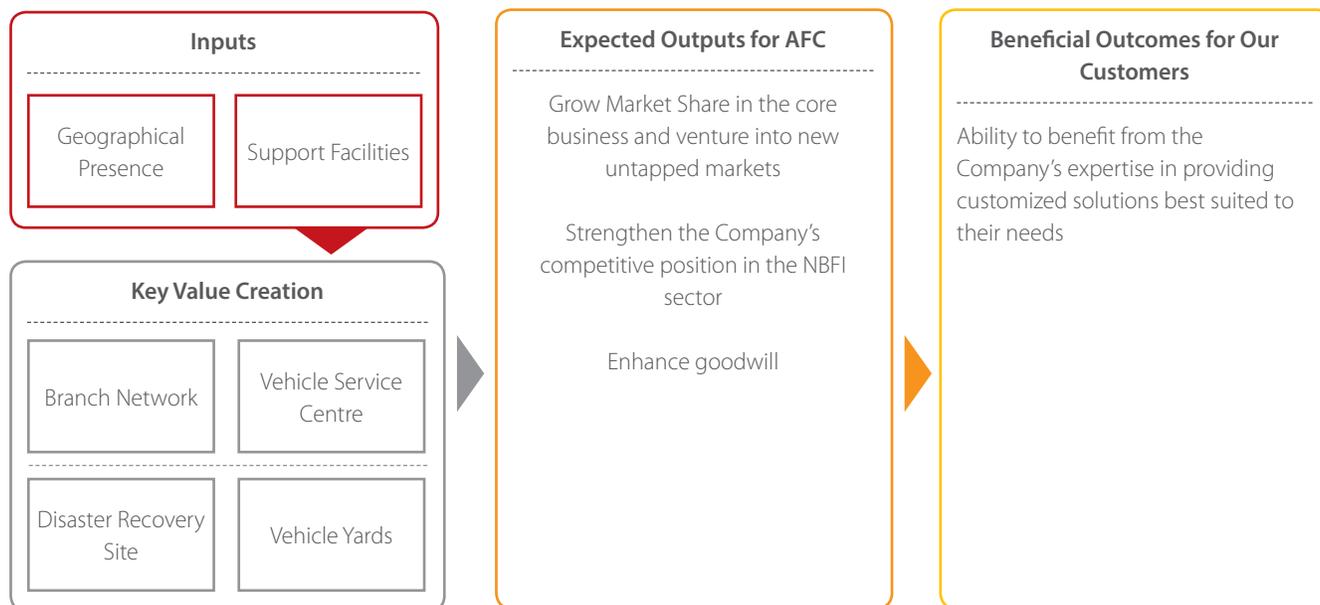
Capital Position

The Company remained well capitalized with the Tier 1 and overall risk weighted capital adequacy ratios well within the regulatory limits, at 9.86% and 11.93% respectively as at 31st March 2019.

Capital Management Report

MANUFACTURED CAPITAL

Our Manufactured Capital comprises of the physical structures and other tangible infrastructure that enable the Company to deliver its value proposition to the market. Investing in our Manufactured Capital is therefore a key underpinning factor in AFC's current and future growth trajectory.



Branch Network

We have been operating through our island wide branch network using them as the key customer contact-points to grow our core business products, namely Leasing, Gold Loans and Group Loans. Based on this, our branch structure for the past six decades has been product-based with three independent branch networks each specializing in servicing their target markets, Group Loan represented by DF (Development Finance) branches, Gold Loan by GL (Gold Loan branches) and Leasing by RFS (Regional Finance Services) branches. Over the years we have continued to expand these networks, a strategy that has served us well and enabled the Company to grow organically by increasing its outreach and visibility across the country.

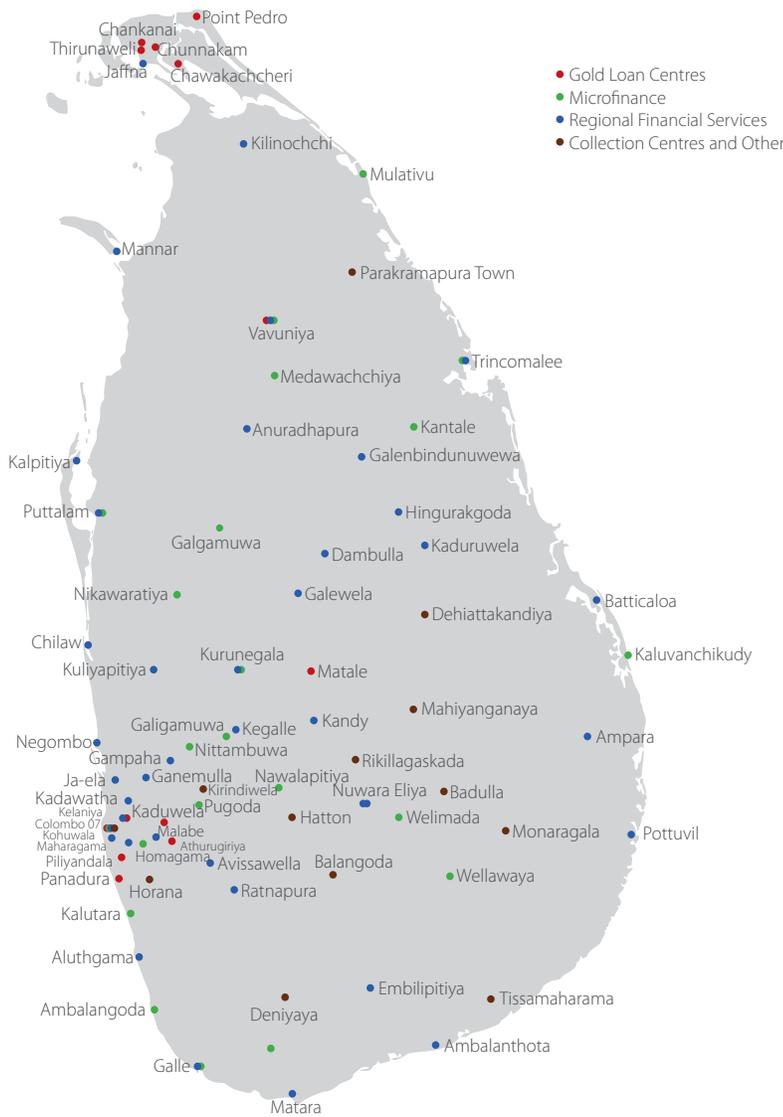
AFC has 91 customer touch points comprising of 43 fully fledged branches,

11 Gold Loan Centers, 21 Development Finance Centers, 16 Collection Centers and Other Centers, located in all 25 districts of Sri Lanka. The total list of our customer touch points with updated details can be accessed at our website; <https://www.alliancefinance.lk/contact/branches>.

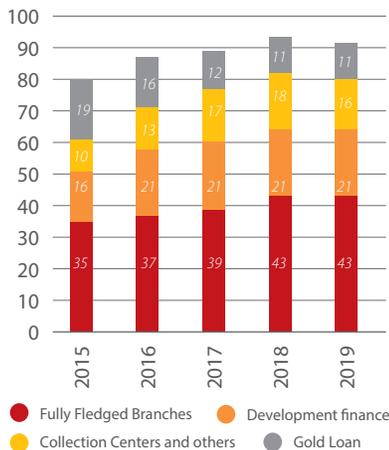
"One Team-One AFC" Programme

Amidst concerns regarding the efficiency of maintaining three independent networks, a strategic decision was made to rationalize the existing branch network by amalgamating to form fully fledged, multi-product offering branches under the AFC banner. Consequently the "One Team - One AFC" programme was launched in March-2019. This amalgamation programme seeks to expand the Company's market presence in a particular area by creating customized branches geared to service the needs of the population in that area. Accordingly,

the key priority is to align the product mix at each branch in tandem with the local demand with Development Finance Centers and Gold Loan Centers being set up within the branch only if needed. Meanwhile, depending on the market potential in a particular area, we may even consider relocating some branches to more strategic locations, while allocating additional manpower and resources to pursue prospective growth opportunities. Ultimately the goal of the "One Team - One AFC" initiative is to consolidate the branch network and transform into one operational network that would be better geared to support the growth and performance objectives of the Company.



Geographical Outreach



Vehicle Service Centre

Located on a spacious plot in Rajagiriya. AFC vehicle service centre consists of a repair garage, the paint booth and detailing solutions for all types of vehicles. Further, the same facilities have been provided for the 3w category as well. Given its range, the vehicles service centre is a key facilitator of the “Autosure” product offered by the Company’s Commercial Division.

Disaster Recovery (DR) Site

Our Disaster Recovery Site is the nerve centre of our business continuity plan. It houses AFC’s most critical data and systems that are vital to the continuity of our daily operations. In the year under review, our DR Site was moved to the Super Branch building at Rajagiriya. This was done with the objective of maintaining a co-location site to enable seamless connectivity to minimize the downtime for mission critical operations. Additional investments were also made to upgrade both hardware and software at the new co-location site during the year. We have also implemented the ON-LINE data replication from our Head Office to the DR Site Servers.

Vehicle Yards

AFC has 06 Company owned vehicle yards, in Rajagiriya , Seeduwa , Anuradhapura, Battaramulla, Kurunegala and Cotta road, Colombo 8 used primarily for the purpose of yarding the AFC’s stock of repossessed vehicles for sale or disposal through Auctions. Collectively all depots have a yarding capacity of 1,300 vehicles on average at any given time.

Our Focus, Going Forward

Medium Term	Long Term
<ol style="list-style-type: none"> Complete the branch amalgamation under the “One Team - One AFC” program with the aim of forming at least 75 fully fledged branches by the end of the next financial year Invest in setting up a new Vehicle Showroom to support the activities of the Commercial Division 	<ol style="list-style-type: none"> Scope out new locations to set up new fully-fledged branches to expand AFC’s footprint Explore the possibility of Introducing digital channels to broaden the customer reach Invest in developing the facilities at AFC’s Vehicle Service Centre

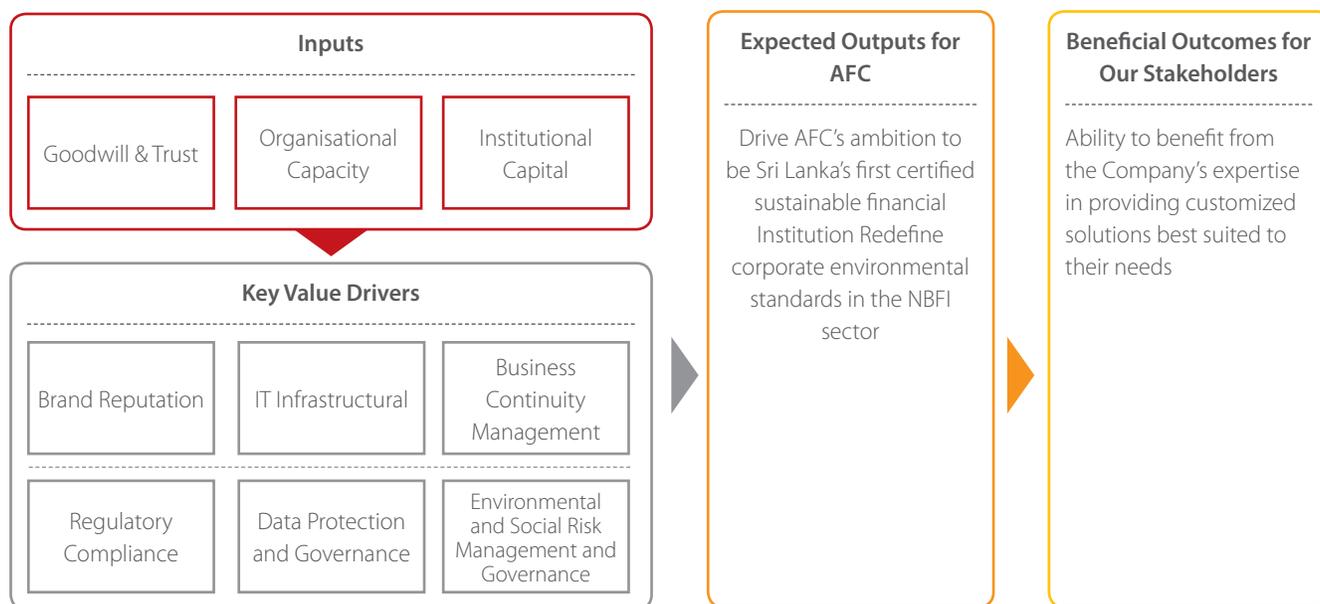
Capital Management Report

INTELLECTUAL CAPITAL

Our Intellectual Capital comprises of the intangible factors that essentially define who we are and the way we do things. While such intangibles cannot be easily quantified, they do go a long way in determining AFC's competitive position and sustainability in the long term.

Therefore, strengthening all aspects of our Intellectual Capital remains an imperative strategic focus.

AFC's Intellectual Capital Value Creation Model



Brand Reputation

Our iconic brand is one of the most valuable assets we possess. It is built up of over six decades of good will and trust earned through loyal service to support people and business across the country. From the inception we have positioned "Alliance Finance" as a brand for all Sri Lankans, reflecting our commitment to help people and businesses to grow and thrive, regardless of macroeconomic challenges. Thanks to this unwavering commitment, AFC today is perhaps one of the few financial institutions in the country that can claim to have served four

generations of Sri Lankans, and helped them secure their financial futures.

Backed by our strong customer franchise and above-average financial performance, AFC was ranked within the first 60 brands in Sri Lanka at the 2018 Brand Finance survey with an estimated brand value of Rs. 889 Mn as at 31st December 2018.

Strategic Re-branding **GRI 102-16**

We have always been very diligent in managing our brand to ensure our core purpose is properly articulated, which has made "Alliance Finance" one of the most recognised brands in the country

today. From the inception we have in principle sought to portray our brand as an exemplary corporate steward led by a strong commitment towards social and environmental wellbeing of our country and its people.

To consolidate this commitment, we are now looking to move to the next phase of our strategic journey, which will be to position the Company as Sri Lanka's first-ever fully sustainable financial services institution. In line with that goal, we are seeking to fundamentally redefine ourselves through a triple-bottom-line value creation approach which is also

AFC Gains International Recognition For Sustainable Finance

AFC received international recognition for its contribution towards Triple Bottom line value creation by being accepted into the Sustainability Standards and Certification Initiative (SSCI), a global initiative that is promoted by the European Organization for Sustainable Development (EOSD) founded by European Union initiative and supported by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and the Association of African Development Finance Institutions (AADFI).

In the same year, the Deputy Chairman and the Managing Director of AFC, Mr. Romani de Silva was recognised with a merit award in the category of sustainability leader of the year, for his untiring efforts and visionary leadership in driving the sustainability mandate of the Company.



integrated into our corporate strategy. We have rolled out our Strategic Plan 2019/23 which outlines the four year strategy to propel the brand to leverage maximum value in order to complement this new strategic USP. The first step involves a re-branding exercise to manage the Company's transition from "Alliance Finance" to "AFC". While firmly anchored to the Company's core values of flexibility, simplicity, responsiveness and innovation, the new visual identity represents our aspiration to maintain exemplary standards of excellence not just through products, services and delivery channels but across every aspect of our business including our people, systems, processes, and leadership framework.

It is not an attempt to make a mere symbolic commitment, but rather a planned strategic move to make a profound change in our DNA by embedding Triple Bottom Line considerations into the very fabric of our business.

To complement its new identity, AFC adopted a new purpose statement during the year - "Make the World a better place through sustainable financing", which replaced the previous mission and vision statements. Our new purpose statement aims to showcase our intention to make a meaningful impact to the society and the environment by promoting Sustainable Development and contributing towards the UN Sustainable Development Goals (SDG's). In line with this our Core Values were also redefined as follows:

1. Our customers need to TRUST us and be happy
2. TEAMWORK will make us stronger
3. ETHICS and INTEGRITY are critical

4. We RESPECT each other and the environment we live in
5. Every one of us is ACCOUNTABLE for our actions
6. We are open, brave and willing to drive INNOVATION and CHANGE

Completion of our transition also calls for several major structural changes to be made across the organization, most notably the IFC's recommendation to amalgamate RFS and DF branches and maintain a unified branch model under the "One Team-One AFC" initiative. The groundwork for this process commenced in the year under review, with all branding in the process of being changed to match the visually impactful AFC logo along with "Alliance Finance Company PLC" which encapsulates our new identity and core purpose.

Compliance and Best Practices

Over the years, our reputation has been greatly enhanced on account of our unblemished compliance record as well as our commitment towards timely adoption of new regulatory changes. As a responsible financial institution, AFC remains fully compliant with all applicable statutory codes and directives applicable to our business, including;

- The Companies Act No. 7 of 2007
- The Finance Business Act No. 42 of 2011
- The Finance Leasing Act No. 56 of 2000
- Customer Protection Framework
- Listing rules by the CSE

Over and above this, the Company voluntarily complies with the following codes and best practices;

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- The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants - Sri Lanka
- ISO 9001 (Quality Management Systems)
- The Paris Climate Accord
- The UN Sustainable Development Goals
- GRI standards and IR reporting framework
- ISO 22301 (Business Continuity Management System)

could damage the integrity of our data assets. In addition, we continuously monitor threats as they evolve in order to develop the appropriate countermeasures. Meanwhile our top-down approach towards data governance provides appropriate oversight and enforces necessary control procedures to prevent the risk of an internal data leakage at an operational level.

BCMS follows international standards and is probably the only one in the NBF sector to be both ISO 22301 certified and BSI 25999 accredited. As a part of the annual recertification process, system audits were conducted by the relevant certification body to determine the effectiveness of our Business Continuity plans to ensure the targeted minimum of 99.9% system availability is maintained in the event of an incident.

	Approximate Cost (Rs.)	Status as at 31st March 2019	Key Benefits
Core Financial Solution to facilitate lending, leasing and savings models, carry out customer on-boarding etc.	50 Mn	In progress	<ul style="list-style-type: none"> • Improved customer service • Significant cost reduction of due to the manual processing being automated • Ability to facilitate unlimited product add-ons
Commissioning of G-suite, a cloud-based common platform to manage internal communications	1 Mn	Completed	<ul style="list-style-type: none"> • Improved operational efficiency due to time saved • Document sharing that eliminates the need for paper • Higher file storage capacity • Added security features
Roll out of a cloud-based HRIS to support all functions of the HR department (except Payroll)	5.5 Mn	In Progress	<ul style="list-style-type: none"> • Helps to streamline HR activities and overall improved efficiency • Reduce errors resulting from the manual operation • Efficiency in handling Staff performance through PMS Module Improved MIS reports
Invested in a new ERP system for the Commercial Division	5 Mn	Completed	<ul style="list-style-type: none"> • Proactive inventory management & Invoicing • Warehouse/Service & fleet management operations • Efficient invoicing • Advanced MIS reports

Data Protection and Governance

Maintaining proper controls to safeguard the integrity of our data assets is an absolute priority for our business. This means protecting our data from internal and external threats. We have in place a multi-layered defense mechanism to prevent an external cyber breach that

Business Continuity Management System (BCMS)

Our BCMS is a comprehensive process aimed at ensuring the continuity of all critical business processes in the event of an incident that is likely to disrupt the continuity of our business operations. Our

The DR (Disaster Recovery) site was moved to the Super Branch building at Rajagiriya to further strengthen the overall framework. Dedicated security, additional access controls and new safety protocols were put in place at the new DR site. Additional investments were also made

to commission an online backup solution which facilitates automatic backup at regular intervals during the day.

Environmental and Social Risk Management and Governance

Environmental and social risk management has become an important aspect of consideration in the context of increasing social and environmental issues, both at local and global levels. It is also a vital aspect of our business agenda at present, especially given our efforts to take the lead in promoting the concept of sustainable finance in Sri Lanka. Taking the first steps in this regard, we began the process of implementing a comprehensive Environmental and Social Management System (ESMS) in consultation with Steward Redqueen, a leading global consultancy firm engaged in advising organisations on integrating sustainability into their core business model. As a part of the first phase of the ESMS implementation, factsheets were developed for 32 sectors in order to establish baseline criteria to determine the customers’ environmental and social risk profile at the outset itself. Ahead of its full implementation, several training programs were also conducted for the field staff to get them to learn/familiarize with the concept of sustainability and train them on the practical usage these factsheets in the field.

Our Focus, Going Forward

Medium Term	Long Term
<ol style="list-style-type: none"> 1. Expedite branch amalgamation under the “One Team-One AFC” programme 2. Revamp brand architecture to reinforce the new brand identity 3. Complete the roll out of the Core Solution with the full SPMS integration 	<ol style="list-style-type: none"> 1. Integrate the CRM with the Core Banking solution 2. Leverage on the advanced functionality of the core Banking solution to expand the product suite 3. Strengthen data protection and governance protocols to accommodate the requirements of the new core Banking solution

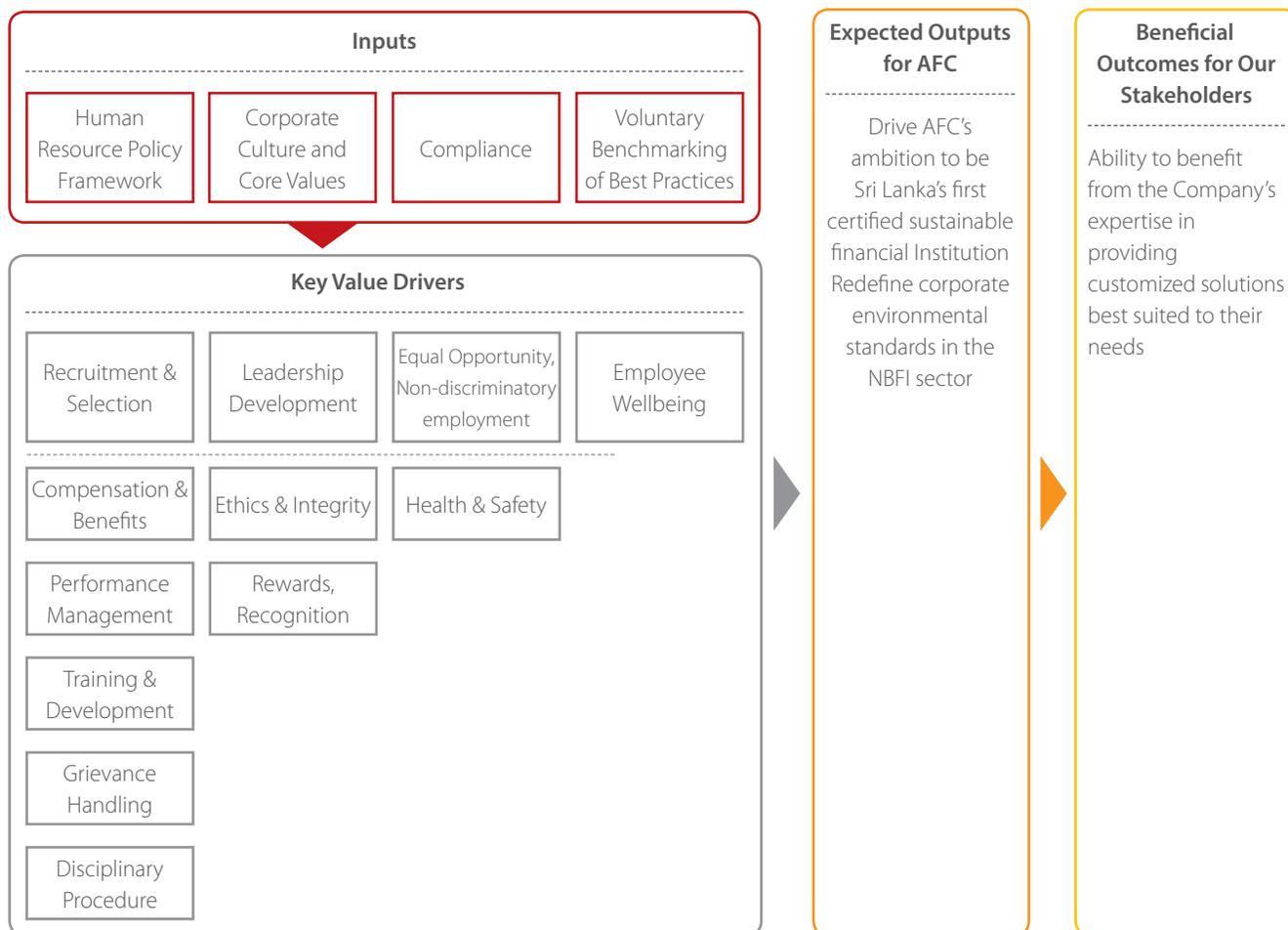
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HUMAN CAPITAL

The diverse and skilled employee base is the most valuable asset and the key strength of AFC. Comprising of 1,400 individuals with 72% males and 28% females, our Human Capital is the main driving force that steers our strategy towards the achievement of our corporate objectives. Therefore, maintaining the quality of Human Capital has always been a critical priority of AFC.

However, we have encountered a number of challenges in managing the employee base; the major challenge being the high staff turnover rate caused by peer competition in the labour market. Nonetheless, AFC had been able to manage the challenges through structured programs aimed at increasing employee satisfaction which enabled the Company to retain skilled employees. At the same time, AFC continues to capitalize on opportunities in the local labour market to strengthen its credentials as an “Employer of Choice”.

AFC’s Human Capital Value Creation Model



Recruitment and Selection

Recognizing the importance of employing the most suitable applicant for all vacant positions, our Recruitment Policy has been designed to attract the best talent from the market. In line with our “Develop from within” philosophy, we first publicize potential openings internally in a bid to give eligible employees the opportunity for career growth by applying for vacant positions that may arise from time to time. Vacancies that cannot be filled internally are advertised publicly. We do also consider walk-in interviews to meet entry level recruitments in the branch network.

In line with our commitment to maintain a fair and consistent approach towards recruitment and selection, all internal and external applicants are treated equally and evaluated using pre-determined criteria, after which appointments are made purely based on merit. Currently we are in the process of integrating recruitment and selection process to HRIS.

Local Hiring

For our branch staffing recruitments, we seek to hire locally as much possible. We expect that the convenience of working closer to home will keep our employees motivated and inspire them to perform their tasks better. Further, we help them see that, by living and working in their hometowns, they are contributing towards raising the standards of their local economy and better wealth distribution.

Probationary Period

After being selected, all the new recruits are subjected to a probationary period of six months. During this time, progress and suitability will be regularly monitored by the relevant Supervisor. Unsatisfactory performance during this period may lead to extend the probationary period or discontinuation.

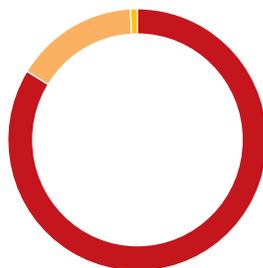
Manpower Planning

Manpower planning is an essential pre-requisite that supports AFC’s recruitment activities. An annual manpower plan is prepared by AFC’s HR Team based on the staffing requirements for the forthcoming financial year, for departments, business units and the branch network. The manpower plan is reviewed and approved by the Managing Director.

Employee Recruitments GRI 401 -1

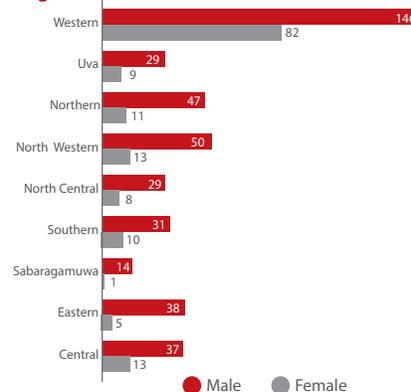
- We have recruited 573 new employees to the AFC team during the year and 84% of them were below 30 years of age.
- Our new recruits represented all the provinces of the country while the majority of recruitments were from Western province.
- Our new team who joined AFC consisted of 421 male and 152 female members.

Recruitment Composition - Age Group



- Below 30 Years - 84%
- 30-50 Years - 15%
- Over 50 Years - 1%

Recruitment Composition - Region and Gender

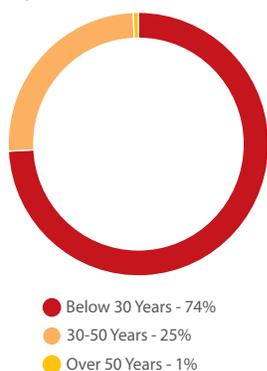


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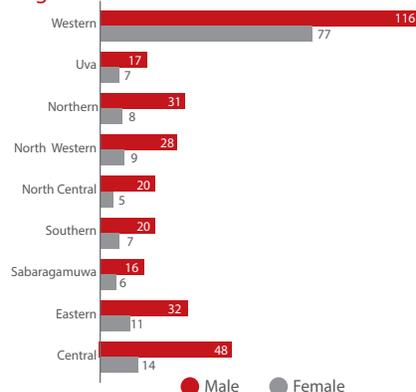
Employee Turnover **GRI 401-1**

- In general, a significantly higher percentage of male employees left the Company. This trend was seen across all provinces.
- 74% of the resigned employees were in the age category of below 30 years, which comprised of 66% males and 34% females.
- Western province recorded the highest number of turnovers with 193 employees resigning during the year.

Turnover Composition - Age Group



Turnover Composition - Region and Gender



Compensation and Benefits **GRI 401-2**

We maintain a robust salary structure on par with industry standards to ensure that all our employees are compensated fairly in recognition of the duties and responsibilities related to their job role. Moreover, our employees entitled to all statutory benefits and leave entitlements in addition to their fixed salaries. The Company also provides a host of other benefits that are made available to all confirmed AFC employees, including;

Medical Insurance Scheme

Company has introduced two external medical schemes to the staff based on the grades. The staff above Assistant General Manager grade are covered through one medical scheme and the rest of the staff is covered through another medical scheme which includes four schemes and eligibility is decided based on the grades. Also staff has the opportunity to include their family or to upgrade the scheme at their cost.

Staff Lease

This grants Lease/ Hire Purchase/ Vehicle Loan facility to all permanent staff for their personal / official use.

Enhanced Gratuity Scheme

We have an enhanced gratuity for our staff and staff is benefiting as per the below criteria;

- Half a month of terminal salary for each year of completed service for those who have completed five years in service.
- One-month terminal salary for each year of completed service for those employees who complete 10 continuous years in service.
- One and a half months terminal salary for each year of completed service for those employees who complete 15 continuous years in service.
- Two months terminal salary for each year of completed service for those employees who complete 25 continuous years in service.

Maternity Leave

Female employees are entitled to full pay maternity leave of a total of eighty-four (84) days subject to the statutory provisions governing such leave.

Enhanced Provident Fund

The Company has an enhanced provident fund where Company contributes 20% of the total monthly emoluments (exclusive of any commission, bonus or any allowance for special purposes) and employee contributes 10% of the monthly emoluments.

Provident Fund Loans

Employees contributing towards the Alliance Provident Fund are entitled to obtain loans from the fund at 6% interest per annum provided they are confirmed permanent employees. These loans are given as personnel loans and housing loans based on the requirement and the eligibility of the staff member.

Medical Leave Entitlement of 14 days

Permanent employees are entitled for fourteen (14) days of medical leave.

Parental Leave **GRI 401 -3**

- During the year 16 employees took maternity leave and with only 8 returning, the return to work rate remained at 50%. The rate stood at 63% in the previous year.
- The number of employees who returned to work after maternity leave ended and still employed twelve months after their return to work was 3 and thus the retention rate was 60%.

Evidencing the success of our compensation and benefit structure is the high return to work rate after extended leave such as parental leave.

Return to work and retention rates after parental leave	2018/19	2017/18
Total Number of employees entitled to maternity leave	378	339
Total number of employees that took maternity leave	16	8
Number of employees who returned to work after maternity leave ended	14	5
Number of employees who returned to work after maternity leave ended and still employed twelve months after their return to work	3	7
Return to work rate	88%	63%
Retention rate	60%	64%

Performance Management

Performance Management is an integral component of our EVP. Our transparent and flexible Performance Management System (PMS) is capable of responding to changing needs and conducive to improve the management of the talents and experience of our employees effectively in accordance with the corporate goals. More specifically, our PMS provides a basis to;

- Enable employees realize their corporate targets and increase corporate performance,
- Guide and develop employees in order to meet their changing and developing needs better,
- Align the AFC's goals with personal goals of employees,
- Ensure that employees understand what is expected of them better, get involved with their jobs and stay motivated to attain their targets,
- Encourage continuous development via open communication and regular feedback and to increase motivation,
- Evaluate contributions and performances of employees in a fair and objective manner and to shape their competence in line with the needs of the Company
- Facilitate career planning, training and other human resources processes of employees and to ensure their personal development is in line with our corporate objectives.

Performance Monitoring and Appraisal

We believe monitoring and appraising the performance of our employees is the key catalyst in fostering an engaged and productive workforce, recognizing and rewarding good performance, and managing under-performance.

As an established practice, the performance of all AFC's permanent employees is evaluated annually. The Annual Performance Review is a formal process that ensures that goals and objectives that flow from the Company's leadership are reflected in the personal objectives of each individual, thereby providing a vital link between the performance of individual staff members in relation to our Business Plan and AFC's purpose statement.

Goal setting and Performance monitoring are key pillars that support the Annual Performance Review process. Goal setting is an annual exercise for our field sales force, while performance monitoring is a continuous and ongoing exercise supported by monthly qualitative and quantitative assessments to determine their alignment with KPIs. This creates an enabling environment to identify training gaps and take corrective action to support poor performers who need additional support. In addition to this monthly evaluation, their overall performance for the year is reviewed through the annual performance appraisal. Meanwhile the performance of staff engaged in shared services such as IT, Finance etc is also evaluated annually through a qualitative assessment.

In an effort to further streamline the performance monitoring and appraisal process, the PMS was integrated into the HRIS. The installation process which

Capital Management Report

commenced in early 2019 is expected to be completed in time for the next annual appraisal cycle in April 2019 at which point the entire PMS would be fully automated.

Eligibility for Performance Appraisals

GRI 404 -3

- The highest number of employees who were eligible to receive performance appraisals was in the Executive category
- 12% of Senior Executive became eligible to receive performance appraisals in 2018/19 compared to only 9% in the previous year.
- Based on the performance appraisals, a total of 87 employees were promoted to higher grades

Grade wise eligible cadre for annual appraisals	No	%
Executive Director	0	0.00%
CXO	3	0.21%
Assistant General Manager	8	0.57%
Senior Manager	12	0.86%
Manager	48	3.43%
Assistant Manager	59	4.21%
Senior Executive	161	11.50%
Executive	375	26.79%
Junior Executive	314	22.43%
Minor	11	0.79%
Grand Total	991	70.79%

Employee Communication

Employee communication is what drives our PMS. Our open-door policy is aimed at encouraging open communication between staff and the management. Moreover as a practice all sales staff are required to meet with their respective Branch Managers at least once every week to discuss their targets, while the overall branch performance is discussed at the monthly regional sales meetings with senior branch managers tasked with providing the required guidance and support for under performing branches to improve their results.

Gender Wise Eligible Cadre for the Annual Appraisals



Training and Development GRI 404-1

We believe training and development is at the core of developing a high-quality workforce, especially in the modern competitive environment, where regularly replenishing their knowledge and acquiring new skills will enable employees to do their jobs better leading to improved efficiency and productivity. It is also a key contributor and a motivational factor for employee retention.

During the year 113 trainings have been conducted with total number of training hours reaching 17,786. The average training hours per employee has been increased by 67%, from 7.6 in 2017/18 to 12.7 in 2018/19.

Training Plan and Budget

All training activities undertaken by AFC are conducted according to the annual training plan. Similar to the manpower plan, the training plan too is prepared by the HR team based on the inputs received from business heads, departments and branches. Training needs of staff are identified primarily through the annual performance appraisal process.

The training plan is accompanied by the training budget where the largest allocation is for competency training that focuses on business and operational areas. Substantial allocations are also made in the training budget for on-boarding and soft skills training as well. AFC incurred Rs. 7.8 Mn during the year on the employee capacity building trainings.

Summary	17/18	18/19	Change
Total number of participants	684	1,089	59%
Total number of trainings conducted	95	113	19%
Total Investment (Rs.)	7,585,000	7,788,525	3%
Total number of training hours(Internal/External)	9,313	17,786	91%
Average training hours per employee	7.6	12.7	67%

**the same employee may have participated in multiple trainings, both external and internal.*

On-Boarding session **GRI 404-2**

On-boarding of all new employees is done through a special induction training session to help them to connect with AFC's core purpose and culture enabling them to start their journey with a thorough understanding of how the Company operates at both a strategic and operational level.

A total of 336 new recruits were on-boarded through 18 induction training sessions conducted in 2018/19.



Leadership Training Programme



Onboarding session



Cross-functional Training **GRI 404-2**

In recent years we have increased our focus on cross-functional training as part of a broader strategy to give employees the opportunity to gain insights into multiple aspects of our business that would help them not only to perform their current roles better but also enhance their future career prospects within the Company.



Leadership Training Programme



Training Programme - Delight your customer

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Employee Training **GRI 404 -1**

- 82% of male employees and 68% of female employees received training during the year, compared to 55% and 59% respectively in the previous year.
- Over 43% of the training hours for the year was taken up by the Junior Executive (Male) category consisting mainly of the field sales force
- Total training hours increased by 91% from 9,313 in 2017/18 to 17,786 in 2018/19.

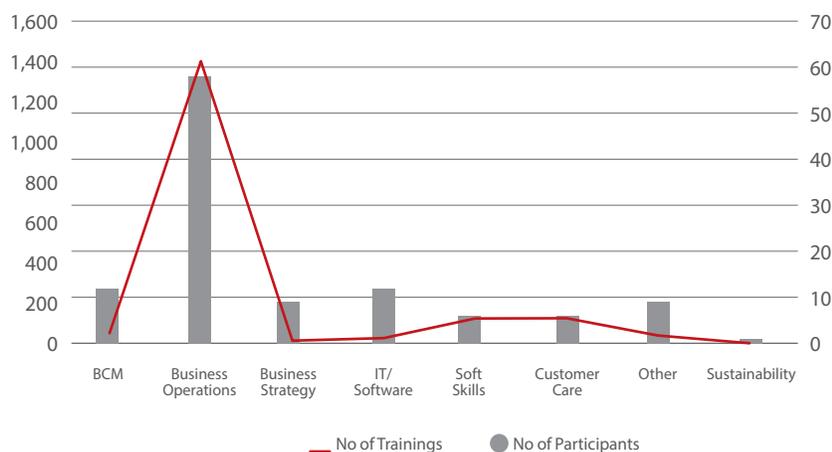
Average hours of training per employee by gender	Training Hrs					
	2017/18			2018/19		
Employment Type	Male	Female	Total	Male	Female	Total
Executive Director	65	-	65	12	-	12
CXO	81	-	81	30	-	30
Assistant General Manager	155	-	155	87	26	113
Senior Manager	182	93	275	196	-	196
Manager	1,273	62	1,335	1,337	16	1,353
Assistant Manager	1,279	119	1,397	1,029	201	1,230
Senior Executive	720	157	877	1,660	266	1,926
Executive	2,003	748	2,751	2,705	492	3,197
Junior Executive	1,154	1,210	2,364	7,851	1,852	9,703
Minor	15	-	15	28	-	28
Grand Total	6,926	2,388	9,313	14,934	2,852	17,786
Average training hours per Employee	7.8	7.0		14.8	7.3	

No of employees who received trainings	2017/18			2018/19		
	Male	Female	Total	Male	Female	Total
Executive Director	3	-	3	2	-	2
CXO	2	-	2	1	-	1
Assistant General Manager	8	-	8	4	1	5
Senior Manager	9	2	11	11	-	11
Manager	49	4	53	60	2	62
Assistant Manager	71	8	79	66	11	77
Senior Executive	57	12	69	102	12	114
Executive	171	57	228	201	51	252
Junior Executive	112	117	229	374	187	561
Minor	2	-	2	4	-	4
Grand Total	484	200	684	825	264	1,089

Types Of Training GRI 404-2

- In 2018/19 a total of 1,406 employees received Business and Operational training, through 58 training programmes compared to 623 employees and 39 programmes in 2017/18.
- In total 1,089 employees received training in 2018/19, compared to 684 on 2017/18

Types of Training Programmes 2018/19



Leadership Development

Developing a sustainable leadership ladder is one of our strategic priorities. It has become particularly relevant given the proposed revision of the organizational restructure that will underpin our future growth trajectory in the coming years. In the year under review we took the first steps towards creating personalized leadership journeys and driving behavioral change to equip leaders at all levels with the capabilities required to execute AFC's medium term business strategy.

Grievance Handling

While it is our intention to minimize grievances as much as possible by maintaining an open door policy, employees who wish have access to AFC's formal grievance handling procedure to formally report any grievances arising out of and during the course of their employment. The employee having a grievance will report the same in writing to his immediate supervisor. The immediate supervisor is then required to promptly attend to the grievance and ensure that the same is redressed within a stipulated time. In case the grievance is not sorted out within a reasonable time period or the employee is not satisfied with the action taken by the immediate supervisor, the aggrieved employee has the option to escalate the grievance to the next level as per AFC's grievance handling procedure. In case grievance is related to supervisors, employee can directly report such grievances to HR Manager.

Ethics and Integrity GRI 102-17

As a financial institution, we consider ethics and integrity as two very critical factors to our business. We maintain high standards of the same in every aspect of our business and expect our employees to comply with those standards in performing their job. Accordingly, all employees are held responsible for safeguarding our assets from misuse or misappropriation, whether those assets are intangible, such as business information and intellectual property, or tangible, such as equipment or supplies. Employees are required to maintain the highest standards of integrity in all transactions with customers, suppliers and all other stakeholders.

Employee Code of Conduct

Our Employee Code of Conduct (Code) serves as the primary guideline to promote ethics and integrity among our employees. The Code is introduced to employees during their induction training, which they are then expected to read and sign off to indicate their understanding. All employees of AFC are required to adhere to the Code at all times, and those found in violation of the Code are penalized through disciplinary action.

Anti-Bribery and Anti-corruption

We take a zero-tolerance approach to Bribery and Corruption and insist that all our employees act professionally, fairly and with integrity in all their business dealings and relationships maintained in an official capacity. In addition, we conduct regular training for our employees and take strict disciplinary action to deal with reported cases of bribery or corruption. In the year under review, we have exercised strict disciplinary measures and litigation actions against the identified cases of misappropriations.

Capital Management Report

Disciplinary Action

While all employees are expected to conform to AFC's standards of conduct and Anti-bribery and Anti-corruption procedures, in the event of a breach, we rely on our managers to resolve such issues as quickly as possible using an informal approach with Managers expected to keep records of such discussions. Disciplinary action is always pursued based on the nature and gravity of the offense. Thorough investigation and proper disciplinary procedure is always taken place before determining the disciplinary action.

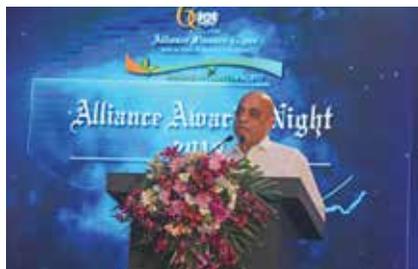
Whistleblower Practices

Our Whistleblower practices seek to cover concerns that are critical and could have a grave impact on the operations and performance of the business of the Company. In doing so we encourage employees who have concerns about suspected misconduct to come forward and express these concerns without fear of punishment or unfair treatment. The Whistleblower practices essentially provide an avenue for employees to raise concerns on any violations of legal or regulatory requirements, incorrect or misrepresentation of any financial statements and reports, etc

Rewards, Recognition and Engagement

Our rewards and recognition platform is designed to keep our employees highly engaged and motivated to ensure they remain fully invested in our corporate strategy in the long term. In addition we also provide several opportunities for employees to interact away from the work environment, which allows for nurturing of greater team spirit and camaraderie among our workforce.

We had a successful awards ceremony on 08th September 2018 at the North Lawn of Hotel Taj Samudra. All the best performers of the year 2017/18 were recognized and rewarded at the ceremony. Individual and team efforts were considered at the time of rewarding. This awards ceremony was followed by an employee's gathering which was an extravagant event where the entire company got-together and enjoyed thoroughly.



Awards Night 2018

In the year under review, we opened up AFC's "Thuru Mithuru" programme to employees as part of a broader effort to integrate them into the Company's sustainability initiatives.

Equal Opportunity Non-Discriminatory Employment

GRI 406 -1

As a responsible employer the respect for human rights is fundamental to our Human Capital development agenda. As such we remain fully compliant with all relevant labour laws and directives applicable to AFC's business as a financial services institution.

We respect the individual's right to be a part of an association or group as long as such a membership does not violate the fundamental rights of any other individual or group

Principle 4: Forced or Compulsory Labour **GRI 409 -1**

We believe employment should be done at the free will of the employee and no individual will be forced to remain in employment should they wish not to do so.

Principle 5: Child Labour **GRI 408 -1**

Child labour is strictly prohibited at AFC and only those of full legal age are permitted to work in the Company. This principle is strictly applied at the point of recruitment, with all necessary verifications done to confirm the legal age of new recruits.

Principle 6: Non-discriminatory employment

We are an equal opportunity employer and maintain a non-discriminatory approach at all stages of the employment process including recruitment, selection, evaluation, promotion, training and development of all employees. We offer equal pay for both males and females in comparable roles and ensure that all AFC employees receive equal opportunities for growth and development regardless of age, gender, religion or any other status protected by law. In the year under review, there were no reported incidents of discriminatory behaviour.

Employee Category by Gender	2018/19		
	Total Count	By Gender	
		Male	Female
Executive Directors	4	4	-
CXO	6	6	-
Assistant General Manager	7	5	2
Senior Manager	14	13	1
Manager	72	66	6
Assistant Manager	96	82	14
Senior Executive	152	129	23
Executive	389	298	91
Junior Executive	643	390	253
Minor	17	17	-
Grand Total	1,400	1,010	390

Diversity of Governance Bodies and Employees – by Gender **GRI 405 -1**

- The employee based comprised of 1,010 males and 390 females, however in this year the percentage of female representation has remained the same at 28% as the previous year.
- The female representation of the Governance body was 25%. The Chairperson and another female director represent the Board of Directors in Non-Executive Director capacity.
- Majority of the females were in the executive categories while only 9 females were in Manager and above grades.

Diversity of Governance Bodies and Employees – by Age **GRI 405 -1**

- Majority (75%) of the members of the governance body belonged to over 50 years age category while 3% of other employees were in the same category.
- Below 30 years age category comprised of the highest number of employees; 63% of the total staff base in Manager and below employee categories.

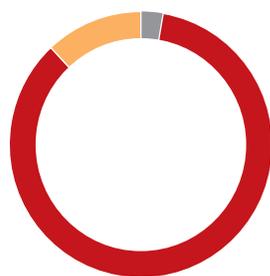
Employee Category by Age Group	2018/19			
	Total Count	By Age Category		
		Below 30 Years	30-50 Years	Over 50 Years
Executive Directors	4	-	1	3
CXO	6	-	4	2
Assistant General Manager	7	-	6	1
Senior Manager	14	-	12	2
Manager	72	3	65	4
Assistant Manager	96	8	84	4
Senior Executive	152	66	80	6
Executive	389	233	146	10
Junior Executive	643	562	76	5
Minor	17	4	8	5
Grand Total	1,400	876	482	42

Capital Management Report

Governance Bodies and Employee Composition by Religion And Race

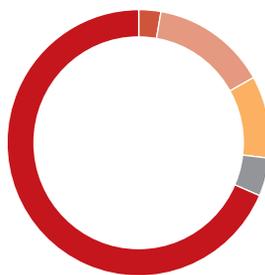
GRI – 405-1

Employee Composition by Race



● Sinhala - 85%
 ● Tamil - 12%
 ● Muslim - 3%

Employee Composition by Religion



● Buddhist - 68%
 ● Roman Catholic - 14%
 ● Christian - 5%
 ● Hindu - 10%
 ● Islam - 3%

Ratio of basic salary and remuneration of women to men GRI 405 – 2

Employment Type	Count	Ratio - M :F	Salary Ratio
Director	4	4:0	1:1
CXO	6	6:0	1:1
Assistant General Manager	7	5:2	1:1
Senior Manager	14	13:1	1:1
Manager	72	66:6	1:1
Assistant Manager	96	82:14	1:1
Senior Executive	152	129:23	1:1
Executive	389	298:91	1:1
Junior Executive	643	390:253	1:1
Minor	17	17:0	1:1
Grand Total	1400		

Health and Safety

Given the nature of our business, AFC's employees are not exposed to any significant occupational health and safety risks. Nonetheless we remain fully committed to provide our employees a safe and secure working environment that will enable them to perform at their tasks better. In order to maintain this commitment, we place equal emphasis on health and safety standards in the same way as all other aspects of the business. We comply with all national health and safety regulations to ensure our premises are safe for our employees. Further we continuously monitor safety systems and conduct regular safety

drills to ensure the readiness of our safety systems.

At the same time we promote a safety culture across the organization, with all employees provided with basic safety training at least annually. In the year under review one Fire safety training programme was conducted for 24 staff members and a practical fire drill session for all Head office staff.



Fire training - Classroom session



Fire drill

Employee Wellbeing

Our wellbeing activities are designed to ensure a greater job satisfaction for our employees and motivate them to add value to the Company by performing their work better. We offer an additional monetary incentive to encourage our employees to make use of a minimum of seven consecutive days of annual leave.

As a part of our wellbeing initiatives, we have been offering our employees the

opportunity to purchase fresh organic vegetables at a concessionary rate since January 2019, made possible through AFC's tie up with the Mihimadala Organic farms in Bandarawela and Maho. Approximately over 200 Kgs of fresh vegetables are purchased by our employees every month in a regular manner.



Mihimadala Organic Farm



Organic Vegetables for Employees



Bio degradable packaging

Our Focus, Going Forward

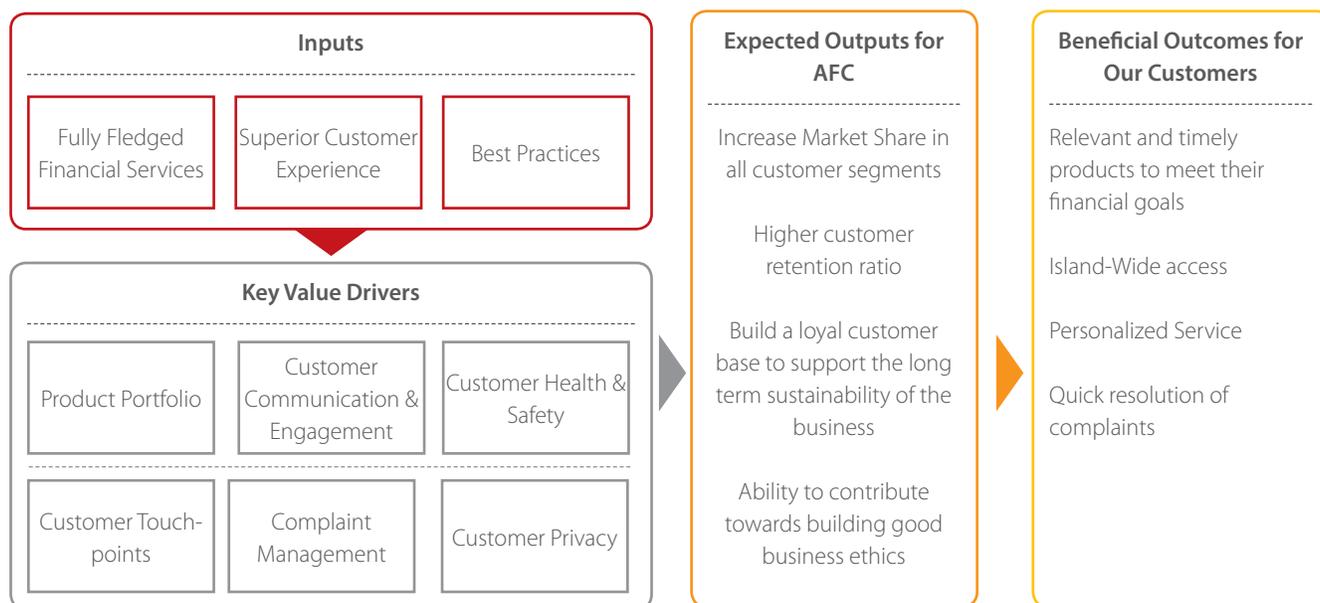
Medium Term	Long Term
<ol style="list-style-type: none"> 1. Strengthen the Performance Management System 2. Improve the training focus in tandem with evolving needs of the business 3. Develop a structured Fire Safety Training agenda for the branch network 	<ol style="list-style-type: none"> 1. Expand rewards, recognition and engagement framework with a view to enhancing employee motivation

Capital Management Report

SOCIAL AND RELATIONSHIP CAPITAL - CUSTOMER

AFC boasts of a strong and a loyal customer base of over 117,000, built up over the past 63 years, a testament of AFC's solid reputation in the industry, as well as an endorsement of the ability to create and sustain value for over four generations of customers.

AFC's Customer Capital Value Creation Model



Product Portfolio

As a fully fledged financial institution, we offer a wide range of financial solutions designed to maximize value to our customers.

Investing Solutions



AFC FIXED DEPOSITS

SAVINGS

A rewarding way to earn higher interest rates with the convenience of being able to withdraw the savings at any given time. AFC provides the added convenience of enabling customers to grow their saving automatically by linking Fixed Deposits with Savings Account. Monthly interest on Fixed Deposits can automatically be transferred and saved to their "Alliance Savings" account. The Savings Account interest is calculated on a daily basis and credited to the customer's account on a monthly basis.

FIXED DEPOSITS

Our FD's which offer very competitive returns on savings of the customers are a perfect investment to empower them for the future; and knowing the savings are in trusted hands also provide them utmost peace of mind. Customers can select from a wide range of tenures - from 1 month to 60 months and from options to draw interest monthly, bi-annually, annually or at maturity. If the customer is a senior citizen (i.e: over 60 years) he/she will be eligible for a higher rate of interest.

Customer Profile

Retail

SME

Corporate Sector

Financing Solutions

Customer Profiles

 	<p>LEASING Since 1956, AFC has been helping Corporates and Individuals by providing finance leasing solutions. With unmatched domain knowledge in the finance and motor sectors, Alliance Finance is uniquely able to understand customer needs and deliver a solution that is truly beneficial. Our flexible leasing options are tailor made to suit specific requirements and financial needs of individuals and corporate customers. Our solutions ensure that lease payments are in line with customer cash flow position and the changing individual needs.</p> <p>SPEED CASH A facility designed to meet the urgent cash requirements by enabling the customer to borrow cash up to 75% of the value of the FD in cash, and without losing any interest on the deposits. The cash advance can be returned at convenience of the customer prior to the maturity of the FD, and the customer remains entitled to receive the capital in full. Customer can enjoy competitive rates of interest and the flexibility of planning his/her own repayment schedule.</p>	<p>Retail</p> <p>SME</p> <p>Corporate Sector</p>
	<p>DEVELOPMENT FINANCE Customized solutions geared to meet the needs of the under-served market segments, through innovative financial solutions in Climate Smart Agriculture, Value Chain Financing, SME financing and affordable housing financing for the low-income groups</p>	<p>Micro Entrepreneurs</p> <p>Female borrowers from impoverished communities</p>
	<p>GOLD LOANS AFC's Gold Loans are an ideal short-term loan solution to meet customers' working capital requirements. AFC provides a host of benefits that makes Gold Loans the most attractive pawning service in the country.</p>	<p>Micro/MSME Individuals</p>
  	<p>PERSONAL LOANS A unique lifestyle loan designed to meet customer life goals, be it home renovation, education or travel etc.</p> <p>EQUIPMENT LEASING AFC's equipment leasing packages are tailor-made to suit customer requirements; one that is cost-effective and has flexible payment options.</p> <p>QUICK CASH The loan product that enables customers to obtain a temporary loan against their vehicle registration book. A flexible solution that allows the customer to only pay the interest for the period of the loan and pay the capital at the end.</p>	<p>Retail</p> <p>SME</p> <p>Corporate Sector</p>

Capital Management Report

Financing Solutions

AFC PLEDGE LOANS	PLEDGE LOANS Providing working capital financial solutions to vehicle dealers to grow their business
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Customer Profiles

Individuals
Corporates

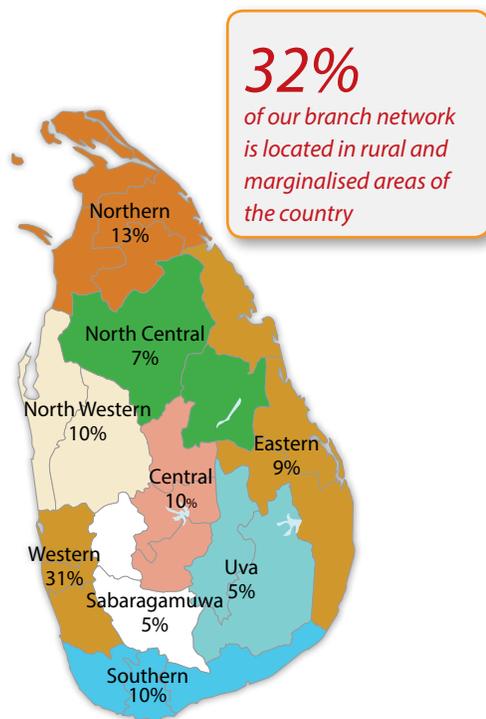
Other Services

  	AUTO SURE An end-to-end vehicle solution that offers a highly cost-effective total solution enabling the customers to purchase / trade-in as per their choice all in one go.	Individuals
	EZY DRIVE Offers vehicle rental services to individuals and fleet management solutions for corporates. Ezy drive is a popular choice, among many large conglomerates.	SME
	CASE Tractor One of the World's renowned brands for energy efficient and state-of-the-art technological tractors, the product demonstrates AFC's commitment to the principles of "Climate Smart Agriculture"	Corporates

Customer Touch Points

Customers have access to our services through AFC's wide network of branches spread across the island. We maintain branches in all key cities and business hubs across Sri Lanka, where we ensure that our branches are conveniently located and easily accessible to customers in the area. Furthermore nearly 32% of our branch network is located in rural and marginalized areas of the country, demonstrative of AFC's commitment to serve the needs of all customer segments.

All our branches are manned with highly skilled staff who are trained to effectively engage with our customers and provide them with customized solutions that guarantee an excellent customer service.



Customer Communication and Marketing (GRI 417 - 3)

We strive to be proactive in communicating with our customers, for we believe being open and forthcoming helps to earn their trust and maintain customer loyalty in the AFC brand. In this context, we comply with all regulatory frameworks applicable to the NBFi sector and provide our customers with access to timely and relevant information regarding our products and services enabling them to make informed decisions. Furthermore, we ensure that all information we release is presented clearly and published in all three languages. This includes information on interest rates displayed in our branches, promotional materials and corporate website.

In the year under review, there were no reported incidents of non-compliance with regulations / voluntary codes concerning communications and marketing.

AFC Marketing Initiatives of the Year

AFC has undertaken several marketing initiatives during the year to reach a wide range of potential customers, providing them with all the information on our products and services. A dedicated team of marketers guided and headed by the new Director Marketing and Credit Operations has planned and executed these initiatives successfully. These initiatives had a very effective impact which was evident by the customer inquiries and increased sales resulted afterwards. Our major initiatives of the year are as follows.

TV and radio campaigns

- Gold loan television advertisement



- Lak FM sales promotion
 We have conducted several campaigns with the partnership of Lak FM in different branch locations targeting the prospective leasing customers.



Indoor and Outdoor Promotional Campaigns

- AFC Riyapola



- Tak-Tik-Tuk threewheel promotion



Capital Management Report

- Autosure promotional campaign:

Door to door campaigns and indoor campaigns were conducted using leaflets, banners, posters and other display items, at renowned public and financial institutional premises.



Print Media Channels

Print media is the most widely used channel; mainly the newspapers, due to the high outreach it has to our target markets.

A SOLID FOUNDATION FOR A PROSPEROUS NEW YEAR

15.00% 15.27%
 MATURITY P.A. A.E.R.

48 Months Special Interest Rate for Senior Citizens
 (Eligible in a previous Life Time Credit/Deposit and every 4th)

Hotline : 0771 090 098 | 0772 547 126

PERIOD	MONTHLY P.A.	A.E.R.	MATURITY P.A.	A.E.R.
01 Month	---	---	12.50%	13.24%
03 Months	13.00%	13.80%	13.25%	13.92%
06 Months	13.00%	13.80%	13.50%	13.96%
09 Months	13.50%	14.37%	14.00%	14.24%
12 Months	13.50%	14.37%	14.00%	14.00%
15 Months	13.75%	14.65%	14.50%	14.25%
18 Months	13.75%	14.65%	15.00%	14.49%
24 Months	13.75%	14.65%	15.00%	14.02%
30 Months	13.75%	14.65%	15.00%	13.99%
36 Months	13.50%	14.37%	15.00%	13.18%
42 Months	13.50%	14.37%	16.50%	13.51%
48 Months	13.50%	14.37%	16.50%	12.79%

PEOPLE • PLANET • PROFIT
 All India's leading bank for wealth creation

Autosure Finance Co. PSC
 Built on Trust. Powered by Innovation.

1 ONE YEAR UNBEATABLE WARRANTY

Exchange Possible
 Easy Payment Scheme Available
 Certified By Audi agent
 (Authorized Dealer for Audi in Sri Lanka)
 Certified Pre - Owned Vehicles

AUTOSURE
 48 YEARS OF TRUST

Authorized Trade-In Partner for Drive One (Pvt) Ltd.,
Contact - 0772 107 385
 Branches : Kottuwala | Bottramulla - Koswatte

Alliance Finance Co. PSC
 Built on Trust. Powered by Innovation.

Social Media Campaigns

We extensively use social media for promoting our business, products and services. We mainly use Facebook and twitter channels to reach the prospective customers with our new products and promotions.



Web Based Marketing Platforms

During the year under review we have widely used the web based marketing platforms such as Patpat.lk, Ikman.lk and Lahipita for the promotion of our new Auto Sure products and services. We also have launched our own website for Auto sure, specifically targeting the online communities.



Autosure website advertisement

Promotional Giveaway Programs

The Gold loan division has conducted a raffle draw for the customers who initiated a new facility with us for a minimum Rs. 10,000 amount during the months from July to October. We have awarded 1st, 2nd and 3rd places and given away ten consolation prizes for the selected customers. This programme was conducted in all 38 Gold loan centers under the supervision of Consumer Affairs Authority.



Customer Relationship Management

In the interest of maintaining consistency, all communications are handled by a dedicated Customer Care unit. The unit consists of a team of customer care agents who can communicate in all three languages. Spearheaded by the Customer Care Unit, we conducted a customer satisfaction survey in the year under review to assess the

effectiveness of our engagement with them and obtain their feedback to find to further strengthen our relationship with them. The effort also forms part of a broader strategy to identify customer needs and determine AFC's top-of-mind recall rating across the country. The exercise also provided us with insights to design new products as well as to plan our branding and promotional strategies to realign our brand positioning going forward.

Complaint Management

AFC considers effective complaint management as a key enabler in building customer trust. Accordingly, our main aim is to strengthen the internal complaints handling procedure and to ensure quick, efficient and fair resolution to all customer complaints and grievances.

We welcome positive and negative feedback from our customers and we have assigned Complaint Management Officers at each branch who are tasked with the responsibility to resolve direct complaints lodged by the customers. As a part of their responsibility, Compliant Management Officers are required to record and note each complaint before seeking a resolution from the relevant authorities.

General complaints are routed through the intra-complaint management system under the purview of the Customer Care Unit set up at the head office. The main aim of the Customer Care Unit is to maintain a consistent approach to treat all customers in a fair, polite and equal manner at all times without any discrimination which would help to build positive relationships with them. Therefore, upon receiving a complaint, the designated Customer Care Agents (CCA) are required to log the

Capital Management Report

complaints into the system, at which point a unique reference number is generated and communicated to the customer for their easy reference. An sms/email or a written acknowledgment is also generated containing the reference number and the details of the person to be contacted should the customer need to check the status of the complaint. The responsibility of the CCA also includes; analyzing the root cause of the issue and identifying service gaps if any, with the findings presented to the Corporate Management for necessary corrective and preventive actions to eliminate future recurrences.

In the event the customers are not satisfied with the resolution provided by the Customer Care unit, they have the option to refer their complaint to the Financial Ombudsman of Sri Lanka.

Customer Health and Safety **GRI 416-1** **GRI 416-2**

Given the nature of our business as a financial services organization, we are unable to clearly assess how our products, services and channels impact the health and safety of the customer. Nonetheless, to reinforce our commitment to support Customer Health and Safety, we have in place a Product Development Framework that seeks to ensure all our products;

Conform to All Applicable Regulatory Procedures

- Are suitable and relevant in the current market context
- Contain clear guidelines to inform customers of the nature and risks associated with their use

Meanwhile for our Microfinance lending model we comply with the International

Client Protection principles published by the Smart Campaign. The Standards specify 7 Client Protection Principles (listed below) and 25 standards of care.

Taking an even broader view on customer health and safety, we have also recently incorporated sustainability screening into our lending model via Sustainability Fact Sheets that focus on assessing the social and environmental impacts as a criterion. In principle, our fact sheets are based on the IFC exclusion list which prevents lending on the following grounds;



AFC will not finance clients who are involved in activities which:

- are regulated or prohibited under international agreements and by national laws;
- may cause significant environmental or social problems;
- lead to significantly adverse public reaction;
- are mentioned on the Exclusion List of AFC's international lenders.

Clients involved in any of the following activities are excluded from AFC's lending:

- Production or activities involving forced labour or child labour ;

- Production of or trade in any product or activity deemed illegal under Sri Lankan legislation or regulations or international conventions and agreements;
- Trade in wildlife or wildlife products regulated under CITES ;
- Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibers, products containing PCBs and chemicals subject to international phase-outs or bans;
- Commercial logging operations or the purchase of logging equipment for use in any primary forest or forest areas with a high biodiversity value, or any other activities that lead to substantial clear cutting of such forests ;
- Production of or trade in pharmaceuticals subject to international phase-outs or bans;
- Production of or trade in pesticides/ herbicides subject to international phase-outs or bans;
- Production of or trade in ozone depleting substances subject to international phase-out ;
- Drift net fishing in the marine environment using nets in excess of 2,5 km in length.

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

Customer Privacy **GRI 418-1**

As a financial services organization, we collect large volumes of personal data through customer applications as well as through our website. We fully appreciate the responsibility this entails and remain committed to maintain the highest level of security and privacy regarding the collection and use of customer data. Our customer privacy policy re-emphasizes AFC's commitment to the customers. In addition we have enforced strict controls to limit employee access to personal information with access being granted to only those with a legitimate business reason for knowing such information, while multiple safety protocols including individual user names and passwords are issued to approved personnel enabling them to access such information online, thus providing audit trails to further safeguard the privacy of personal information. We also continue to educate all employees about the importance of confidentiality and customer privacy.

All third parties with a business need to access this information are also required to adhere to similar and equally stringent privacy policies. In this context, personal information may be supplied to a third party only in the following instances;

- In order to process a customer transaction;
- If the customer requests it
- The disclosure is required or allowed by law
- For marketing purposes with the customer's official consent

Furthermore we have invested in security standards and procedures to help prevent unauthorized access to confidential information and continue to regularly review and update our technology to improve our data protection frameworks to prevent an external breach of our systems.

In the year under review, there were no reported complaints concerning a breach of customer privacy.

Our Focus, Going Forward

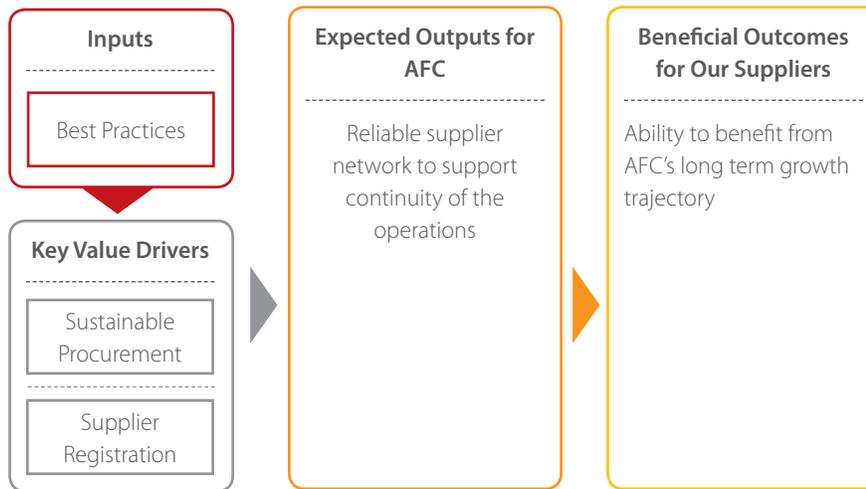
Medium Term	Long Term
<ol style="list-style-type: none"> 1. Enhance existing product capability and outreach to cover a wider geographic audience 2. Develop a fully integrated Environmental and Social Management System (ESMS) that would lead the transformation towards a more sustainable lending model 	<ol style="list-style-type: none"> 1. Increase the investment in technology to provide customers with more convenient digital solutions 2. Implement a routine customer engagement programme to enable the development of need-based solutions that enhance the customer experience

Capital Management Report

SOCIAL AND RELATIONSHIP CAPITAL - SUPPLIER

Our suppliers play a crucial role in ensuring the smooth functioning of our day to day operations. Strong ties with our suppliers will therefore determine AFC's ability to remain sustainable and continue to deliver our promises to our stakeholders.

AFC's Supplier Capital Value Creation Model



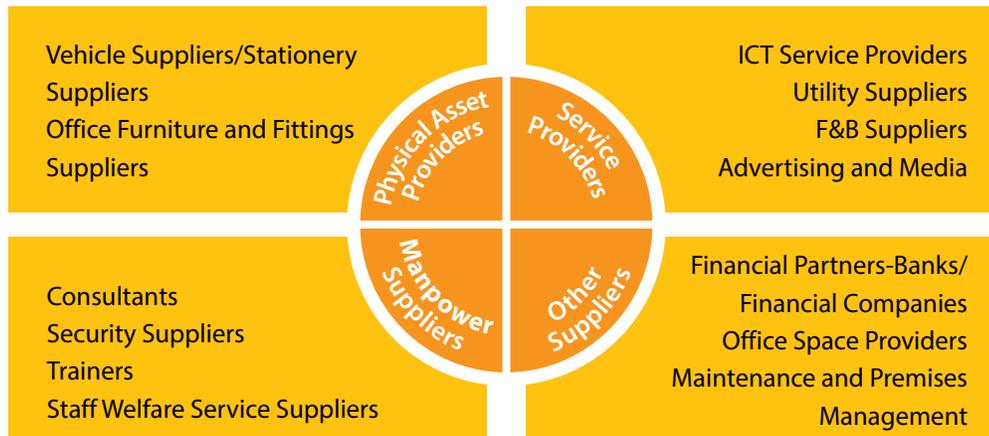
Sustainable Procurement

We follow an inclusive procurement strategy where we seek to strike the right balance between cost and quality, while giving suppliers the opportunity to map their progress in tandem with AFC's growth trajectory. Our goal is to develop sustainable business partnerships and ensure our suppliers and business partners work in a way that is consistent with our expectations.

The Procurement Committee is responsible for screening and selection of routine suppliers / service providers, which helps us to identify and work with those who are deemed to be the most sustainable and have the greatest positive impact on our value chain.

For all operational requirements, AFC maintains a centralized procurement model, with the central procurement

AFC Supply Chain GRI 102-9



unit responsible for managing the routine purchasing needs for branches, departments and business units across the Company.

We do on occasion enter into contractual agreements with a supplier or service provider for some of our requirements, such as telecommunication services, security services etc. Such contracts are reviewed by the Procurement Commitment prior to expiration and renewed only if the relationship is deemed sustainable.

Supplier Registration

GRI 308 -1 **GRI 414 -1**

We maintain a registry of suppliers / service providers, with a minimum of two potential suppliers for a designated activity. The registry is updated annually through a press advertisement calling for submissions under specified categories. At the time of registration, all applicants are required to sign a Consent form declaring their compliance with all environmental, social and labour laws and other standards applicable to their business or product, including their use of environmental hazards, steps taken towards the prevention of child labour etc.

This process provides a consistent framework to ensure all suppliers are treated fairly and equitably in line with AFC's procurement guidelines and a supplier base compatible with the Sustainability agenda of the Company.

During the year under review, AFC has 100% screened all the new suppliers using and social and environmental criteria.

Supplier category	Location of origin	Number of suppliers
Funding partners	Foreign/ Local	18
Advertising and Media	Local	20
Manpower suppliers		2
Green financing business partners/ Facilitators	Foreign	1
Material/assets suppliers	Local	659
Utility and other Service providers	Local	70

Our Focus, Going Forward

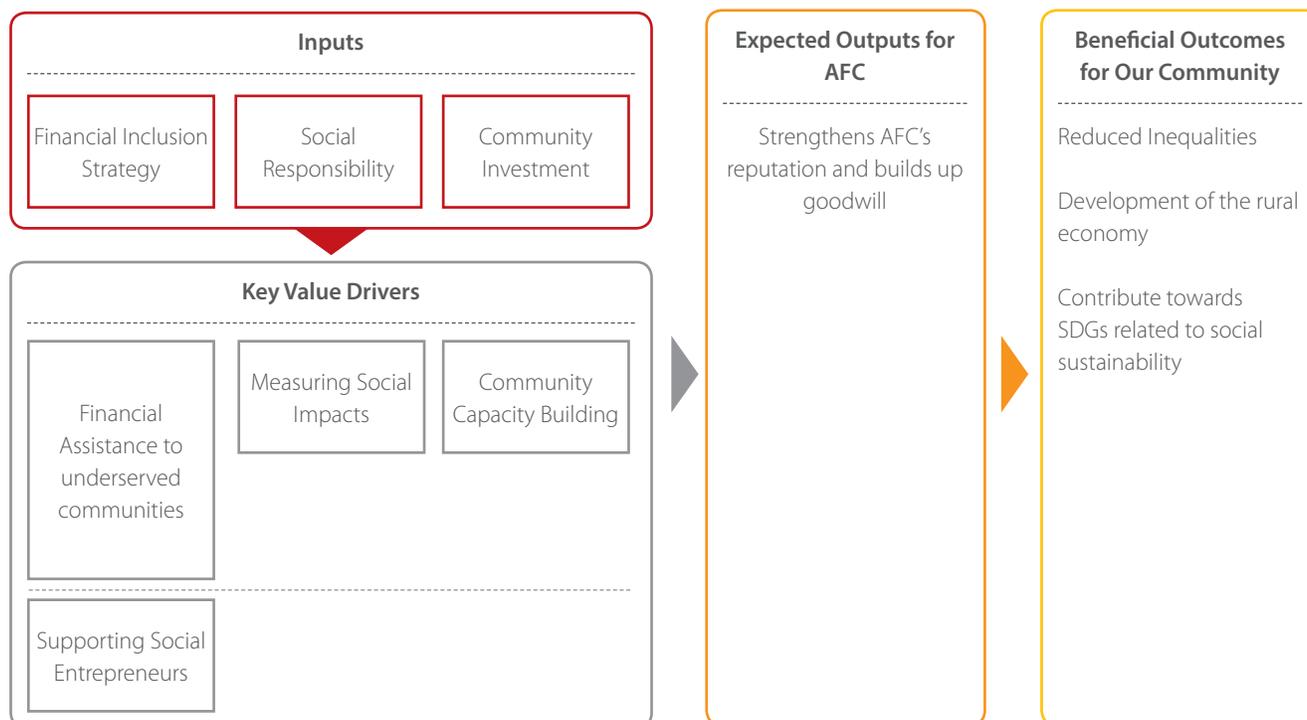
Medium Term	Long Term
1. Implement a supplier Code of Conduct to formally align suppliers with AFC's environment and social responsibility framework.	1. Introduce a supplier feedback channel

Capital Management Report

SOCIAL AND RELATIONSHIP CAPITAL - COMMUNITY

We believe that building strong communities is the foundation to create an empowered and value driven sustainable society. As a Triple Bottom Line oriented financial institution, we are fully committed to executing our responsibility to nurture progressive communities and steer them towards achieving their desired goals.

AFC's Community Capital Value Creation Model



Financial Assistance to Under-served Communities **GRI 413 -1**

As a leading financial institution in the country, we have a clear mandate to strengthen communities by promoting greater financial inclusion through responsible financing across the country. Accordingly, we have remained firmly committed to provide financial assistance to under-served, rural and marginalized communities across Sri Lanka since the inception. Majority of our branches (69%) are located outside the Western province enabling us to reach the communities who requires financial facilities mainly to develop their livelihood activities.

Our ultimate goal in this regard is to help improve the livelihood and well-being of these people and communities by creating value in the social sphere. Please refer to pages 65-66 for details of group lending activities through our Development Finance operation.

Supporting Social Entrepreneurs

GRI 413 -1

We have always been strong advocates of creating sustainable value for our communities. One of our major initiatives in this regard is the Ath Pavura Social Entrepreneurship programme. Ath Pavura (Elephant wall), is a reality TV programme, a pioneering initiative of Lanka Impact Investing Network (LINN) and Social Enterprise Lanka, with the aim of creating a platform to support social enterprises that have the capacity to make a definite positive impact on the environment and/

or society. The impact investors known as Tuskers who represent this forum are the successful entrepreneurs in Sri Lanka, with a strong track record of doing business in their industry sphere. Mr. Romani De Silva; Deputy Chairman/Managing Director of Sri Lanka is a founder investor and; represents AFC as a tusker in this programme. AFC has engaged with 19 social businesses during Mission I and II, with an investment commitment of Rs. 5.7 Mn.

In 2019 February, AFC received a merit award at the ADFIAP Awards 2019, for the contribution towards local economic development by supporting emerging social entrepreneurs and promoting innovative social business through Ath Pavura programme.

The Success Stories of Our Social Entrepreneurs

Ecofeel Foods



The Impact:

- Value addition to under-utilized local fruits and vegetables
- Engages 8 ladies from low income families, 15-20 suppliers and 30-35 farmer families in the business, providing an income for them.
- Three dried food products have been introduced to one of the leading super market chains in the country

Thuru Vijana - Tree Nursery



The Impact:

- Provides well grown saplings which have the endurance to resist the environmental stresses and reduce the incidents of replanting.
- Became one of the main plant suppliers for the tree planting initiatives of AFC

*** Thuru Vijana is the main supplying partner for AFC tree planting initiatives for the Highway project undertaken in partnership with Lion's Club*

Ayu – Breakfast drive through outlet



The Impact:

- The outlet (drive through) is successfully in operation, with a high customer turnover.
- Entrepreneur now expanded the service by way of a food truck.

Organic aloe vera cultivation



The Impact:

- Serves as a source of income for 40 CBO associated and 20 other individual families and two schools.
- Average production 7000 – 8000Kgs with 50,000+ plants

Capital Management Report

Measuring Social Impacts

(GRI 413 - 2) (GRI 419 - 1)

According to our sustainability mission, the impact we create on the social sphere is of vital importance to AFC. We have designed our products, services and business operations to support that commitment. We have invested in an ESMS which enables us to measure the impact we create in the society while determining the social risks of the businesses of the customers we are investing in. We have incorporated social criteria into our customer evaluation fact sheet, to enable us to screen customers based on their risk profile. These measures in turn provides us insights for future product planning and managing the risks and uncertainties prevail in the market.

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

Corporate Social Responsibility

Driven by a deeper understanding of the factors that impeding the progress of society, our CSR efforts aim to facilitate social development that translates into tangible results in the future. Our efforts in this regard are primarily aimed at reducing inequalities and empowerment that would indemnify these communities from social exclusion in the longer term. CSR initiatives are also a part of our sustainability mandate.

During the year we have made an investment of Rs. 5 Mn on facilitating the CSR initiatives illustrated in the below table.

Our CSR activities	Amount
Donations for charity associations and children/elders' homes	55,000
Donations for foundations and societies	566,000
Flood donations	2,211,565
Religious/cultural activities	98,000
Sponsorships for rising sports stars	1,294,530
Other	819,782
Total	5,044,877

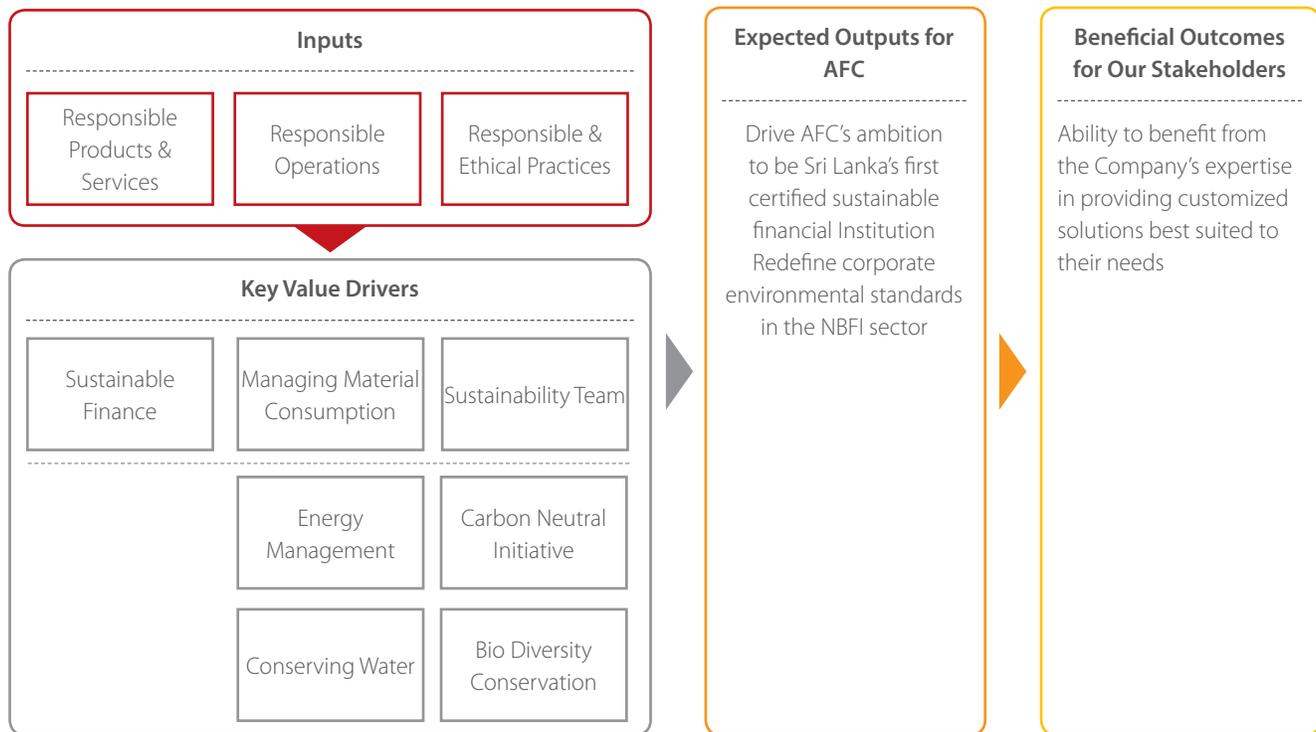
Our Focus, Going Forward

Medium Term	Long Term
<ol style="list-style-type: none"> 1. Creating an enabling environment for economic empowerment 2. Economic empowerment through livelihood development 3. Promote financial Inclusion and responsible financing 	<ol style="list-style-type: none"> 1. Advocate sustainable production and consumption 2. Contribute towards achieving national and global (SDGs) social goals #3 Community engagement in sustainable value creation

NATURAL CAPITAL

Although AFC's direct use of Natural Capital is limited, as a responsible financial institution we chose to play a constructive role in helping to address environmental challenges in Sri Lanka. Driven by the Triple Bottom Line philosophy and a strong sustainability agenda, AFC has always maintained a greater concern over the environment and its wellbeing. Accordingly, we strive to ensure that our people, capital and ideas are used to help find innovative and effective solutions to address climate change and other critical environmental issues.

AFC's Natural Capital Value Creation Model



In 2018 AFC received international recognition for its contribution towards Sustainability by being accepted into the Sustainability Standards and Certification Initiative (SSCI), a global initiative that is promoted by the European Organization for Sustainable Development (EOSD). AFC thus becomes one of just three companies in the world to receive this honour and the first from Sri Lanka's Banking and Non-Banking Sector.

With this appointment, AFC becomes eligible to serve as a member of this pioneering initiative and help draft the first global standard for Sustainable Banking and Finance. Selection to the prestigious initiative was done on evaluation of AFC's business practices that have contributed towards sustainable value creation over the past several years.



Capital Management Report

Sustainable Finance

AFC has been practicing Sustainable Financing from the very inception and in the last two decades our emphasis and commitment has increased in line with the global and national Sustainability priorities. Encouraged by the success we have achieved so far, we are now looking to systematically reinvent ourselves through the triple-bottom-line approach in order to embed sustainability in to the very core of our business. Our aim is to support AFC's transition towards becoming Sri Lanka's first-ever certified sustainable financial institution by exploring new business opportunities that have the capacity to deliver sustained benefits to the environment and society over the long term. We achieved the following key milestones in Sustainable value creation, during the year under review;

Managing Environmental and Social risks on business operations

GRI 102 - 11

Identifying and measuring environmental and social risks is crucial to our efforts to promulgate the concept of sustainable finance through our core lending products. Taking definitive action in this regard, we have undertaken the preliminary activities to implement an Environmental and Social Management System (ESMS) that will enable us in managing those risks. This includes 32 detailed fact sheets that enables us to screen our prospective clients who are engaged in industries including; agriculture, mining, chemical manufacture, textile manufacture, laundry services, etc. We use the fact sheets to rate customers based on the risk of climate change arising as a result of deforestation, air pollution, water pollution, soil depletion etc. Our screening process also entails verifying the validity of permits, licenses and approvals which confirm eligibility of the customers to conduct environmentally sensitive businesses.

At the same time our Sustainability Team seek to proactively monitor emerging issues, new regulatory developments and best practices relating to environmental risk management, in order to update our systems and processes as needed. These measures have already enabled and will further enable AFC to focus mainly on supporting businesses with a demonstrably low environmental and social risks.

Gas Conversion Kit- Three-Wheeler Emission reduction solution

In support of global efforts on decelerating global warming, AFC has embarked on research to develop a tool kit to reduce threewheeler emissions. We have entered into a joint partnership agreement with Vialle of Netherlands, a renowned emission reduction gas kit manufacturer in Europe, in July 2015 and 03 threewheeler units were sent from Sri Lanka and are being tested at the Vialle research division.

Vialle has successfully develop the Gas Kit and tested in Sri Lanka during 2018 and now ready for commercial production. AFC has obtained clearance from Registry of Motor Vehicles (RMV) to fix the gas conversion kit to the existing three-wheelers in Sri Lanka. The test runs have also been conducted in Sri Lankan routes for nearly two years.

We have ordered first commercial shipment of 100 units in February 2019. Once commercial shipment is cleared AFC will introduce Gas conversion kits for operating leasing to women entrepreneurs who will be trained by AFC on more disciplined and safe driving.

If this partnership proves successful, we will have a significant impact on emission and pollution reduction in most major cities in South East Asia. In Sri Lanka alone, there are 1.2 million three-wheelers polluting its major cities on a daily basis.

Climate Smart Agriculture Initiative

AFC intends to expand the knowledge and expertise on climate smart agriculture practices in Sri Lanka. Under the scheme AFC would introduce energy efficient agriculture practices and water saving irrigation system and more efficient agriculture transport. During the financial year AFC has introduced four-wheel drive CASE tractor for farming. Using four-wheel drive tractors for land preparation is far more efficient than using two-wheel drive tractors due to its higher traction capability.

During the financial year AFC started a project to promote organic agriculture among school children, of which the first project was undertaken with Gonapitiya Princess Tamil Maha Vidyalaya situated in the Hill Country.



Gonapitiya School Organic Farming Project

Organic farming has many environmental and social benefits, from soil preparation stage to final consumption stage. Organic farming requires lower tillage and in turn necessitates lower machinery/human power for soil preparation making it a low energy required operation. Other key benefits include soil enrichment, produce chemical free, healthy food, lessen the soil erosion and contributes towards minimizing global warming effects. The school has a demonstrated organic farm that is maintained by the Students, with the technical and financial partnership of AFC. There the students are taught of low tillage organic farming not only

to produce organic vegetables but also teach soil conservation, environmental conservation and healthy food habits.

Managing Material Consumption

Being a service oriented company, the most significant material used in the Company is Paper. Paper is used abundantly in day-to-day operations, with a major portion is being used for customer processes including on-boarding, collections and other routine communications, while internal communications and manual back end processes accounting for the balance.

However, over the past few years we have undertaken a number of measures to reduce the paper consumption. The widespread digitisation efforts and efficient and innovative methods of using paper in the recent past are a testament to our commitment to reduce the consumption of paper. The core financial solution, the G-suite internal communication platform, the cloud-based HRIS and the ERP for the Commercial Division, all major investment made in the year under review are expected to cut our annual paper usage by as much as further 5% from the next financial year onwards.

Material Consumption GRI 301 -1

- During the year we have achieved a 13% reduction in paper consumption against our target of 10%.
- There was a cost reduction of 13% also have been resulted due to reduced paper usage.
- The unit and cost intensities (per employee) have also been reduced by 24%.
- Since the paper being the primary material used, all the materials we used are recyclable and renewable.

Paper consumption	2018/19	2017/18	Change
Units(T)	12.9	14.8	-13%
Intensity (Units/Employees)	0.04	0.06	-24%
Cost(LKR)	3,556,515	4,070,000	-13%
Intensity (Cost/Employees)	11,585	15,301	-24%

Energy Management

We have identified that our most significant areas of energy consumption arise from the consumption of:

- Electricity to provide lighting and cooling requirements of our branches and the power needed to maintain our IT infrastructure and systems
- Fuel for our back-up generators
- Fuel used by our staff for commuting to and from work as well as official duty related traveling

Over the years, we have seen a considerable increase our overall energy consumption levels, in tandem with our business growth, which has led us to renew our commitment towards improving our energy management systems. Having set ourselves the goal of reducing energy consumption by 5% annually, we now measure our energy consumption in all its forms, and dig deeper to understand the drivers of that consumption while taking targeted action to produce a quantifiable reduction in AFC's overall energy consumption levels.



Capital Management Report

Energy Consumption **GRI 302-1** **GRI 302-3** **GRI 302-4**

- The information illustrated in the tables pertains only to the electricity and fuel consumption in the Head Office.
- The electricity consumption during the year has been increased by 14% due to the added consumption of the new super branch of the Head office.
- The fuel consumption of the Head office has also increased by 31% during the year, due to the increased operational activities.
- The electricity intensity has been reduced by 2%, denoting that per employee usage has been reduced year over year while fuel intensity increased by 14%.
- The fuel that were used were obtained entirely from non-renewable sources.

Electricity consumption	2018/19	2017/18	Change
Units (Kwh)	403,603	355,168	14%
Intensity (Units/Employees)	1,315	1,335	-2%
Cost (Rs.)	10,473,423	9,073,088	15%
Intensity (Cost/Employees)	34,115	34,109	0%

Fuel consumption	2018/19	2017/18	Change
Units (l)	14,458	11,023	31%
Intensity (Units/Employees)	47	41	14%
Cost(Rs.)	1,785,120	1,270,144	41%
Intensity (Cost/Employees)	5,815	4,775	22%

Conserving Water

In our Company, water is used mainly for day-to-day utility purposes by our staff, with all our requirements met through Municipal Water sources. Despite the minimal consumption, we continuously raise awareness to encourage our staff to conserve water and make a concerted effort to minimise wastage.

Water Consumption **GRI 303-3** **GRI 303-5**

- The reported details are on the water usage in the head office and 100% of the water that is used by AFC is from the municipal water supply.
- During the year the water consumption at the head office increased by 21%, due to the added consumption of the new super branch.
- The intensity (per employee) has also increased by 5% year-over-year.

Water consumption	2018/19	2017/18	Change
Units(Cubic meters)	21,840	18,015	21%
Intensity (Units/Employees)	71.14	67.72	5%
Cost(Rs.)	2,895,574	1,980,366	46%
Intensity(Cost/Employees)	9,431.84	7,444.98	27%

Compliance With Environmental Laws and Regulations **GRI 307 - 1**

In the year under review, there were no significant fines or non-monetary sanctions for non-compliance with environmental laws and/or regulations.

Carbon Neutral Initiatives

As a signatory to the to the Karlsruhe Resolution at the Global Sustainable Finance Conference held in Germany in 2017, AFC has effectively pledged its support to the Sustainable Development and battling Climate Change, through our contribution towards achieving UN Sustainable Development Goals (SDGs) and the commitment to the Paris Climate Agreement (COP21), collectively referred to as "Agenda 2030." To catalyze this commitment into definitive action, AFC launched the "Thuru Mithuru" project on World Environment Day in June 2018. The single-largest environmental initiative undertaken by the Company in its 60 year history, "Thuru Mithuru" is an ambitious effort which would be implemented over the next five years with the objective of neutralizing the Carbon Dioxide emitted by the Motor Vehicles leased by AFC customers. Having determined that on average 50 trees are required to compensate for the annual fuel consumption of each unit leased from the Company, the target for the "Thuru Mithuru" project is to plant one million trees by the year 2023.

On day one alone - 5th June 2018, a total of 176,518 were planted under the "Thuru Mithuru" project with the participation of over 371,000 school children from 990 schools in all 25 districts across Sri Lanka. Since then, a further 39,695 saplings have been planted, in collaboration with the Lion's Club, Road Development Authority, Norochcholai Power Plant and several leading schools, totaling up to 215,913 enabling the project to achieve 22% of its target by 31st March 2019.

AFC has made an annual commitment of 4% of post-tax profits for Sustainability Initiatives of which a significant portion will be allocated in order to execute the “Thuru Mithuru” project.

Expected Outcome of one million trees planted under the “Thuru Mithuru” project

Quantum of CO ₂ being offset	22,000 MgCO ₂ / annually
No. of vehicles for which CO ₂ will be absorbed	16,013 / annually
Equivalent forest acres	33,333

Biodiversity Conservation

GRI 304 - 2 GRI 304 - 3 GRI 304 - 4

Peak Ridge Forest Corridor Project :
 AFC partnered with the Wilderness and Wildlife Conservation Trust (WWCT), founded by reputed ecologists and conservationists Anjali Watson and her husband, Dr Andrew Kittle, to foster co-existence in the Central Highlands of Sri Lanka among people and Leopards, the largest cat in the country. The project spanning 18 months is centred on protecting a 18 acre ridge in the Central Highlands (declared a World Heritage Site in 2010), and home to 19 Leopards and a host of other species of flora and fauna. This ridge is also a vital catchment area for two main reservoirs in the area as well.

Due to increasing threat of human encroachment, the ecosystems and natural habitats within the ridge have continued to deteriorate in recent years, calling for urgent action to protect the ridge and its surroundings. Protecting the ridge primarily involves creating a safe habitat for the Sri Lankan Leopard (*Panthera pardus Kotiya*), with a population of around 700 - 1000 has been listed as Endangered on the IUCN Red List. Protecting the Leopards known as “umbrella species” also has a cascading effect on safeguarding many other species in the same territory.

By partnering on this project AFC will help

to conserve the flora and fauna species including the Leopards and restore the ecosystem of the ridge, while providing a lasting solution for the Human – Leopard encounters



Signing of the MoU with WWCT

Peak Ridge forest corridor project outcomes 2018/19

- Identified a total of 19 individual leopards (6 adult females; 5 adult males; 6 cubs; 2 new juveniles) to date, using this Ridge area.
- Monitoring of the Ridge via remote cameras are ongoing.
- Recording leopard activity and residency patterns .
- Documenting of mammal (prey) availability. Documented a minimum of 22 mammal species to date, within the Ridge area.
- Herpetological surveys to quantify amphibian and reptile presence
- Habitat mapping
- Assessment of habitat type along the Ridge to identify areas that could benefit from habitat restoration.



During the project WWCT has encountered a new female leopard dwelling in the project area and AFC had the privilege of naming her Nala. By partnering with the WWCT project AFC is helping to protect many others like Nala of this endangered species for the world and for the future

Our Focus, Going Forward

Medium Term

1. Develop and operationalise more products based on the Sustainable Finance model
2. Initiate other value adding activities.

Long Term

1. Invest in meaningful and high impact environmental projects that will neutralize the Company’s carbon footprint and contribute towards greater environmental sustainability

Capital Management Report

AFC "Thuru Mithuru" tree planting programme 2018/19 - highlights




215,913
 trees planted


60
 Locations


900+
 Schools


371,000+
 School Children



Capital Trade Offs

In the process of executing our strategy, we make a conscious effort to allocate our capital and resources efficiently to ensure that we can continue to maximise long-term value for all stakeholders. Despite our efforts, we do have to often contend with some trade-offs between our material capitals and the below table illustrates some of the trade-offs that were made in 2018/19 as a result of our decision to pursue certain activities in line with our strategic drivers;

Strategic Driver	Trade off	Negative Impact	Positive Impact
Consolidate the geographic footprint	<p>The process of amalgamating our DF branches with our RFS branches under the "One Team - One AFC" programme, has several implications. For instance the human factor needed to be carefully managed, especially given the changes in the supervisory structures. Operational workflows also needs to be realigned in order to support the new structure, which meant additional investments in training and IT facilities in the short term.</p> <p>However in the long term, the completion of the "One Team - One AFC" initiatives will strengthen the brand visibility and improve the customer value proposition, providing a scalable platform from which to grow the business in the future.</p>	<p>Manufactured Capital</p> <p>Financial Capital</p> <p>Human Capital</p>	<p>Intellectual Capital</p> <p>Social and Relationship Capital</p> <p>Financial Capital</p>
Increased investment in technology	<p>Investments in technology, especially when revamping core architecture involves a significant cost outlay over the short term. Moreover, the process of automation may require employees to be realigned calling for internal changes in job structures and reporting lines, which in turn may have a negative impact on motivation and satisfaction levels.</p> <p>In the long run however these investments will translate into increased process efficiency, more customer centric products and the ability to enhance the customer and employee experience, all leading to positive impacts on the bottom line while building resilience against external pressures.</p>	<p>Financial Capital</p> <p>Human Capital</p>	<p>Intellectual Capital</p> <p>Manufactured Capital</p> <p>Human Capital</p> <p>Social and Relationship Capital</p> <p>Financial Capital</p>
People Development agenda	<p>Each year, the cost of recruiting, training, developing and retaining our workforce continues to grow with an increasing impact on our bottom line.</p> <p>However the long term benefits are far more significant. For instance the ability to build a strong dependable talent pool will ensure AFC is able to better execute its strategy and achieve planned growth objectives, ultimately leading to improved profits in the long run.</p> <p>The ability to attract and retain the best in class talent will also boost brand value and project AFC as an employer of choice in the NBFi sector.</p>	<p>Financial Capital</p>	<p>Financial Capital</p> <p>Human Capital</p> <p>Intellectual Capital</p>
Social and Environmental best practices	<p>Implementation of such initiatives call for widespread changes to the Company's long standing business practices, which in turn requires business process re-engineering as well as a considerable investment in training to attain the desired cultural change</p> <p>In the long term, however such best practices will support the achievement of AFC's aim of being Sri Lanka's first certified fully sustainable financial Institution while making a material contribution towards national and global sustainability goals.</p>	<p>Human Capital</p> <p>Financial Capital</p>	<p>Social and Relationship Capital</p> <p>Intellectual Capital</p>
Corporate Stewardship	<p>All corporate stewardship activities involve a cost outlay that impacts the Company's bottom line.</p> <p>However, consistent and ongoing investment helps to strengthen public trust in the Company that will undoubtedly go on to enhance AFC's brand value and business development in the long run.</p>	<p>Financial Capital</p>	<p>Intellectual Capital</p>

Promote

Promoting organic food cultivation and consumption with health, planet and well-being in mind.



- *Championing the 'Grow Natural Food' concept by facilitating the cultivation of a model organic garden at Princess Tamil Maha Vidyalaya, Gonapitiya.*
- *Rs. 400,00 invested in promoting environmental sustainability through the provision of organic fruits and vegetables to school children and the local community*
- *Partnering Mihimadala Organic Food Producers to obtain organic fruit and vegetables for the staff – enhancing our positive social impact on food culture.*



Corporate Governance

Dear Stakeholder,

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

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

Board Commitment

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

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

Culture

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

Declaration by the Board

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



Ramani Ponnambalam (Mrs.)
Chairperson

26th June 2019

GOVERNANCE HIGHLIGHTS – 2018/19 | GRI 102 – 29

- Appointment of the Chairperson Mrs. Ramani Ponnambalam
- Appointment of an the Independent Non – Executive Director of Mrs. Priyanthi de Silva
- Appointment of the Executive Director – Credit Operation and Marketing of Mr. Ravi Rambukwelle
- Approved the five year Sustainability integrated Strategic Plan
- Approved the purpose statement and company values as necessitated by the global Sustainability Certification of Sustainability Standards and Certification Initiative (SSCI)
- Approve the system integration of the ESMS, that enables social and environmental Risk Management and impact measurement

Corporate Governance Framework

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

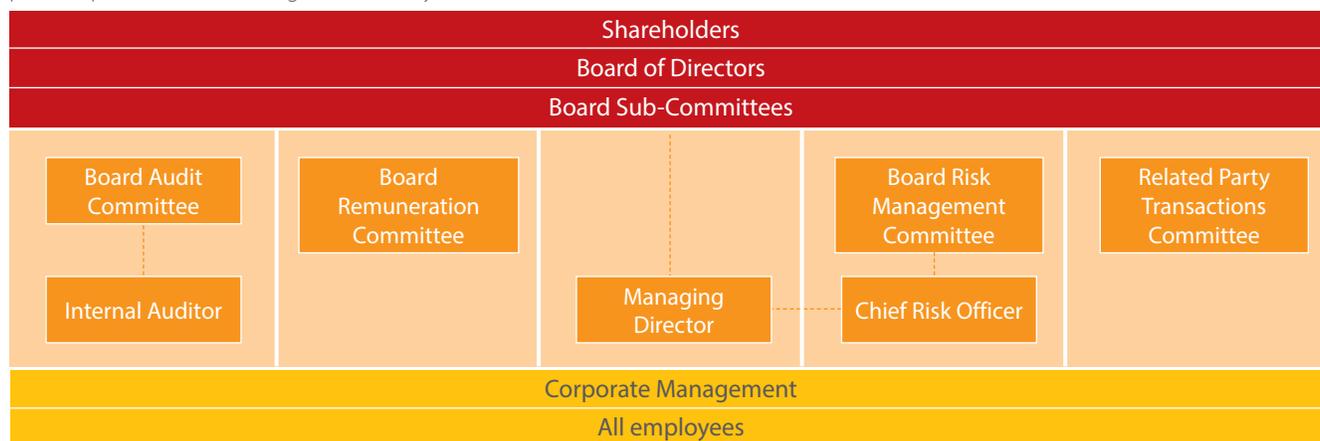
AFC’s Corporate Governance Framework reflects the Company’s commitment to comply with all regulatory requirements and the corporate best practices which are embedded in the governance structure of AFC to ensure the effective practice of good governance.

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

Corporate Governance

Corporate Governance Structure GRI 102 – 18

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

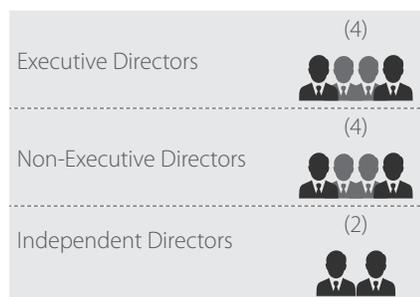


Roles and Responsibilities GRI 102 – 26

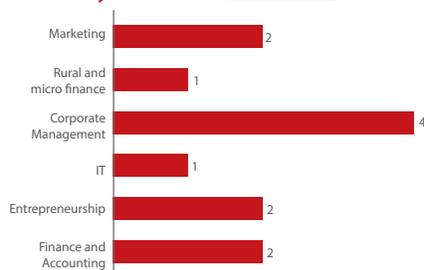
The Board

AFC's Board comprises of individuals with the correct balance whose qualifications, experience and the capabilities are appropriate for the scale, complexity and strategic positioning of the business. The Board consists of an appropriate balance of Executive and Non-Executive Directors who collectively bring a strong and in-depth mix of business skills, experience and considerable knowledge to assist with Board decisions. Further details on the Board Profiles are available on pages 28 - 29.

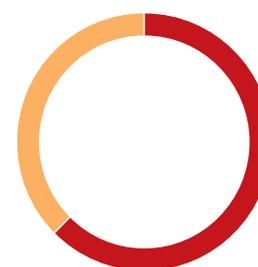
Board Composition GRI 102 – 22



Diversity and Skills GRI 102 – 27



Age Representation



● 40 - 60 years - 62%
 ● Above 60 years - 38%

Board Meetings

The Board meetings are held at least once every month with additional meetings held if and when required. The Board met 25 times during the year, with all Board Meetings characterized by high attendance, active participation, constructive and open discussions.

Attendance at Board Meetings **GRI 102 – 22** **GRI 102 – 23**

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

Director	Board Meeting	Audit Committee	Remuneration Committee	Board Risk Management Committee	Related Party Transactions Review Committee
Former Chairman Mr. Sunil Karunanayake - demise 27 th May 2018	-	-	-	-	-
Mrs. R.N Ponnambalam Apptd. Chairperson w.e.f 31st July 2018	25/25	-	3/3	-	3/3
Mr. R.K.E.P de Silva	24/25	-	-	4/4	-
Lt. Col (Retd) A.R. Samarasinghe	25/25	11/11	3/3	4/4	3/3
Mr. J.M Gunasekera	25/25	-	-	3/4	-
Dr. L.A.P Medis	23/25	-	-	-	-
Mr. W.P.K Jayawardana	25/25	-	-	4/4	-
Mr. R.E Rambukwelle Apptd. 7 th Sept. 2018	12/25	-	-	3/4	-
Mrs. Priyanthi de Silva Apptd. 9 th Aug. 2018	14/25	8/11	3/3	3/4	2/3

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

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

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

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

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

Corporate Governance

Role of the Board **GRI 102 – 26**

GRI 102 – 29 **GRI 102 – 31**

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

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

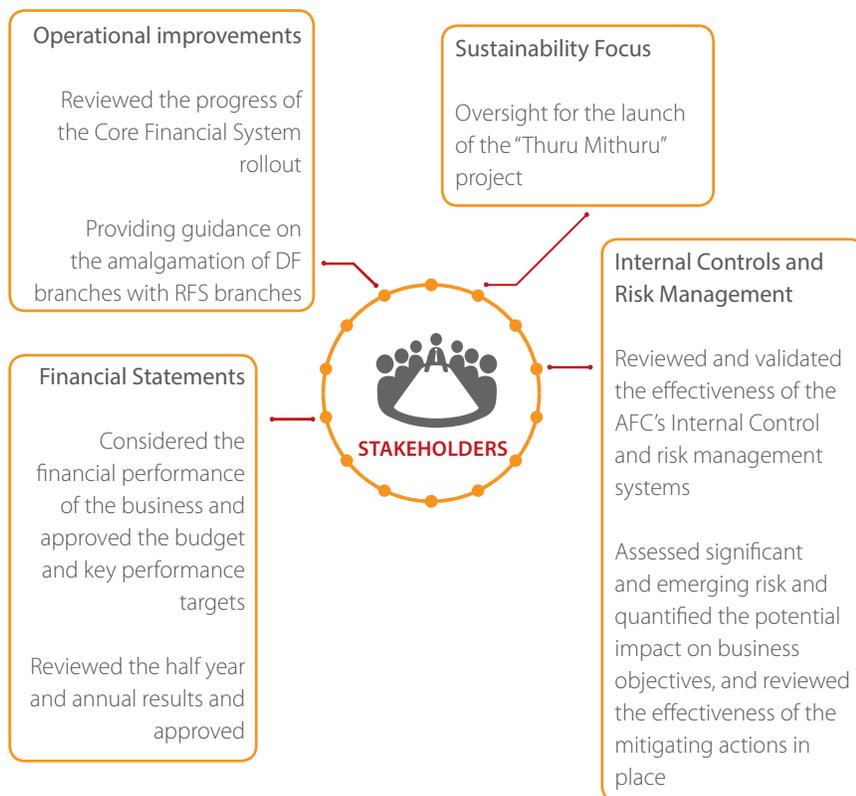
- Providing goal and objective oriented strategic direction and support in a manner which maximizes opportunities to develop the business' profitability, whilst assessing and managing associated risks
- Being present at Board meetings and engaging in active debate regarding the Company's financial and operating performance and external issues material to the Company's prospects and directing and redirecting where necessary.
- Evaluating the performance against set objectives and goals both financial and non financial and seizing opportunities that provides itself by making business specific decisions that add value to the Company and/or which is in line with its sustainability mandate.
- Ensuring that the financial, management and other resources required to meet its objectives are in place

- Ensuring that the right framework is in place and assessing it periodically to ensure that the deliverables could be optimized within the set regulatory and risk based parameters.

KEY MATTERS RESERVED FOR BOARD APPROVAL

<p>Strategy and Risk management</p> <ul style="list-style-type: none"> • Formulation and approval of long-term objectives • Approval of changes to capital structure • Approval of major changes to management and control structures • Approval of extension of activities into new businesses or geographical areas • Evaluating major risks and advice required risk mitigation strategies 	<p>Financial and internal controls</p> <ul style="list-style-type: none"> • Oversight of risk management and internal control framework • Approval of Financial Statements and results announcements of results • Approval of Shareholder communications, circulars and notices of meeting • Approval of the auditor's remuneration and recommendations for their appointment/ removal • Recommendation and declaration of dividends • Monitoring the Company's businesses against plan and budget • Approval of major capital expenditure projects • Approval of material contracts
<p>Corporate governance</p> <ul style="list-style-type: none"> • Undertaking formal performance reviews of the Board, Committees and individual Directors • Determining the independence of Directors 	<p>Board membership and Committees</p> <ul style="list-style-type: none"> • Approval of remuneration of the Non-Executive Directors • Setting of Board Committees' Terms of Reference
<p>Policies</p> <ul style="list-style-type: none"> • Review and approval of Company policies 	

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



Chairperson's Role

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

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

- Ensuring Board meetings are planned and conducted effectively
- Setting the agenda for each Board meeting, taking cognizance of the matters proposed by other Directors, members of various sub-committees or the Board Secretary
- Ensuring the Board members receive accurate, timely and clear information
- Ensuring minutes of Board meetings are accurately recorded and circulated amongst the Directors.
- Provides leadership and governance of the Board so as to create the conditions to improve the Board's and individual Director's effectiveness, and ensures that all key and appropriate issues are discussed by the Board in a timely manner
- Promoting a culture of openness and encouraging constructive debates and challenges, between Non-executive Directors regarding Board matters so as to fully contribute to the effective functioning of the Board.

Quality and Competencies of the Board

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

Board of Directors consists of four non-executive Directors, of which two function in an independent capacity in line with the minimum stipulated requirements under the code of best practice for Corporate Governance jointly issued by the SEC and the Institute of Chartered Accountants of Sri Lanka.

Corporate Governance

- Ensuring that the Board as a whole plays a full and constructive part in the development and determination of AFC's strategies and policies, and that Board decisions taken are in the Company's best interests and fairly reflect Board's consensus.
- Providing leadership to the process for self-assessment to generate meaningful feedback to further improve the effectiveness of the Board.

Managing Director's Role

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

Duties of the AFC Chairman

Responsibilities of AFC's MD

Company Secretary

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

Other responsibilities of the Board Secretary include;

- Co-ordinating matters pertaining to the conduct of Board Meetings and Sub committee meetings
- Facilitating adoption of best practice on corporate governance including assisting Directors with respect to their duties and responsibilities, in compliance with relevant legislation and best practices.
- Acting as the communication liaison

Chairing and managing the business of the Board

Ensuring there is an effective contribution from the Non-Executive Directors and a constructive relationship between Executive and Non-Executive Directors

The development and implementation of management strategy

The day-to-day management of the Company

Managing the senior and executive management team in successfully
 Fostering relationship with key stakeholders

between Non-Executive Directors and Management

- Ensure appropriate disclosures on related parties and related party transactions in line with regulatory requirements

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

Training for the Directors **GRI 102 – 27**

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

ACCOUNTABILITY AND ETHICS

GRI 102 – 16

Internal Control Framework

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

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

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

Risk Management Framework

GRI 102 – 30

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

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

Responsible Reporting **GRI 102 – 32**

The Board remains committed to present a balanced and comprehensive assessment of the Company's financial position, performance and prospects. Accordingly the Board considers it a key priority to ensure the timely publication of annual and quarterly results with comprehensive details enabling the stakeholders to make informed decisions. All publications comply with the statutory

requirements, procedures laid down by the Colombo Stock Exchange and the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka.

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

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

Employee Code of Conduct

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

Whistleblower Policy

The Company's Whistle Blower Policy has been formulated to enable all employees

to raise concerns against any malpractice such as immoral, unethical conduct, fraud, corruption, potential infractions of the Company This policy also outlines the reporting procedure and investigation mechanism to be followed in case an employee blows the whistle for any wrongdoing in the Company. Employees are given protection in two important areas - confidentiality and against retaliation, ensuring that employees can raise concerns regarding any violation or potential violation easily and free of any fear of retaliation, provided they have raised the concern in good faith.

Managing Conflicts of Interest

GRI 102 – 25

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

Related Party Transactions

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

Corporate Governance

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

Shareholder Rights

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

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

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

Stakeholder Feedback

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

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

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

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

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

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

Section	Rule	Compliance	Status of Compliance
02) THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS			
2 (1) Strengthening the safety and soundness of the Company			
	(a) Approve, oversee and communicate the strategic objectives and corporate values	Complied	The Board reviewed the Strategic Objectives of the Company in the light of the current economic and business climate and confirmed it and directed the Executive to make available the infrastructure to fulfill the said objectives. Measures were taken for the effective communication of the strategic objectives and corporate values throughout the Company.
	(b) Approve the overall business strategy, including the overall risk policy and risk Management	Complied	In keeping with the Company's review process, the Strategic Plan was reviewed and approved, taking into consideration the prudential measures for identification and mitigation of risk. Business strategies have been implemented with risk reward proposition within the risk appetite for each segment and product. The Company has a comprehensive risk policy framework with tools to trigger and manage risk and is monitored through the IRMC.
	(c) Identifying and managing risk	Complied	The overall risk governance framework is under the purview of the Board and is involved in assessing the risks related to the different financial products and sets the parameters for the risk appetite and risk tolerance levels. Integrated Risk Management Committee identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to pro actively manage and mitigate risks.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
	(d) Communication policy with all stakeholders	Complied	<p>The communication policy has been approved by the Board and encompasses effective communication with all its stakeholders both internal and external. The stakeholders are inclusive of depositors, suppliers, creditors, shareholders, borrowers and employees of the Company.</p> <p>Information relating to the different stakeholders has been communicated accurately and on a timely manner with sufficient detail and clarity to make the communication effective</p>
	(e) Integrity of the internal control system and management information system.	Complied	<p>The Board along with the Board Audit Committee ensures that the Company has a robust internal control framework in order to safeguard shareholders' investments and the Company's assets. Internal controls are formulated by identification of the key operations and once such identification is made a policy is developed and also processes, guidelines and other measures. Review framework is also in place to ensure that such policy, process or other measures are being adhered to as required. A Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and observations were monitored by the Board, which confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting. In addition the Company has also implemented the ISO standards which also lends to the control framework as the systems and controls are bi annually audited by External Auditors.</p>
	(f) Identifying and designating Key Management Personnel.	Complied	<p>The Key Management Personnel are identified as per the Company policy which is aided by the Sri Lanka Accounting Standards and as per the Direction issued by the Central Bank of Sri Lanka on Corporate Governance. Key Management Personnel includes the Board of Directors, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Continuous Improvement Officer, Chief Credit Officer, Chief Commercial Officer, Assistant General Manager Treasury, Assistant General Manager Deposit, Assistant General Manager Audit, Assistant General Manager Finance & Compliance, Deputy Financial Controller and Assistant General Managers Credit.</p>
	(g) Authority and responsibilities of the Board and Key Management Personnel.	Complied	<p>Key Management Personnel have definitive roles, responsibilities and accountability which is clearly set out by the Board with appropriate reporting lines which is derived from the specific job functions. These are documented and communicated to the relevant person and is reviewed periodically. The delegated authority levels are documented and is job specific.</p>
	(h) Oversight of affairs of the Company by Key Management Personnel.	Complied	<p>The Executive has overview of the KMP's who are at the level of AGM's and CXO. Whilst this is in place they too when required have to make presentations or reports to the Board Sub Committees. In addition, periodically the CXO's and Directors have to make submissions to the Board on their respective disciplines.</p>

Section	Rule	Compliance	Status of Compliance
	(i) Periodically assess the effectiveness of its governance practices, including: i) selection, nomination and election of directors and appointment of KMP ii) Management of conflicts of interest iii) Determination of weaknesses and implementation of changes where necessary.	Complied	<p>The Board assesses the effectiveness of its governance practices based on feedback at Board and KMP levels.</p> <p>The Board has adopted a nomination process for the selection of KMP's and the process has been followed during the year under review in the selection of KMP's to the Board.</p> <p>Directors' disclose their positions in other institutions they serve no sooner appointments are made to the Board. These changes of other Directorates are monitored bi annually. At the outset of an impending transaction the Director discloses the interest and then abstains from the decision making process. Due process is in place for the evaluation of such transactions and it is carried out at arms length basis.</p> <p>The Internal Control process is reviewed by the Audit Committee and if required measures are recommended for improvements.</p>
	(j) Succession plan for Key Management Personnel	Complied	The Board has identified key and critical positions and has a mapped-out a succession plan.
	(k) Regular meetings with the Key Management Personnel.	Complied	The Key Managerial Persons regularly make presentations and participate in discussions on their areas of responsibility at the Board and its sub-committee meetings and progress towards corporate objectives is a regular agenda items for the Board where Key Management Personnel are involved regularly.
	(l) Understanding Regulatory environment.	Complied	The Board of Directors closely monitor regulatory compliances at monthly Board meetings by means of a regular monthly Board Papers, presentations on compliance. Further, the Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board. All Board members attend the Directors' and CEO's forum arranged by the CBSL.
	(m) Hiring and oversight of External Auditors.	Complied	The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of it to the Board. External Auditors are appointed by the shareholders of the Company at the Annual General Meeting. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with the external audit.
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	Complied	The Board has appointed the Chairperson and the Managing Director who is the virtual CEO and there is a clear division of the documented functions and responsibilities of the Chairperson, MD and Board to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
2 (3)	Director's ability to seek independent professional advice.	Complied	The Directors are able to obtain independent professional advice as and when necessary at the Company's expense and the Board- approved procedure is in place. However, no such instances have occurred during the year.
2 (4)	Dealing with conflicts of interests.	Complied	The Directors disclose their interest in contracts and abstain from participating in the decision making process.
2 (5)	Formal schedule of matters specifically reserved for Board Decisions.	Complied	The Board has an adopted formal schedule of matters specifically reserved for the Board. Processes are in place to ensure that such matters are strictly under the purview of the Board of Directors. Meetings are structured and conducted to maintain such control.
2 (6)	Situation on insolvency	Complied	The Board is aware of the need to inform the Director of the Department of Supervision of Non-Bank Financial Institutions of such and occurrence and no such situation arose during the year and we do not envisage such situation arising in the foreseeable future.
2 (7)	Publish corporate governance report in the Annual Report.	Complied	The Annual Corporate Governance Report has been published by the Company in the Annual Report 2018/19 on pages 116 to 153.
2 (8)	Annual self-assessment by the Directors and maintenance of such records.	Complied	The Company has adopted a scheme of self-assessment to be undertaken by each Director annually.
03) MEETINGS OF THE BOARD			
3 (1)	Regular Board meetings and circulation of written or electronic resolutions.	Complied	A calendar is fixed for all Board Meetings at the commencement of the calendar year. As set out the Board meets regularly at monthly intervals and special Board meetings are convened whenever necessary. The Board met on 25 occasions during the year 2018/19. Prior to the meeting Board Papers are circulated and after due consideration the Board Papers are passed with or without the amendment. Based on the Company's requirements as and when necessary consent is obtained from the Directors through Circular Resolutions
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	Complied	The Agenda is circulated with a minimum of seven working days prior to the date of the meeting. Thereby the Directors have sufficient time to include items to the Agenda. At the request of the Directors' items have been included to the Agenda.
3 (3)	Notice of meetings.	Complied	A calendar of Board meetings are agreed upon at the outset and meeting are held as per the schedule. Agenda and Board Papers are circulated in soft form to the Directors in advance for them to make informed decisions. This also includes presentations at Board Meetings.
3 (4)	Directors' attendance at Board meetings	Complied	All Directors have attended 90% of the Board Meetings and no Director has been absent from three consecutive meetings. Directors' Attendance at Board and Subcommittee meetings, Refer page 119 for details of individual Directors' attendance at Board meetings.

Section	Rule	Compliance	Status of Compliance
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	Complied	Alliance Management Services (Pvt) Ltd., a company registered with the Registrar of Companies acts as a qualified secretary, handles the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations.
3 (6)	Responsibility of preparation of agenda for a Board meeting.	Complied	The Chairperson has delegated this to the Company Secretary to prepare the Agenda. Thereby the Company Secretary prepares the Agenda in consultation with the Chairperson.
3 (7)	Directors' access to advice and services of the Company Secretary	Complied	Access to the Company Secretary is available to all Directors in order to ensure that the Directors have the required information with regard to the applicable laws, directions, rules and other matters
04) COMPOSITION OF THE BOARD			
4 (1)	The number of Directors	Complied	At the close of the Financial Year the Board comprised of eight (8) Directors. During the year due to the demise of the Chairman, a Chairperson was appointed and two Directors were appointed in August and September 2018. The balance between the Executive and Non Executive Directors is maintained.
4 (2)	Period of service of a Director	Complied	In compliance with the maximum number of years for a Director, no Non Executive Director has exceeded nine years in service. Details of their tenures of service are given on pages 28-29.
4 (3)	Board balance	Complied	Board balance was maintained throughout the year.
4 (4)	Independent Non-Executive Directors and the criteria for independence.	Complied	The Board has the required number of Independent Directors and their independence is maintained throughout the year is stringently observed. As the Chairperson is Non Executive and non Independent, a Senior Director has been appointed.
4 (5)	Appointment of Alternate Directors.	Complied	There were no Alternate Directors appointed or operated during the year 2018/19
4 (6)	Skills and experience of Non-Executive Directors.	Complied	Based on the nomination process, the Board of Directors discuss and agree on the expertise required at Board level. Once this is determined, Non Executive Director with the required expertise and experience is invited to join the Board.
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	Complied	Quorum required for all Board Meetings is half of the Directors present being Non Executive. On this basis all meetings were rightly constituted
4 (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors.	Complied	The Independent Non Executive Directors are identified and specified in all corporate communications. Annually their independence is ascertained via the declarations made by the Directors.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Complied	The Board adheres to the Nomination process set out by the Board when appointing a new Director. Once an appointment is determined the approval of the Director, DSNBFI is obtained prior to appointing the Director. Once the Director is appointed, the Colombo Stock Exchange is notified through an announcement.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment.	Complied	The Directors who are appointed during a financial year are subject to re-election at the Annual General Meeting subsequent to their appointment provided such appointments are not made during the period of notice for the General Meeting. During the current financial year the Directors so appointed are subject to retirement and re-election.
4 (11)	Communication of reasons for removal or resignation of Directors.	Complied	There was no occurrence during the current financial year. However, in the event there is a resignation or removal the DSNBFI is duly notified with the reasons for the resignation and their approval is obtained. Thereafter the information is disseminated through the Colombo Stock Exchange.
05) CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETY OF DIRECTORS			
5 (1)	The age of a Director shall not exceed 70 years.	Complied	None of the Directors on the Board are over 70 years
5 (2)	Directors shall not hold office as a Director of more than 20 Companies / Societies / Corporate bodies including Associate and Subsidiary Companies.	Complied	None of the Directors hold office as Director or equivalent position in 20 or more establishments.
06) DELEGATION OF FUNCTIONS			
6 (1)	Delegation of work to the Management.	Complied	As empowered, the Board has delegated the particular functions to the Managing Director, Executive Directors and Key Management personnel.
6 (2)	Periodical evaluations of the delegation process.	Complied	Delegated authority levels and powers are evaluated by the Board and at Management level to ensure that it is current and reflects the structure that is best suited to produce the desired outcome.
6 (3)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Complied	The Board adheres to the Nomination process set out by the Board when appointing a new Director. Once an appointment is determined the approval of the Director, DSNBFI is obtained prior to appointing the Director. Once the Director is appointed the Colombo Stock Exchange is notified through an announcement.
07) THE CHAIRPERSON AND CHIEF EXECUTIVE OFFICER			
7 (1)	Division of responsibilities of the Chairman and CEO	Complied	The offices of the Chairperson and the Managing Director are clearly defined. Chairperson does not carry out executive functions.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	Complied	Chairperson is a Non-Independent Non-Executive Director. The Chairperson being non independent, a Senior Director was appointed.
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	Complied	A formal procedure is in place to identify the relationships between the Directors and particularly between the Chairperson and the Managing Director. Based on this there is no material relationship between the Directors or the Chairperson and Managing Director.

Section	Rule	Compliance	Status of Compliance
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied	The Board is cognizant of the fact that the Chairperson would give the required leadership to the Board. Facilitates the effective and timely decision making process by ensuring the flow of information and providing guidance at meetings.
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	Complied	Preparation of the agenda has been delegated to the Company Secretary who circulates a formal agenda prior to the Board meeting which is pre approved by the Chairperson.
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	Complied	The Chairperson ensures that all Directors are adequately briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to the meeting.
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company.	Complied	The Chairperson facilitates and encourages active contribution by all Directors during deliberations at Board level and the decision making process to ensure that the outcome is in the best interest of the Company.
7 (8)	Facilitate effective contribution of Non- Executive Directors and relationships between Executive and Non-Executive Directors.	Complied	With a view to optimizing the decision making process, the Board is constituted with adequate number of Non Executive Directors who impact the decision making by their objective independent outlook. They also contribute by serving on the Sub Committees and lend their expert advice on specific areas.
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties.	Complied	The Chairperson does not have executive functions nor does she carry out supervisory functions.
7 (10)	Maintain effective communication with shareholders.	Complied	The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with shareholders and they are given the opportunity to take up matters for which clarification is needed and also their views are communicated to the Board. Further, the Board approved communication policy evidences the Company's process in this regard.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
7 (11)	Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses	Complied	The Managing Director of the Company is the virtual CEO of the Company and is the apex executive of the Company. The management of the Company by the Managing Director who is responsible for the functionalities of the Company on a daily basis is facilitated by the Executive Directors and the Key Management personnel.
08) BOARD APPOINTED COMMITTEES			
8 (1)	Establishing Board committees, their functions and reporting.	Complied	<p>The following committees have been appointed by the Board and each such committee is required to report to the Board:</p> <ol style="list-style-type: none"> 1. Audit Committee 2. Integrated Risk Management Committee 3. Remuneration Committee 4. Related Party Transactions Review Committee <p>The respective Committees present their recommendations to the Board and such recommendations are discussed at Board level and implementation is set out by the Board. The Committee Reports are published in the Annual Report.</p>
8 (2) Audit Committee			
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	Complied	<p>The Chairman of the Audit Committee was the late Mr. Sunil Karunanayake and after his demise, Mrs. Priyanthi de Silva was appointed as the Chairperson of the Audit Committee.</p> <p>She is an Independent Non Executive Director and holds the requisite qualifications. Her profile appears on page 29.</p>
	(b) All members of the Committee to be Non-Executive Directors	Complied	All the members of the Audit Committee are Non-Executive Independent Directors.
	<p>(c) Functions of the committee include;</p> <ol style="list-style-type: none"> (i) the appointment of the External Auditors (ii) the implementation of the Central Bank Guidelines. (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor 	Complied	<p>The Audit Committee has recommended;</p> <ul style="list-style-type: none"> • The re-appointment of M/s. Edirisinghe & Co., Chartered Accountants as External Auditors for audit services; • The implementation of guidelines issued by Central Bank of Sri Lanka to Auditors from time to time. • The application of Accounting Standards in consultation with the Chief Financial Officer and External Auditors; • The service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. • No resignation or dismissal of the Auditor has taken place during the year under review. • The Committee ensures that the requirement of rotation of external Audit Engagement Partner, once in every five (5) years, is met.

Section	Rule	Compliance	Status of Compliance
	(d) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.	Complied	The External Auditor has provided an independent confirmation in compliance with the guidelines for appointment of Auditors of Listed Companies. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines.
	(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering (i) skills and experience of the Auditor (ii) threat to the independence (iii) fee for the non-audit services and independence	Complied	A Board approved process is in place for the engagement of the Auditors to provide non audit services. This process will be adopted only to carry out work where the objectivity of the External Auditor's independence is not compromised.
	(f) Determines the nature and the scope of the External Audit.	Complied	A comprehensive presentation is made by the Auditors to the Audit Committee at a meeting where the proposed audit plan, scope and resources and time lines are set out. The Audit Committee then reviews it and recommends changes if required to further strengthen the audit process.
	(g) Review the financial information of the Company.	Complied	Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit judgments in the Financial Statements, going concern assumption and compliance with Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.
	(h) Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Management Personnel (if necessary)	Complied	The Audit Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2018/19
	(i) Reviewing of the External Auditors' management letter and the response thereto	Complied	The Audit Committee upon receipt of the Management Letter, requests the Company to compile the responses to the queries raised and once both are compiled the Auditors are invited to make a presentation at the Audit Committee with the responses of the corporate Management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, where necessary.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
	(j) Review of the Internal Audit Function <ul style="list-style-type: none"> • Review scope, function and resources • Review of Internal Audit Programme • Review of Internal Audit Department • Recommendations on Internal Audit functions • Appraise the resignation of senior staff of Internal Audit and any outsourced service providers • Independence of Internal Audit functions 	Complied	<p>Annually the Internal Audit Plan is prepared and presented to the Audit Committee. The Audit Committee thereafter reviews the plan and recommends changes if required only. The scope of the audits are reviewed based on the functionalities and considering the different business segments and the related risk profiles. Based on critical factors which the Committee considers vital, the scope is enhanced or frequency increased as the case may be. Once the plan and scope are finalized the resources are mapped out and a recommendation is made to the Board with regard to it. The Internal Audit Department carries out the internal audits.</p> <p>The internal audit plan is reviewed bi annually. Review of the Internal Audit Department is carried out by the Audit Committee. Recommendations are made to the Board on the functions of the Internal Audit Department. Audit Committee ensured the independence of the Internal Audit through the framework that is in place.</p>
	(k) Consideration about the internal investigations and Management's responses.	Complied	Any request by the Management for specific audits is channeled through the Audit Committee. Such audits have specific scope which is then considered by the Committee and assigned to the Internal Audit Department. Such reports and responses are considered by the Committee and passed on to the Management for necessary action. Such audits are for improving processes or methodology.
	(l) Attendees of Audit Committee meeting with corporate Management and External Auditors.	Complied	The Committee met twice with the External Auditors without the presence of Executive Directors. The Managing Director, Executive Directors, Chief Financial Officer, Chief Risk Officer, Compliance Officer and AGM's attended the meeting as and when invited.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary	Complied	The Board has ensured that this is in place and it is under the Audit Committee for the internal audit function.
	(n) Regular meetings	Complied	The Audit Committee meets minimum once a quarter and more often as required. The audit findings were issued to its members in advance and the Minutes of the meetings maintained by the Company Secretary. The Committee has met 11 times during the year and the attendance at those meetings is set out on pages 162 to 163 in Audit Committee Report.
	(o) Disclosures in the Annual Report.	Complied	The Report of the Board Audit Committee is on pages 162 to 163 and includes the detailed activities, meetings held during the year and the Directors attendance at the Audit Committee Meetings.

Section	Rule	Compliance	Status of Compliance
	(p) Maintain minutes of meetings	Complied	The Company Secretary acts as the Secretary of the Audit Committee and records and maintains all minutes of the meetings.
	(q) Whistle blower Policy	Complied	The Company has a Board-approved Whistle blower Policy whereby employees of the Company are entitled to raise concerns in confidence about the malpractices in the Company.
	(h) Meeting of External Auditors to discuss issues and problems of interim and final audits in the absence of Key Management Personnel (if necessary)	Complied	The Audit Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2018/19.
8 (3) Integrated Risk Management			
	(a) The composition of IRMC	Complied	Composition of the IRMC: Two Independent Non-Executive Directors, three Executive Directors at the beginning of the financial year, which increased to four during the latter part of the financial year including Managing Director and other Key Management Personnel, Chief Financial Officer, Chief Recovery Officer, Chief Credit Officer, Chief Commercial Officer, AGM Treasury, AGM Internal Audit.
	(b) Periodical risk assessment	Complied	The Board has approved a Risk Management Policy which serves as the framework on which the Committee functions. Chief Risk Officer presents risk assessment to the Committee and Committee then reviews the risks and recommends mitigating measures.
	(c) Review the adequacy and effectiveness of Management level committees to manage risk	Complied	The Committee reviews the specific risks and recommends measures to manage same within the risk parameters.
	(d) Corrective action to mitigate the risk	Complied	The Committee discusses the mitigation of risks and measures, the corrective action taken and the time frame to implement such measures.
	(e) Frequency of meetings	Complied	The Committee has met four times during the year to assess the risks of the Company.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	Complied	The Risk Committee recommends action to be taken against officer to the Executive as and when required.
	(g) Risk assessment report to the Board	Complied	The Committee had apprised Board of the risks and recommendations through the Executive.
	(h) Establishment of a compliance function	Complied	The Board has appointed a Compliance Officer who is responsible for the compliance function of the Company. There are periodic reports to confirm with the compliance on all statutory, regulatory and other requirements.

Corporate Governance

Section	Rule	Compliance	Status of Compliance
09) RELATED PARTY TRANSACTIONS			
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	Complied	<p>A Board approved policy is in place which defines the related parties, scope of the Committee, transactions that come under the purview of the Committee, exceptions, review process and the disclosures. It specifies that the Director interested in a transaction cannot participate in the decision making process and abstains from the decision. The Committee reviews such transactions with Related Parties and makes recommendations to the Board on transactions with Related Parties on the best possible terms and in accordance with the best practices.</p> <p>The Committee has an approved monitoring and reporting process where such transactions are monitored.</p> <p>Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 56 on page 260 on Financial Statements</p>
9 (3)	Related party transactions.	Complied	A Board-approved process is in place to identify the related party transactions and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.
9 (4)	<p>Monitoring of related party transactions defined as more favourable treatment including,</p> <p>(a) Granting regulatory capital</p> <p>(b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counter-party</p> <p>(c) Allowing preferential treatment compared to unrelated parties in the normal course of business</p> <p>(d) Providing or obtaining services without proper evaluation</p> <p>(f) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.</p>	Complied	As stipulated in the Board-approved Related Party Transactions Policy the Committee ensures that transactions are carried out in an arms' length basis and not on more favourable terms. A methodology has been adopted to monitor such transactions.

Section	Rule	Compliance	Status of Compliance																											
10) DISCLOSURES																														
10 (1)	Publish Interim and Annual Financial Statements based on applicable accounting standards and publish in Sinhala, Tamil and English newspapers	Complied	The annual and by annual financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and have been published in the newspapers in Sinhala, Tamil and English. Interim financial statements prepared in accordance with the Sri Lanka financial reporting standards and have been disseminated through the Colombo Stock Exchange.																											
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report; (a) A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Complied	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Statement of Directors' Responsibility for Financial Reporting" on page 174.																											
	(b) A report by Board on the finance company's internal control mechanism	Complied	Directors' Responsibility Statement on Internal Control Systems over Financial Reporting is given on page 173.																											
	(c) The External Auditors' certification on the effectiveness of the internal control mechanism.	Complied	The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism which is given on page 173																											
	(d) Details of Directors and the transactions with the finance company	Complied	<p>Directors' interest in contracts with the Company are given below Including Executive Directors</p> <table border="1"> <thead> <tr> <th>Assets and Liabilities as at 31st March</th> <th>2019</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>Loans</td> <td>-</td> <td>-</td> </tr> <tr> <td>Deposits</td> <td>98,887,982</td> <td>83,564,102</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Income and Expenses</th> <th>2018/19</th> <th>2017/2018</th> </tr> </thead> <tbody> <tr> <td>Interest Income</td> <td>-</td> <td>-</td> </tr> <tr> <td>Interest Expenses</td> <td>9,680,972</td> <td>12,483,139</td> </tr> <tr> <td>Remuneration paid</td> <td></td> <td></td> </tr> <tr> <td>Short term - employment benefits</td> <td>51,895,158</td> <td>62,795,531</td> </tr> <tr> <td>Long term-employment benefits</td> <td>9,974,815</td> <td>7,913,798</td> </tr> </tbody> </table>	Assets and Liabilities as at 31st March	2019	2018	Loans	-	-	Deposits	98,887,982	83,564,102	Income and Expenses	2018/19	2017/2018	Interest Income	-	-	Interest Expenses	9,680,972	12,483,139	Remuneration paid			Short term - employment benefits	51,895,158	62,795,531	Long term-employment benefits	9,974,815	7,913,798
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Corporate Governance

Section	Rule	Compliance	Status of Compliance																																				
	(e) Fees/remuneration paid by the finance company to the Directors in aggregate	Complied	The aggregate value of remuneration paid by the Company to its Directors is Rs. 61,869,973 in 2018/19 (in 2017/18 Rs. 70,709,329). The details are disclosed under the note 56.2 to the financial statements on page 261.																																				
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds		<table border="1"> <thead> <tr> <th rowspan="2">Category of related party</th> <th colspan="2">2018/2019</th> <th colspan="2">2017/2018</th> </tr> <tr> <th>Rs.</th> <th>% of the Capital Funds</th> <th>Rs.</th> <th>% of the Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Other Key Management Personnel and their close family members</td> <td>11,358,779</td> <td>0.33%</td> <td>10,159,103</td> <td>0.34%</td> </tr> <tr> <td>Subsidiaries</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Joint Venture</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Entities which Directors and their close family members have a substantial interest</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Category of related party	2018/2019		2017/2018		Rs.	% of the Capital Funds	Rs.	% of the Capital Funds	Directors	-	-	-	-	Other Key Management Personnel and their close family members	11,358,779	0.33%	10,159,103	0.34%	Subsidiaries	-	-	-	-	Joint Venture	-	-	-	-	Entities which Directors and their close family members have a substantial interest	-	-	-	-		
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	(h) Report confirming the compliance with prudential requirements, regulations, laws and internal controls	Complied	This has been disclosed in the Report by the Board on Internal Control in page No. 173.																																				
	(i) Non-Compliance reporting	Complied	The Director Department of Supervision of Non Bank Financial Institutions had not brought to the notice of the Board on non compliance with this Direction.																																				
	(j) The External Auditors' certification of compliance with the corporate governance direction	Complied	The Company has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Direction.																																				

Compliance with the Code of Best Practice on Corporate Governance 2017 Issued by the Institute of Chartered Accountants of Sri Lanka governance for Licensed Finance Companies in Sri Lanka **GRI 102 – 28**

Code Reference	Compliance and Implementation	Status of compliance	Complied
A DIRECTORS			
A.1	The Board	At the beginning of the financial year the Board comprised of 7 Directors and during the year after the demise of the Chairman, a Chairperson was appointed and at the close of the financial year on 31st March 2019, the Board comprised of 8 Directors, four of whom functioned in Non-Executive capacity of which two Directors are independent. The Non-Executive Directors, have the required professional competence, skills and experience in the fields of finance, business, IT, and marketing. The Board is overall responsible for the direction and the strategy of the Company whilst the Managing Director and the Executive Directors are responsible for the day to day management of the Company and delivering on the Strategic and Corporate Plan, both on the financial and the qualitative objects set by the Board.	✓
A.1.1	Regular meetings	Board Meetings are held on a monthly basis on the pre-agreed dates which is changed if required to facilitate maximum attendance. In the financial year 2018/19 the Board met twenty five (25) times during the year. Attendance at meetings appears on page 119.	✓
A.1.2	Role and responsibilities of the Board	The Board approved a Strategic Plan for the next four years commencing in the financial year 2019/20. The plan encompasses the strategic direction of the Company and the objectives	✓
A.1.3	Act in accordance with laws	The Board has set out a framework to ensure that the Board and the Directors in their individual capacity and the Company complies with the laws of the land and the regulatory obligations. The Board is apprised by Compliance of the new enforcements that have to be complied with in regard to the applicable laws and regulations and standards.	✓
A.1.4	Access to advice and services of Company Secretary	The Directors have access to the Company Secretary, a company duly registered as a qualified Secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations.	✓
A.1.5	Independent judgment	The Board comprises of Executive and Non Executive Directors whose independence is assured at all times. On matters being deliberated they each bring independent judgment and objectivity which then translates to an informed and collective decision making.	✓
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	The Board Meetings are structured in a manner which enables Directors to dedicate such time as required. Meetings of the Committees they serve in too is structured to optimize the time expended in making well informed decisions stemming from adequate material sent in time prior to the relevant meeting.	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.1.7	If necessary in the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board	No such resolutions were presented to the Board	✓
A.1.8	Board induction and training	The newly appointed Directors were given appropriate briefing on the affairs of the Company and the business philosophy. Directors are encouraged to attend forums which have direct relevance to their sphere of work and also others. Programs relating to changes in the applicable laws and regulatory framework are attended by the Directors. In addition in house programs are conducted on matters that Directors are required to exercise independence and that which affects overall strategic direction of the Company. The Directors are apprised of the changes in the Directions issued by the Central Bank of Sri Lanka.	✓
A.2	Separating the business of the Board from the executive responsibilities for management of the Company	The Chairperson is Non Executive and does not engage in any executive functions and the Managing Director who is virtual the apex executive carries out executive functions. There is a distinct difference in the roles of both positions and the authority they exercise	✓
A.3	Chairman's role in preserving good corporate governance	The Chairperson provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	✓
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance	The Chairperson of the Audit Committee is a Fellow of Certified Practicing Accountants (FCPA) Australia and a Fellow of the Chartered Institute of Management Accountants (FCMA) UK. The Finance Director is an Associate Member of the Chartered Institute of Management Accountants (ACMA), UK and a Chartered Global Management Accountant (CGMA) 2012 and also a qualified Accountant of the Association of Chartered Certified Accountants, UK (ACCA). Remaining members of the Board also possess experience in finance and other disciplines which has an interface with finance thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance. The profiles of the Board of Directors are given on pages 28 to 29.	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.5	Board balance	<p>It is preferable for the Board to have a balance of Executive and Non-Executive Directors as such that no individual or small group can dominate the Board's decision-taking.</p> <p>The Board should include at least two Non-Executive Directors or one-third of total Directors whichever is higher. During the financial year under review, the Board comprised of Four (4) Non-Executive Directors and Four (4) Executive Directors facilitating the required balance within the Board.</p> <p>Two or one-third of Non-Executive Directors whichever is higher should be independent. The Board has determined that two (2) of the four (4) Non-Executive Directors are Independent as per this Code.</p> <p>Evaluation of independence of Non-Executive Directors. The Board evaluates the Independence yearly using annual declarations submitted by the Directors according to the Code criteria</p> <p>Signed declaration of independence by the Non Executive Directors All Non-Executive Directors provided the signed declarations of independence for 2018/19.</p> <p>Determination of the Independence and Non-Independence of each Non-Executive Director annually. The Board has reviewed the declarations submitted by the Non-Executive Directors, and determined their independence.</p> <p>If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive Director and if an Alternate Director is appointed by an Independent Director, the person who is appointed also should meet the criteria of independence. There are no Alternate Directors on the Board.</p> <p>Senior Independent Director (SID). Confidential discussion with other Directors by the SID. The Chairperson is a Non Independent Executive Director and the Board has appointed a Senior Independent Director and the appointment was made during 2018/19.</p> <p>Meetings held by the Chairman with Non-Executive Directors. The Chairperson held meetings with Non-Executive Directors.</p>	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
		<p>Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved. There were no instances where the Directors could not unanimously resolve matters and accordingly no such matters were recorded in the minutes.</p>	
A.6	Provision of appropriate and timely information	<p>Provision of appropriate and timely information</p> <p>Management should provide timely information to the Board. The Executive ensures that timely and accurate information is provided by the Management to the Board within the required time frame to enable the Non Executive in the decision making process. The documents are also supported with presentations on key matters relating to financial performance, sustainability initiatives and matters on compliance.</p> <p>The minutes, agenda and papers required for a Board meeting should be provided before seven (7) days. Board papers agenda and minutes are circulated to the Directors along with the other documents within the agreed time frame prior to the Board meeting.</p>	✓
A.7	Appointments to the Board and re-election	<p>Nomination Committee. The Board has and approved nomination process which is stringently followed with regard to the appointments to the Board of Directors.</p> <p>Assessment of Board composition by the Nomination Committee The Board reviews the new appointments and re-elections adopting the specified process. The Articles of Association specifies the re-election of the Directors</p> <p>Disclosure requirements when appointing of new Directors to the Board Announcements are made through the Colombo Stock Exchange on the appointment of new Directors and also on the change of position. Upon the demise of the Chairman, an existing Non Executive Director was appointed Chairperson with the approval of the Central Bank of Sri Lanka and the announcement was made via the Colombo Stock Exchange. Details are given in the Annual Report with resumes for each Director.</p> <p>One Executive and another independent Non Executive Director was appointed during the year following the due process.</p>	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.8	All Directors should submit themselves for re- election at regular intervals	<p>All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.</p> <p>Re-election of Directors. Re election of Directors is stipulated in the Articles of Association of the Company for Directors who are continuing on the Board. New Directors are required to retire at the first Annual General Meeting following their appointment as per the Articles of Association and this is also required as per the Corporate Governance Code. .</p>	✓
A.9	Appraisal of Board and committee performance	<p>Appraisal of Board performance. Annually the Directors submit individual appraisal forms to the Company Secretary on the agreed format, which is then collated and discussed at the Board Meeting. Decisions made by the Board on appraisal which require action are then implemented as appropriate.</p> <p>Annual self-evaluation by the Board of its sub-committees. The appraisal of the performance of sub-committees is carried out.</p> <p>Disclosure in the Annual Report about the Board's performance evaluation methodology. Board approved procedure is in place.</p>	✓
A.10	Annual Report to disclose specified information regarding Directors	<p>Shareholders should be kept advised of relevant details in respect of Directors.</p> <p>Annual Report disclosure in respect of Directors. Profiles of the Board of Directors are given on pages 28 to 29 including other directorships held by the Directors and memberships of Board Committees. Directors attendance is disclosed on page 119.</p>	✓
A.11	Appraisal of the CEO	<p>The Board should require at least annually assessing the performance of the CEO.</p> <p>Targets for CEO at the commencement of each financial year The Managing Director functions as the virtual CEO of the Company and the performance is appraised by the Board through the annual appraisal process. The appraisal requires for Directors to assess the performance based on the annual budgets and qualitative measures that the Board set out to achieve at the commencement of the financial year.</p> <p>Evaluation of the performance at the end of fiscal year. At the end of each financial year the Board evaluates the set targets and the actual performance.</p>	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
B DIRECTOR'S REMUNERATION			
B.1	Directors' and executive remuneration	<p>The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his/her own remuneration.</p> <p>Setting up of Remuneration Committee. The functions of the Committee include determination of compensation and benefits of the Managing Director and Executive Directors. The compensation of the key management personnel are determined where appropriate.</p> <p>Composition of Remuneration Committee Composition of Remuneration Committee is in line with Listing Rules. All are Non-Executive Directors as per the Code and the Listing Rules of the CSE and two are Independent.</p> <p>Disclosure in the Annual Report about the Remuneration Committee members Remuneration Committee report is given on page 161 of the Annual Report.</p> <p>Remuneration of Non-Executive Directors. The Non-Executive Directors receive a fee for being a Director of the Board. Remuneration Committee consults the Chairperson/ MD on matters relating to the Remuneration Committee, Executive Directors and access to the professional advice</p> <p>The Committee consults the Managing Director when recommending the remuneration of other Executive Directors and also has access to professional advice when deemed necessary.</p>	✓
			✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
B.2	Level and make-up of remuneration	<p>Level of remuneration of both the Executive and the Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to corporate and individual performance</p> <p>Remuneration of Executive Directors. Remuneration of Executive Directors consists of fixed remuneration and performance based payment in order to attract, retain and motivate them.</p> <p>Remuneration packages in line with industry practices. The Remuneration Committee reviews the information relating to competitors of the Company and due care is taken to ensure that remuneration is on par with industry standards.</p> <p>Remuneration packages in line with other companies in the Group. This is not applicable to the Company</p> <p>Performance-related payments to Executive Directors. In addition to the fixed remuneration, there are performance-related elements of remuneration for Executive Directors which is directly related to performance with the objective of providing appropriate incentives to those Directors to perform at the highest level.</p> <p>Executive Share Option. There are no Share Option schemes offered by the Company</p>	✓
		<p>Designing schemes of performance related remuneration. In deciding the remuneration of the Managing Director, Executive Directors and Senior Management, the Company takes note of the appropriate provisions</p> <p>Early termination of service of Directors. This situation has not arisen</p> <p>Remuneration of Non-Executive Directors. Non-Executive Directors are entitled to fixed fees. The Company has not offered any Share Option plans to either Executive Directors or Non-Executive Directors.</p>	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
B.3	Disclosures related to remuneration in Annual Report	<p>Annual Report of the Company should contain a statement of Remuneration Policy and details of remuneration of the Board as a whole.</p> <p>Disclosure in the Annual Report about the Remuneration Committee members, statement of Remuneration Policy and aggregate remuneration paid.</p> <p>Remuneration Committee report is given on page 161 which sets out the details on the composition of the Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 56.2 to the Financial Statements on page 261.</p>	✓
C RELATIONS WITH SHAREHOLDERS			
C.1	Constructive use of the AGM and conduct of other general meetings	<p>The Board should use the AGM to communicate with shareholders and should encourage their participation.</p> <p>Use of proxy votes.</p> <p>The votes of the proxies with regard to the resolutions to be passed at the Annual General Meeting are considered</p> <p>Separate resolutions for separate issues.</p> <p>Individual resolutions are given in the Notice convening the Annual General Meeting with regard to the matters that have to be voted on at the Meeting and where shareholder approval is required.</p> <p>Arrangement made by the Chairman of the Board that all Chairmen of Subcommittees make themselves available at the AGM.</p> <p>At the Annual General Meeting the entire Board is present unless an unforeseen event prevents them from attending the meeting. The Chairs of the Board Sub Committees are also present to respond to any queries raised by the shareholders.</p>	✓
		<p>Adequate notice for the AGM to the shareholders.</p> <p>The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act.</p> <p>Procedures of voting at general meetings.</p> <p>Shareholders right to appoint a proxy for voting at AGM appears on the Notice of Meeting and on the Form of Proxy. Voting procedures at general meetings appear on the Form of Proxy</p>	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
C.2	Communication with shareholders	<p>Channel to reach all shareholders to disseminate timely information. The Company adopts the channels of communication for engaging with shareholders. Disclosures required to be disseminated through the Colombo Stock Exchange is carried out as stipulated. Such disclosures and announcements are available on the CSE website. Quarterly financials are also carried in the CSE website and is made available to the shareholders within 45 days from the end of the first three quarters of any financial year and within 90 days from the closure of a financial year. Bi annually, the financials are published in the newspapers as required by the Central Bank of Sri Lanka. The Annual Audited Financials are made available to the shareholders within five months of the closure of the financial year and the Annual Report is also available in the CSE website.</p> <p>Policy and methodology of communicating. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.</p> <p>Implementation of the communication policy and methodology. Shareholders receive the Annual Report from the Company either by way of a CD or in hard copy form. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without any charge</p> <p>Contact person. Shareholders may, at any time, direct questions and request for publicly available information from the Directors or Management of the Company. Company Secretary can be contacted for any queries of shareholders.</p> <p>Awareness of Directors on major issues and concerns of shareholders The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Board attention to the Board or individual Director/s as applicable.</p>	✓
C.3	Disclosure of major and material transactions	<p>Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company.</p> <p>Major transactions During the year, the Company did not engage in or commit to any major transactions which materially affected the Company's net asset base.</p>	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied														
D ACCOUNTABILITY AND AUDIT																	
D.1	Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects	<p>The Board should present a balanced and an understandable assessment of the Company's financial position and prospects.</p> <p>Board should present interim and other price sensitive information to the public and reports to regulators.</p> <p>The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2019 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.</p> <p>Directors' Report in the Annual Report.</p> <p>Annual Report of the Board of Directors on the affairs of the Company is given on pages 154 to 160 covering all areas of this section.</p> <p>Annual Report disclosure stating Board's and Auditors' responsibility</p> <p>Statement of Directors' Responsibility for Financial Reporting is given on page 174 and Auditors responsibility given in the Auditors' Report to the Internal Control is given on page 173 respectively.</p> <p>Management discussion and analysis</p> <p>Management discussion and analysis is given on pages 60 to 113.</p> <table border="1"> <thead> <tr> <th>Information Required</th> <th>Page</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>60</td> </tr> <tr> <td>Opportunities and threats</td> <td>56</td> </tr> <tr> <td>Risks and concerns</td> <td>56</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Company</td> <td>94-112</td> </tr> <tr> <td>Financial performance</td> <td>72</td> </tr> <tr> <td>Material developments in human resource/industrial relations and Prospects for the future</td> <td>83</td> </tr> </tbody> </table>	Information Required	Page	Industry structure and developments	60	Opportunities and threats	56	Risks and concerns	56	Social and environmental protection activities carried out by the Company	94-112	Financial performance	72	Material developments in human resource/industrial relations and Prospects for the future	83	✓
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Code Reference	Compliance and Implementation	Status of compliance	Complied
		<p>Disclosure of Related Party Transactions. A detailed Board-approved documented process is available in the Company for monitoring and reporting of Related Party Transactions. The Company Secretary makes necessary disclosures of any Related Party Transactions which require disclosure as per the rules. All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 56 to the Financial Statements on page 260.</p> <p>Directors' assumption on the going concern of the business. This is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 160.</p> <p>Serious loss of capital. No such circumstance occurred, and its likelihood of occurrence is also remote.</p>	✓
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	<p>The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Company. The IRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal control.</p> <p>Their Risk Management Report and the report by the Integrated Risk Management Committee outlines the responsibilities of the Committee and its activities during the year. The risk framework had been formulated to meet the business specific needs and codes on best practices. The risk related report and the IRMC report appears on pages 166 to 172 and the Subcommittee Reports on page 165.</p>	✓
D.3	Audit Committee	<p>The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.</p> <p>Composition of the Audit Committee. The Audit Committee comprises the following Directors: Mrs.Priyanthi de Silva – Chairperson Lt.Col. A.R. Samarasinghe – Member</p>	✓

Corporate Governance

Code Reference	Compliance and Implementation	Status of compliance	Complied
		<p>Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors. The Audit Committee periodically reviews the audit plan, scope and results of the audit and its effectiveness. Further independence and the objectivity of the Auditors are also reviewed periodically. The Committee would consider independence when providing non-audit engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors</p> <p>Disclosures made in the Annual Report about Audit Committee. Audit Committee report is given on page 162 of the Annual Report</p>	✓
D.4	Code of Ethics	<p>Company must adopt a Code of Business Conduct and Ethics for Directors, and members of the Senior Management Team. Any non-compliance with the said Code should be promptly disclosed.</p> <p>Code of Business Conduct and Ethics is in place. There were no violation for disclosure.</p>	✓
D.5	Corporate governance disclosures	<p>The Board should include this in the Annual Report setting out the manner and extent for it to be complied.</p> <p>Disclosure of corporate Governance Compliance The requirement is met with the presentation of this Corporate Governance Report from pages 125 to 153 of the Annual Report.</p>	✓
E & F	Encourage voting at AGM	<p>The Company has 1,275 ordinary voting shareholders of which 20.13% are institutional shareholders.</p> <p>All shareholders are encouraged to participate at AGM and cast their votes. The AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly.</p>	✓

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

Section	Rule	Status of Compliance	Compliance
7.6 (iv)	The public holding percentage	Please refer page 283	✓
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the Item 5.4 of the "Investor Relations" beginning and at the end of the financial year	Please refer page 158	
7.6 (vi)	Information pertaining to material foreseeable risk factors	Please refer the pages 56 to 58	
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Please refer pages 51 to 52	✓

Section	Rule	Status of Compliance	Compliance
7.6 (viii)	Extents, locations, and valuations of land holdings and Investment properties as at the end of the year	Please refer Notes 35 and 36.4 Information on the freehold land and buildings of the Company in the Financial Reports on pages 237 and 242	✓
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Please refer Note 47 Stated Capital in the Financial Reports on page 251	✓
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year	Please refer 'Shareholder Information' on pages 282 and 283.	✓
7.6 (xi)	Ratios and market price information: Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year Any changes in credit rating	Please refer 'Financial Capital' on page 72 Please refer 'Ten year summary' on page 280 Please refer 'Corporate information' on page Inner Back Cover	✓
7.6 (xii)	Significant changes in the Company or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year	Please refer Note 36 - Property, Plant & Equipment in the Financial Statements on page 239.	✓
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	There were no any share issues, rights issues or private placement during the year.	✓
7.6 (xiv)	Information in respect of Employee Share Option Schemes: Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) Highest, lowest, and closing price of the share recorded during the financial year	The Company does not have any Employee Share Ownership or Stock Option Schemes at present	✓
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules	Please refer "Report on compliance with the Rules on the Content of the Annual Report on page 152.	✓
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	The Company did not have any Related Party Transactions exceeding this threshold during the year	✓
07.10.1 NON-EXECUTIVE DIRECTORS			
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	As at 31st March 2019 The Board comprised of four Non-Executive Directors out of a total 7 members which is 50 as a preceding	✓
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised of 8 Directors as at the conclusion of the immediately preceding AGM.	✓

Corporate Governance

Section	Rule	Status of Compliance	Compliance
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	The cessation and the appointment of the Directors as disclosed in 7.10.1 (b) complied with the requirement	✓
07.10.2 INDEPENDENT DIRECTORS			
7.10.2 (a)	Two or one-third of Non-Executive Directors whichever is higher, should be independent.	The Board has determined that two Directors out of four Non-Executive Directors are Independent	✓
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	All Directors have submitted annual declarations in respect of the year under review.	✓
07.10.3 DISCLOSURES RELATING TO DIRECTORS			
7.10.3 (a)	The Board shall make determination of Independence/Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Please refer page 157 of the Annual Report	✓
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	Not applicable	✓
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer pages 28-29 in the Annual Report	✓
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	Please refer pages 28-29 in the Annual Report.	✓
07.10.4 CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS			
7.10.4 (a-h)	Requirements for meeting criteria to be independent	All Independent Directors of the Company met the criteria for independence specified in this Rule.	✓
07.10.5 REMUNERATION COMMITTEE			
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Board appointed Remuneration Committee is in place. Please refer page 161 of the Annual Report. All the Directors in the Remuneration Committee comprised of Non-Executive Directors and two are Independent Non Executive Directors.	✓
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors. Majority of whom shall be independent, whichever shall be higher.	Please refer the Report of the Remuneration Committee on page 161 to the Annual Report.	✓
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer the page 161 of Remuneration Committee Report.	✓

Section	Rule	Status of Compliance	Compliance
07.10.6 AUDIT COMMITTEE			
7.10.6 (a)	<p>The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.</p> <p>An Independent Non-Executive Director functions as the Chairperson</p> <p>One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board</p> <p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.</p> <p>The Chairman or one member of the Committee should be a member of a recognised professional accounting body.</p>	<p>All the members of the Audit Committee are Independent Directors.</p> <p>An Independent Non-Executive Director, Mrs. Priyanthi de Silva functions as the Chairperson.</p> <p>The Managing Director, the Director Finance and Operations and Chief Financial Officer attend the meeting by invitation</p> <p>The Chairperson of the Audit Committee is a Fellow of Certified Practising Accountants (FCPA) Australia, Fellow of the Chartered Institute of Management Accountants (FCMA) UK</p>	✓
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Please refer Audit Committee Report on page 162 of the Annual Report.	✓
7.10.6 (c)	<p>Annual Report shall set out;</p> <p>(i) The names of the Directors who comprise the Audit Committee.</p> <p>(ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</p> <p>(iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.</p>	Please refer the Audit Committee Report' on page 162 for the required disclosure.	✓

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

(Sgd)

Alliance Management Services (Pvt) Ltd.

Secretaries

26th June, 2019

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

As required by section 168 of the Companies Act No. 07 of 2007.

General

The Directors of Alliance Finance Company PLC (AFC) have the pleasure in presenting this report to the shareholders together with the audited Financial Statements for the year ended 31st March 2019 and the Auditors' Report, in conformity with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Leasing Act No. 56 of 2000 and amendments thereto and the Directions on same. The details set out herein provide appropriate information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and subsequent amendments thereto and recommended best practices on Corporate Governance and Finance Companies – (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka. This Report was approved by the Board of Directors on 26th June 2019.

Company Overview

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

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

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

The Company has not implemented an Employee Share Ownership Scheme.

There are no material issues pertaining to employees and industrial relations which requires disclosure.

Purpose and Values

AFC adopted a new purpose statement and a set of core values in the year under review, reflecting the Company's new business philosophy which is underpinned by the triple-bottom-line approach. These are detailed on page 4 and 5 of this Annual Report. In achieving its set goals and objectives all Directors, management and employees of AFC conduct their activities to the highest level of ethical standards and integrity as set out in the Code of Ethics

Principle Business Activities

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

In the year under review, the Company began engaging in the sale of agricultural equipment. The principal activity of the subsidiary Alfinco Insurance Brokers (Pvt) Ltd., is brokering of insurance business.

Branch Network

The Company maintained 91 points of presence as at 31st March 2019. In the year under review, the Company began the process of consolidating its branch network with several branches being amalgamated

in order to form a more structured branch model. More details regarding this is available on page 77 of the Annual Report.

Review of Operations and Future Developments

An overall assessment of the Company's financial position and performance during the year, with the comments on financial results, special events that took place and future developments, is summarized in the Chairman's Message on (Pages 18 to 21) and the Managing Director's Review on (Pages 22 to 26), while comprehensive details are available in the Business Report on (Pages 63 to 71) and the Capital Management Report on (Pages 72 to 113) of this Annual Report. These sections form an integral part of the report of the Directors, and together with the audited financial statements reflect the state of affairs of the Company for the year ended 31st March 2019.

Financial Statements of the Group and the Company

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

The Financial Statements of the Company which are duly certified by the Baker Tilly Edirisinghe & Company and approved by the Board of Directors and signed by the Deputy Chairman and Managing Director and Director Finance and Operations is shown on Pages 180 to 273 of this Annual Report.

Auditor's Report

The Company's Auditors, Baker Tilly Edirisinghe & Company performed the audit of the consolidated financial statements for the year ended 31st March 2019 and the Auditor's Report issued thereon is given on Page 176 of this Annual Report.

Accounting Policies and Changes During the Year

Significant new accounting policies adopted in preparation of the financial statements of the Company are given on Pages 187 to 214. These financial statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007 and SLFRS 9.

Accounting Period

The financial accounting period reflects the information from 1st April 2018 to 31st March 2019.

Financial Results and Appropriations

Interest Income

The total interest income of the Company for the year ended 31st March 2019 was Rs. 6,833 Mn (Rs. 6,479 Mn in 2017/18). A more descriptive analysis of the interest income is given in Note 8.1 to the financial statement on page 215.

Financial Results

The Company recorded a net profit of Rs. 306 Mn for the financial year ending 31st March 2019. The Company's performance and details of appropriation of profit relating to the Company are tabulated as follows;

	2018/19 Rs. Mn	2017/18 Rs. Mn
Turnover	16,300	14,533
Retained earnings brought forward from previous year	1,480	1,128
Less: Impact of adopting SLFRS 9	-	(20)
Add: Profit after taxation	306	728
Earnings available for appropriation	1,786	1,836
Appropriations:		
Add: Other comprehensive income	6	-
Less: Dividend paid for previous/current year	(76)	(214)
Less: Transfer to reserves	(61)	(142)
Total appropriation	(131)	(356)
Retained earnings carried forward	1,655	1,480

Provision for Taxation

The income tax rate applicable on the profits earned and rate of VAT on financial services during the year is 28% and 15% respectively. Accordingly, the current year income tax provision of the Company is Rs. 294 Mn. A more descriptive note on income tax and deferred tax of the Company is disclosed in note 17 to the Financial Statements.

Dividend

The Directors recommended a First and Final dividend of Rs. 1 per share for the year ended 31st March 2019.

The Board of Directors remain satisfied that the Company would meet the requirement of the solvency test in terms of Section 56 (3) of the Companies Act No. 07 of 2007 immediately after the payment of First and Final dividend. Accordingly, the Board of Directors has obtained a certificate of solvency from the auditors in respect of the dividend payment conforming to the above statutory provision.

Property, Plant and Equipment

The total capital expenditure incurred on property, plant and equipment (including capital work in progress) and intangible assets of the Company in the year ended 31st March 2019 amounted to Rs. 199 Mn and Rs. 8.3 Mn respectively (Rs. 194 Mn and Rs. 14.5 Mn in 2017/18). The details of property, plant and equipment are presented in Note 36 (Pages 239 to 243) to the Financial Statements.

Freehold property bearing assessment No. 199/10 and 199/11, Obeseykarapura, Rajagiriya is transferred from fixed assets to investment properties to rectify an error in classifying the same. Details of investment properties disclosed in Note 35 of page 237.

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

Extents, locations, valuations and the number of buildings of the Entity's land holding and investment properties are detailed on pages 237 and 242 of this Annual Report.

Investments

Details of investments held by the Company are disclosed in Notes 33 and 34 on Pages 235 to 236 to the Financial Statements.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the stated capital of the Company. The Stated Capital is the total of all amounts received by the Company in respect of the issued share capital.

The Stated Capital and reserves stood at Rs. 614 Mn and Rs. 3,896 Mn respectively as at 31st March 2019 (Rs. 614 Mn and Rs. 3,685 Mn as at 31st March 2018). During the financial year Rs. 61 Mn was transferred from retained earnings to the reserves (there will be a transfer only to the Statutory Reserve). The Stated Capital represents 33,696,000 Ordinary Shares.

Details of movement of reserves and stated capital are provided in the Statement of Changes in Equity on Page 184 of the Financial Statements.

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

Issue of Debentures

There were no new issues of debentures during the financial year 2018/19

Minimum Capital Requirement

The Company ensures that it maintains the statutory requirement on minimum capital, to mitigate the liquidity risk and safeguard the depositors, thus ensuring the sustainability of the Company and the industry as a whole. The information on Minimum Capital Requirement is given on Page 273 of this Annual Report.

Share Information

The ten year summary on Pages 280 to 281 and shareholder information and information on trading are provided under the title Share Information on Pages 282 to 283 of this Annual Report and is presented with the purpose of providing more price sensitive information to the shareholders which includes;

- Number of shares representing the entity's stated capital
- A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holding
- The ratio of Dividend per share, Dividend payout and Net assets per share
- Market Value per share including highest and lowest value recorded during the year and value as at end of the financial year
- Float adjusted market capitalization, public holding percentage, number of public shareholders and the Minimum Public Holding Requirement

Substantial Shareholdings

The list of the Company's top 20 shareholders, number of shares held by them, percentage of their respective holding and Public holding percentage are given under the title 'Shareholder Information' on pages on 282 to 283.

Information to Shareholders

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

Board of Directors

As at 31st March 2019, the Directorate of Alliance Finance PLC consisted of eight Directors with wide financial and commercial knowledge and experience. The Board comprises of four Executive and four Non Executive Directors. The qualifications and experience of the Directors is provided on Pages 28 and 29 of this Annual Report. The following Directors held office as at the end of the financial year.

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

The profiles of the Directors appear on pages 28 to 29.

Resignations and Appointments

During the year under review there were a few changes to our Board. It is with deep sadness that we record that our Chairman, Mr. Sunil Karunanayake passed away on 26th May 2018 and record with thanks his contribution during his term of office. Mrs. R.N. Ponnambalam was appointed Chairperson on 31st July 2018 and being non independent, Lt. Col. A.R. Samarasinghe has been named as the Senior Director. Mrs. P. de Silva Independent Non Executive Director was appointed on 9th August 2018 and Mr. R.E. Rambukwelle, Executive Director Credit Marketing and Operations was appointed to the Board on 6th September 2018. We have great pleasure in welcoming our new Directors who have expertise and experience in Finance, Compliance and Credit respectively which further strengthens the Board.

All appointments were made with the prior approval of the Central Bank of Sri Lanka.

Retirement by Rotation

Mrs. R.N. Ponnambalam retires by rotation as per Article No. 130 & 131 and being eligible offers herself for re-election with the unanimous support of the Directors.

Mrs. P. de Silva retires as per Article No.135, retirement at the AGM immediately after the appointment and being eligible offers herself for re-election with the unanimous support of the Directors.

Mr. R.E. Rambukwelle retires as per Article No.135, retirement at the AGM immediately after the appointment and being eligible offers himself for re-election with the unanimous support of the Directors.

Interest Register

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

Directors' Interest in Transactions/Related Party Transactions

The Directors of the Company have made general declarations as provided in the section 192 (2) of the Companies Act No. 07 of 2007 of their interests in transactions of the Company. Details of the transactions disclosed therein are given on Pages 260 to 262 under related party transactions. Furthermore, the Chairman, the Board of Directors has made general declarations that there is no financial, business, family or other material/relevant relationship (s) between themselves as required to be disclosed by the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

Directors' Remuneration and Related Expenditure

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

	31st March 2019	31st March 2018
Director's Emoluments Rs. Mn	62	70

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

Directors' Interest in Shares

In compliance with section 200 of the Companies Act, the Directors have disclosed to the Board their shareholding in the Company and any acquisitions or disposals thereof.

The Directors' individual shareholdings in the Company as at 31st March 2019 and 31st March 2018 are given below.

Name of Director	Shareholding as at 31/3/2019	Shareholding as at 31/3/2018
Mrs. R.N. Ponnambalam	2,666	2,666
Mr. R.K.E.P. de Silva *	8,934,075	8,934,075
Mr. J.M. Gunasekera	1,500	1,500
Mr. W.P.K. Jayawardana	100	100
Mr. R.E. Rambukwelle (appointed 6 th September 2018)	10,000	-----
Lt. Col. A.R. Samarasinghe	1,386	1,386
Dr. L.A.P. Medis	100	100
Mrs. P. de Silva (appointed 9 th August 2018)	100	100

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

Managing Directors' Interest in Shares

The Managing Director, Mr. R.K.E.P. de Silva's individual shareholdings in the Company as at 31st March 2019 and 31st March 2018 is given above.

Director's Meetings

The details of Directors' meetings are presented in the Corporate Governance report on page 119 of this Annual Report.

Board Sub Committees

Board Audit Committee

All the members of the Audit Committee are Independent Non-Executive Directors. Executive Directors, Senior Management members, internal and external auditors attend the meetings by invitation. The Board Audit Committee Report is given on Pages 162 to 163 of this Annual Report.

Integrated Risk Management Committee

The Board of Directors has established a comprehensive risk management system in the Company to identify, evaluate and manage the risks associated with the operations of the Company. The system is reviewed on a regular basis by the Board to facilitate the changes in the business environment. A detailed overview of the

process is set out in the Integrated Risk Management Committee Report on Page 165 of this Annual Report.

Remuneration Committee

The Report of the Remuneration Committee is given on Page 161 of this Annual Report.

Related Party Transactions Review Committee

The Report of the Related Party Transactions Review Committee is given on Page 164 of this Annual Report.

Directors' Responsibility for Financial Reporting

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

Directors are of the view that the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, significant accounting policies and notes for the year ended 31st March 2019 and statement of financial position as at that date have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007 and the Regulations made under Finance Business Act. No. 42 of 2011.

The "Statement of Director's Responsibility for Financial Reporting" is provided on Page 174 and forms an integral part of this report.

Donations

The Company expended Rs. 5.0 Mn for donations and Corporate Social Responsibility activities during the year (Rs. 3.7 Mn in 2017/18).

Related Party Transactions

There are no related party transactions that exceed 10% of the Equity or 5% of the total assets whichever is lower, confirmation that the Company has complied with the requirements of the Code of Best Practice on Related Party Transactions in respect of requisite disclosures is dealt within the separate report. However, the Directors have disclosed the transactions that could be classified as related party transactions which are adopted in the presentation of the Financial Statements and accordingly given in Note 56 on pages 260 to 262 of this Annual Report.

System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial operations

and compliance controls required to carry out its operation in an orderly manner, safeguard its assets and secure as far as possible and the accuracy and reliability of the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Board Audit Committee Report forms an integral part of the Annual Report and is given on pages 162 to 163. The Directors have assigned the internal audit function to the AGM Internal Audit, who reviews and reports on the effectiveness of financial, operational and compliance controls. The External Auditors too independently verify this and their certification appears on Page 173.

Corporate Governance

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

In adopting the aforesaid Corporate Governance Charter, the Board has ensured that the Company is compliant with the recommendations and proposals of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka, the Listing Rules of Colombo Stock Exchange (CSE) and the Finance Companies

(Corporate Governance) Direction No. 3 of 2008, No. 4 of 2008 and No. 6 of 2013.

The Directors declare that

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

The measures taken in this regard are set out in the Corporate Governance Report on Pages 116 to 153 of this Annual Report.

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

Human Resource

The Company has continued to invest in human capital development and implement effective human resource management policies to develop an effective and efficient workforce to optimize their contribution towards the achievement of corporate goals and objectives and to ensure the success of the Company and the workforce. The steps taken are further elaborated in the Human Capital Report on Pages 82 to 93 of this Annual Report.

Stakeholder Management / Corporate Social Responsibility

GRI 102 – 20

The Company continues to take measures on an ongoing basis to manage the expectations of stakeholders and enhance the value created to customers, suppliers, and the community. These efforts are presented in the Social and Relationship Capital Report presented on Pages 94 to 106 of the Annual Report.

Environmental Protection GRI 102 – 20

To the best of knowledge of the Board, the Company has complied with the relevant environmental laws and regulations. The Company has not engaged in any activity that is harmful or hazardous to the environment.

The Company has not engaged in any activity that caused detriment to the environment. On the contrary the Company has undertaken several initiatives that contributed to the environmental protection positively. Further details of these initiatives of the Company are outlined in the Natural Capital Report on Pages 107 to 112.

Compliance with Laws and Regulations

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

Statutory Payments

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

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

Outstanding Litigation

In the opinion of the Directors formed in consultation with the Company lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on Note 53.1 to the Financial Statements on Page 258.

Events After the Reporting Date

Details of events after the reporting date are reflected in Note 54 of Page 258 to the Financial Statements.

Going Concern

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

Auditors

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

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

Remuneration

A total amount of Rs. 1,303,065 is payable by the Company to the auditors for the year under review comprising Rs. 1,050,065 as Audit Fees and Rs. 253,000 as audit related fees and expenses.

Re-appointment

The retiring auditors, Baker Tilly Edirisinghe & Company have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the forthcoming Annual General Meeting.

They have offered their services at a remuneration of Rs. 1,400,000, comprising of Audit Fee Rs. 1,175,000 and Audit related expenses of Rs. 225,000

Annual General Meeting

The Annual General Meeting will be held at 10.00 a.m. on 31st July 2019.

Notice of Meeting

Notice of the meeting relating to the 63rd Annual General Meeting is provided on Page 295 of this Annual Report.

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

Sgd.

Alliance Management Services (pvt) Ltd.
Secretaries

26th June 2019

Remuneration Committee Report **GRI 102 – 36**

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

Committee Composition

The Committee is comprised of three Non Executive Directors two of who are Independent. Lt. Col. A.R. Samarasinghe functions as Chairman and he is an Independent Director. Our Chairman, Mr. Sunil Karunanayake, Independent Director served on the Committee till his demise on 27th May 2018. Mrs. R.N. Ponnambalam, was the third member of the Committee. The Committee was reconstituted on 9th August 2018 with the appointment of Mrs. Priyanthi de Silva, Independent Director. Presently the Committee is constituted as follows:-

Lt. Col. A.R. Samarasinghe – Chairman
Mrs. P. de Silva – Member
Mrs. R.N. Ponnambalam – Member

Meetings

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

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

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

Remuneration Policy

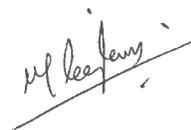
The Committee recognizes rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance based criteria. The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

Functions

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

Directors Remuneration

The details of the Directors remuneration appears on Page 261 of the Annual Report.



Lt. Col. A.R. Samarasinghe
Chairman
Remuneration Committee

26th June 2019

Report of the Audit Committee

This report is provided by the Audit Committee, in respect of the financial year ended 31st March 2019. The Committee's operation is guided by a mandate that is approved by the Board which is detailed in the Terms of Reference. The Committee is appointed by the Board and is comprised of two Independent Non Executive Directors.

Executive Functions

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

External Auditors and Audit

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

- Recommended the reappointment of Baker Tilly Edirisinghe & Co., external auditors for the financial year ended 31 March 2019,
- Approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
- Reviewed the audit and evaluated the effectiveness of the audit;
- Obtained assurance from the auditors that their independence was not impaired;
- It was noted that non-audit services were not provided by the external auditors;

In respect of Financial Statements

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

In respect of internal control and internal audit

- Reviewed and approved the annual internal audit mandate and audit plan and evaluated the independence,

effectiveness and performance of the Internal Audit Department and compliance with its mandate and continuously monitored the implementation of the audit plan by periodic reviews;

- Considered reports of the internal and external auditors on the Group's systems of internal control, including internal financial controls and maintenance of effective internal control systems;
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings and made recommendations to the Board;
- Reviewed significant differences of opinion between the internal audit function and management and noted that there were none;
- Assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory;
- Received assurance that proper and adequate accounting records were maintained and that the systems that safeguard the assets had been fulfilled
- Based on the above, the Committee formed the opinion that at the date of this report there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the group.

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

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

- Monitored compliance with the Companies Act, Finance Business Act and other relevant enactments;
- In respect of risk management and information technology
- Considered and reviewed reports from management on risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going concern assessment;
- That the controls were adequate to address all significant financial risks facing the business;
- Considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate;
- Compliance with the Legal and Statutory Requirements
- Considered the compliance with the legal and statutory requirements and concluded that it had been complied with consistently and a timely manner.

Attendance at Meetings

	Meeting Held	Meeting Present
Ms Priyanthi de Silva From August 18 to March 19	08	08
Lt.Col. Athula R. Samarasinghe	11	11



Priyanthi de Silva (Mrs.)
Chairperson
Audit Committee

26th June 2019

Meetings

The Audit Committee meets on a regular basis to review the Internal Audit Reports and the replies to take corrective action. In addition the processes and procedural compliance is also reviewed at the meetings. The Committee discussed with the Company's internal auditors and the external auditor the overall scope and plans for their respective audits.

Related Party Transaction Review Committee Report

Composition

The Board appointed Related Party Transactions Review Committee is comprised of the Board members and the Chairman of the Committee is an Independent Non Executive Director, and one other Independent Non Executive Director and a Non Executive Director. The Managing Director, Executive Directors and other officers have been invited to the meetings as and when required.

Ltd. Col. A.R. Samarasinghe - Chairman
Mr. Sunil Karunanayake - Member
(deceased 27th May 2018)
Mrs. R.N. Ponnambalam - Member
Mrs. P. de Silva - Member

The Committee was reconstituted on 9th August 2018.

Constitution

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

In carrying out the duties of the Committee the Committee is required to avoid 'conflicts of interest' which may arise from

any transaction of the Company with any person particularly with related parties, ensure arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Company to avoid engaging in transactions with related parties in a manner that would grant such parties 'more favourable treatment' than accorded to other constituents of the Company carrying on the same business.

Summary of Responsibilities of the Committee

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

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

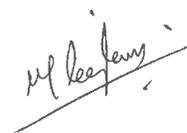
Disclosures

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

All transactions both recurrent and non recurrent were presented to the Committee and they were below the threshold which would require disclosure in terms of the Listing Rules.

Meetings

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



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

26th June 2019

Integrated Risk Management Committee Report

Composition of Board Integrated Risk Management Committee

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

Lt. Col. A.R. Samarasinghe - Chairman (Independent Non Executive Director)
Mrs. P. de Silva - Member
Mr. R.K.E.P. de Silva - Deputy Chairman & Managing Director
Mr. J.M. Gunasekera - Executive Director Sustainability
Mr. W.P.K. Jayawardana - Executive Director Finance & Operations
Mr. R.E. Rambukwelle - Executive Director Credit Marketing & Operations
Mr. E.C.S.R. Muttupulle - Chief Operating Officer
Mr. M.J. Benedict - Chief Risk Officer
Mr. G.C. de Silva - Chief Financial Officer
Mr. S. Seneviratne - AGM Treasury
Mr. C. Galhena - AGM Internal Audit

Mr. Sunil Karunanayake, Chairman of the Company and Member of the Company served on the Committee till his demise on 27th May 2018. The Committee was reconstituted on 9th August 2018 after the appointment of Mrs. P. de Silva, Independent Non Executive Director.

Charter of the Board Integrated Risk Management Committee

The BIRMC was established by the Board of Directors, in compliance with the Section 3 of Direction No. 3 of 2008 on the "Corporate Governance for Licensed Finance Companies in Sri Lanka", issued by the Monetary Board of the Central Company of Sri Lanka. The composition and the scope of work of the Committee is in conformity with the provisions of the Section 3 (6) of the said Direction.

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

Board Integrated Risk Management Committee Meetings

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

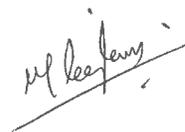
Methodology Adopted by the Board Integrated Risk Management Committee

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

To Assess All Risks on a Regular Basis Via Appropriate Risk Indicators and MIS Reports.

- To ensure that the risks of the Company are within the prudent levels decided by the Committee based on the Company's risk appetite and the regulatory and supervisory requirements. Corrective actions, if any are taken promptly on a need basis.

- To take appropriate actions against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at the Company
- To establish a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations assisted by the Compliance Officer of the Company
- To review the updated Business Continuity Plan
- During the year under review, the Committee supported and moved forward the Company's business strategy and reinforced its values in the context of a clearly articulated risk appetite and effective risk management system.



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

26th June 2019

Risk Management Report

Risk Management Strategy

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

Top 5 Global Risks for FY 2018/2019 and Impact **GRI 102 – 15**

Category	Event	Impact on Financial Industry in Sri Lanka
Economic	Weakening growth in global economy and lower growth projections for forthcoming years	Changes in the Macroeconomic fundamentals can lead to lessened growth potential, changes in spending patterns due to diminished purchasing power of customers.
Environmental	Extreme weather conditions and natural disasters	Sri Lanka has been identified as the second most affected country in the world due to climate change by Climate Risk index. Past few years recorded a number of such incidents that affected mainly the agricultural sector of the country. Drop in growth potential in this segment impacted the repayment capacity and loan grating to the segment
Geo Political	Large scale terrorist attacks and Weapons of mass destruction	A significant impact was not recognized in the context of Economy of Sri Lanka, However a subsequent terrorist attacks will have a significant impact on the economy of Sri Lanka
Societal	Water crises, Large-scale involuntary migration and Spread of infectious diseases	A significant impact was not pose to Economy of Sri Lanka
Technological	Cyber attacks and Data Fraud and Theft	Events related to cyber attacks can expose financial organisations to legal and reputation risks.

Objectives of Risk Management

The primary objectives of the risk management function of AFC are:

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

Risk Management Framework

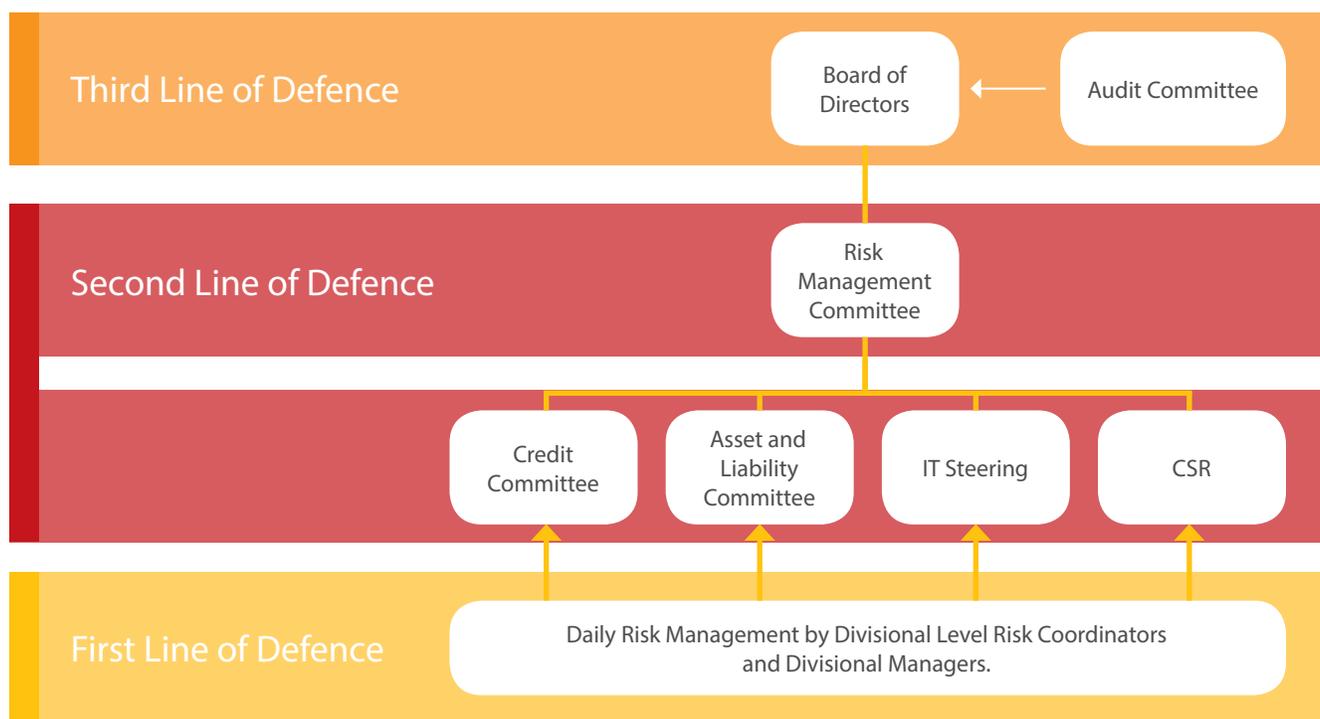
Our well-developed risk management framework and clear risk appetite, which describes the risk tolerance levels we are willing to accept in executing our strategy, ensures a consistent approach to managing risk across the Company.

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

Risk Governance (Three-lines-of-defense)

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

Accordingly key Business Heads and Divisional Risk Coordinators who form the first line of defense are primarily accountable for identifying and addressing risks in the day to day operations of the business. The second Line of defense is made up of Risk Management Committee which includes the Senior Management / Divisional Heads, while the Board and the Audit Committee functions as the third and final line of defense, serving as the apex bodies for risk oversight.



Risk Appetite

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

Risk Culture

Risk culture of AFC determines the effectiveness of the management of the risks of the Company. AFC has adopted a proactive risk intelligence culture which is led by the senior management in setting the risk management tone of the Company. In recent years we have made a focused efforts to strengthen the risk culture by improving risk awareness, by means of embedding in Company's values and

Risk Management Report

principles, extensive training programs to staff and adopting scientific risk assessment methodology.

Managing Material Risks

GRI 102 – 11 | GRI 102 – 15

Credit Risk

The potential loss that arises from customers (counter-parties) failing to meet their contractual obligations

Finance and Leasing industry of Sri Lanka is severely impacted due to rising non performing advances. During FY 18/19, the non performing advances ratio of the industry has increased over 7.7% from 5.8% reported to FY 17/18. Given the magnitude of the issue, AFC identified Credit Cost to be the largest risk component, and provided a high concentration on managing and mitigating the impact of rising credit cost.

Credit Risk Governance

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

AFC's Credit Risk Mitigation Strategy predominantly focuses on managing three key components known as Counter-party

Risk, Concentration Risk and Default risk. The management of 3 areas of credit risk are being given parallel prominence to ensure effective management of exposure of credit cost of AFC.

Credit Risk Mitigation

For AFC, credit risk arises mainly from unsecured retail loans and is defined as the risk of loss arising from the failure of a customer to fulfill their contractual obligations towards the Company. As a financial services institution, the effective management of Credit Risk enables the Company to maintain a well diversified portfolio that has the capacity to maximize returns and achieve an optimal risk-reward pay-off and thereby ensure our business achieves its strategic purpose. Furthermore, proper Credit Risk Management helps to minimize non-performing loans and safeguards portfolio quality.

Counter-party Risk

As a financial services institution, the determination of Counter-Party risk is the basis of sustaining a strong asset base. We strive to benchmark the counter-party credit quality against our risk appetite, with each customer assigned a risk rating. To minimize the customers risk rating, we follow the principle of responsible lending where we seek to ensure that a potential customer has the capacity to service their commitments through the entirety of their contract with AFC. We carry out comprehensive pre-credit screening to confirm the accuracy of information provided by the customer accompanied by a number of independent verification protocols to ensure that customers are not over-exposed to credit. This is followed by several layers of approvals prior to granting the facility.

AFC's Credit Risk Universe for 2018/19

In the year under review, we found the credit appetite to be weak as the economic downturn had serious consequences on the country's SME segment, one of AFC's target markets. Meanwhile the Company's other main market - the Micro segment also remained under pressure due to the impact on the agriculture sector resulting from the prolonged effects of adverse weather.

Actions for the year

AFC contracted with a technical assistance programme offered by IFC to derive expertise on rectifying the issues of internal infrastructure, processes and strengthen the credit environment to enhance the credit quality of AFC

During the year under review, the middle management of the credit department was strengthened to improve the efficiency of centralized credit operations. The middle managers were appointed to specific regions to derive the advantage of geographical expertise of managers. Given the unfavorable market conditions, credit delegation of authority was altered to ensure healthier credit decision making.

During the year, AFC adopted a conservative approach, with selective lending strategy especially regarding Group Loans, where the Micro Finance portfolio was reduced more than 46%, to ensure the risk exposure is minimized.

The customer screening process was tightened to limit non-asset backed lending, which led to a 8% reduction in the volume attributed to non-asset backed

lending. Furthermore the decision was followed a strong island-wide push to promote asset-backed products such as Leasing and Gold Loans.

Several training programmes were conducted to educate on credit practices in leasing focusing the staff transferred from Micro Finance unit to RFS.

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

MANAGING CONCENTRATION RISK

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

Action for the year

During the year of consideration, Credit Committee of AFC reviewed the product mix and carried out revisions on regular basis to mitigate the risk due to regular market changes and regulatory requirements.

MANAGING DEFAULT RISK

The management of default risk is a team effort of the central recoveries unit, call centre and recovery teams based at branches. As per the Company's policy,

routine customer reminders are sent to all customers, while a strict monitoring procedures are in place to maintain proactive follow up of collections. Early warning signals are monitored centrally, along with a watch listing procedures to control new entrants to the non-performing loan bracket. The monthly plan of recovery take place in the monthly meeting with the recovery team of AFC, along with the action plan for non-achievements of previous months.

Action for the year

In light of the rising NPL scenario across the industry, AFC's existing recovery model was strengthened, vis-a-vis multi-layered supervisory controls being introduced to improve recovery monitoring of non asset-backed Group Loan products, especially in high risk areas where above-average default rates were observed

At the same time the island wide field force was enhanced by 15% and provided with extensive training to improve their efficiency, while new more stringent KPI's assigned to them in order to ensure they maintain aggressive focus on recoveries. Activities at the outbound call centre were also further streamlined to support the overall recovery effort.

The legal process was also strengthened with the appointment of regional level lawyers to expedite the litigation process against willful defaulters.

Despite these efforts however AFC's NPL's and provisioning costs increased, mainly as a result of the Debt Relief Scheme introduced by the government to write off Microfinance loans granted to entrepreneurs in 12 drought hit districts.

Market Risk

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

Market Risk Governance

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

AFC's Market Risk Universe for 2018/19

Three key Market Risks had a bearing on AFC's performance in 2018/19.

INTEREST RATE RISK - the high interest rate environment resulting from the CBSL's decision to raise policy interest rates making funds raised through deposit mobilization activities to be too costly.

EXCHANGE RATE RISK - the impact of the depreciation of the Rupee on AFC's foreign currency borrowings

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

Market Risk Mitigation

The Treasury Department of AFC uses a range of tools such as to Sensitivity Analysis,

Risk Management Report

Stress Testing and Scenario Analysis to monitor the impact of various forms of Market Risk. Given the nature of our business, AFC's key market risks consist are Interest Rate Risk, Exchange Rate Risk and Risk of fluctuations in World Gold Prices

Action for the year

Managing Interest Rate Risk

As a risk mitigation strategy, AFC carefully maintains a balance between funding based on fixed and floating rates.

Given the high interest rate environment prevailing in the local market, funds mobilized through customer deposits was not seen as a viable option. Accordingly on ALCO's recommendation to source alternative low-cost foreign funding was implemented, with a total of Rs. 5,474 Mn being raised during 2018/19.

Managing Exchange Rate Risk

In parallel to the increase in the Company's foreign currency borrowings, the Treasury continued to engage in proactive currency FX swaps as part of its hedging strategy aimed at reduce the exposure to exchange rate fluctuations. These actions helped safeguard the Company repayment capacity even after the sharp depreciation of the LKR in September 2018.

Managing Gold Prices

The Company leveraged on the rising trend in World Gold Prices, to grow the Gold Loan Portfolio

Liquidity Risk

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

Liquidity Risk Governance

Liquidity Risk is managed by the Treasury under the supervision of the ALCO. In executing their duties the Treasury is required to strictly operate in terms of the Board approved ALM (Asset - Liability Management) policy and in line with the statutory minimum limits imposed by the regulator.

Liquidity Risk Mitigation

As a financial institution, effective management of Liquidity Risk is crucial, for it is indicative of the Company's ability to fully meet its obligations at a given time. To deliver on this objective, the Treasury's Liquidity Risk management activities primarily focus on minimizing the maturity mis-match between the asset and liability portfolios. Meanwhile as per the ALM policy, the Treasury forecasts the daily funding requirements by taking into consideration day-to-day flows and those that relate to large single obligations. This forecast is supported by behaviour modeling to determine business as usual cash flow requirements, also covering stress points during the month, and adjusted for seasonal variations.

Action for the year

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

Operational Risk

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

Action for the year

Type	How we managed it	Outcome
System failure	<ul style="list-style-type: none"> Robust IT infrastructure. Skilled IT team comprising of 12 employees. Disaster recovery site is operational in Rajagiriya. SMS alert system that ensure that all employees are communicated via SMS on System failure. Online backup of data as the Central Bank regulatory requirements. 	There were no system failures reported during the year.
Risk of Cyber-attacks and data privacy.	<ul style="list-style-type: none"> IT security policy is in place and renewed every year. In addition, there is a clause added to any IT procurements undertaken . System Audits by "Techcert" to identify potential security threats to the system. Access controls to employees Restricted access to IT and Server rooms. 	There were no risks related to cyber security or data privacy during the year.
People related risk	<ul style="list-style-type: none"> Code of conduct and comprehensive policy frameworks govern the employee behaviour. Maintained a fraud register with strict follow up plans. High labour turnover among Field Officers are managed by providing incentives, attractive remuneration package in addition to training of Field Officers. A grievance handling process is in place. Continued employee engagement. 	<p>There were frauds reported during the year.</p> <p>Deaths due to accidents were reported.</p>
Property	Adequate insurance cover	There are no major property claims during the year
Risk of operational breach or non-compliance with internal controls.	<ul style="list-style-type: none"> Internal Audit Team conducts department, branch and process audits for Microfinance, RFS and Gold Loan Segments. Annual and monthly audit plans. All locations are ranked on nineteen (19) parameters covering areas such as integrity of financial reporting, operational effectiveness and compliance with laws. For Microfinance, nine (9) regional officers conduct five (5) audits per week. A mechanism is in place for Microfinance to ensure audit recommendations are implemented. 	Identified low performing branches
Fraud related to Gold Loan activity.	<ul style="list-style-type: none"> Employees attended external risk training programs. Densimeters were used to evaluate the gold Karatage. 	

Strategic Risk

The risk that the Company's future business plans and strategies are inadequate to prevent financial loss or protect the AFC's competitive position and generate expected shareholder returns.

Risk Management Report

Action for the year

We rolled out a new Strategic Plan 2019 / 23 which aims to reposition AFC as Sri Lanka's first-ever certified sustainable financial institution over the next 4 years. The main aim here is to redefine the Company through a Triple Bottom Line value creation approach which is also integrated into our corporate strategy to drive a more sustainable business framework. To support this effort AFC adopted a new purpose statement - "Make the world a better place through sustainable financing". The purpose statement also reflects our commitment to the Karlsruhe Resolution to which AFC became a signatory in 2017, thereby agreeing to work towards achieving the Sustainable Development Goals and the principles set out under the Paris Climate Agreement.

Reputation Risk

The risk of potential or actual damage to the Company's image which may have a detrimental impact on the profitability and/or sustainability of the business

Action for the year

As part of the ongoing effort to minimize Reputation Risk, the Company continued to strengthen relationships through open and transparent communication with all stakeholders. A detailed description of the activities undertaken is shown in the Stakeholder Engagement section of this report (pages 44-48). In testimony to our strong reputation, the results of the customer satisfaction survey that was conducted during the year indicated that "Top of mind recall" of AFC is significantly high compared to competitors.

Report of the Board on Internal Control

INTERNAL CONTROL AND RESPONSIBILITY OF THE BOARD

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

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

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

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

The Company has a structured, proactive risk management system. A risk and control framework has been developed, based on good governance principles

and is dealt with in greater detail in the Annual Report. This framework focuses on material strategic, operational, compliance and financial reporting risks. Using this framework, the business units go through a systematic process of identifying and evaluating risks and controls and, where necessary, improving the way in which risks are managed. The above processes make the risks and the areas requiring improvement in the internal control systems transparent.

PROCESS OF EVALUATION

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

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

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

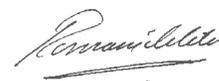
During the year, the Board through its Committee regularly reviewed the executive management processes whereby risks are identified, evaluated and managed.

EXTERNAL AUDITOR'S STATEMENT

The External Auditors, Messrs Baker Tilly Edirisinghe and Company have reviewed the above Directors' Statement on internal control for the year ended 31st March 2019 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.



Priyanthi de Silva
Chairperson- Audit Committee



Romani de Silva
Deputy Chairman and Managing Director

26th June 2019

Directors' Responsibility for Financial Reporting

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

Accordingly, the Directors confirm that the Company's Financial Statements for the year ended 31st March 2019 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 date of the Statement of Financial Position has been paid for, or where relevant, provided for.

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

The External Auditors, Messrs Baker Tilly Edirisinghe & Company, were provided with the opportunity to make appropriate inspections of financial records, Minutes of Shareholders and Directors' meetings and other documents and carry out review and sample check on the system of internal controls as they consider appropriate and necessary to enable them to form an opinion of the Financial Statements. The Report of the Auditors is set out on page 176 to 179.

By order of the Board
Alliance Finance Co. PLC

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

Financial Statements

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INDEPENDENT AUDITOR'S REPORT



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OPINION

We have audited the financial statements of Alliance Finance Company PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuS"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p>(i) Impairment allowance of loans and receivables including Group's transition to Sri Lanka Financial Reporting Standard 9 Financial Instruments (SLFRS 09):</p> <p>Our audit considered impairment allowance for loans and receivables as a key audit matter. The materiality of the reported amounts for loans and receivables (and impairment allowance thereof), the subjectivity associated with management's impairment estimation and the transition to SLFRS 9 reasoned for our basis to consider this as a key audit matter.</p>	<p>To assess the reasonableness of the impairment allowance, our audit procedures were designed to obtain sufficient and appropriate audit evidence, included the following:</p> <ul style="list-style-type: none"> We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans and receivables, which included assessing the level of oversight, review and approval of impairment policies by the management! We checked the underlying calculations and data.



Partners: P.P. Edirisinghe FCA ACIM MBA Ms. M.K.K. Karunaratne FCA ACMA P.K.A.M. Alahakoon ACA MAAT
 S.A. Harischandra ACA ACMA CGMA MBA Bcom (Sp.)
Consultants: A.T.P. Edirisinghe FCA FCMA (UK) A.D. Jayasena FCA

Edirisinghe & Co., trading as Bakertilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Key Audit Matter	How our audit addressed the key audit matter
<p>As at 31 March 2019, 80% of its total assets of the Group consisted of loans and receivables amounting to Rs 25,366 Mn (note 25 to 27), net of impairment allowance of Rs. 1,251 Mn (note 25 to 27). The impact on transition to SLFRS 09 on the Group's financial statements has been quantified and presented in note 06 of the financial statements.</p> <p>The estimation of impairment allowance for loans and receivables involved complex manual calculations. Significant management estimations and assumptions used by the management in such calculations and the basis for impairment allowance are disclosed in note 4.4.7, 25.4, 26.2 and 27.2 of the financial statements.</p> <p>(ii) Other assets and other</p>	<p>In addition to the above following procedures were performed.</p> <p>For individual impairment:</p> <ul style="list-style-type: none"> • We tested controls over the timely identification of potentially impaired loans and receivables. • We tested sample of loans and receivables to ascertain whether the loss event (the point at which impairment is recognized) had been identified in a timely manner. • Checked the valuation of securities on a sample basis to support the calculation of the impairment by comparing estimates to external evidence available. • We assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. <p>Collective impairment:</p> <ul style="list-style-type: none"> • We assessed the completeness of the underlying information in loans and receivables used in the impairment calculations by agreeing details to the Group's sources of documents and information as well as re-performing the calculation of impairment allowance. • We also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures set out in note 25, 26 and 27. We also assessed the adequacy of the Group's disclosures on the impact of the initial adoption of SLFRS 09 as set out in note 06. • This included testing of the quantitative impact of the transition.
<p>(ii) Other assets and other liabilities (Control Accounts) In the finance environment, depending on the underlying nature and contractual terms of individual transactions, they will have varying settlement periods. As a result, at any given point in time, there will be unsettled and/or unmatched balances. These are held temporarily within various accounts referred to as control accounts. Such control accounts are disclosed within other assets and other liabilities.</p>	<ul style="list-style-type: none"> • We tested controls over identification of control account balances and subsequent clearance of these balances. • We checked a sample of period-end reconciliations of material control account balances by corroborating the reconciling items to the supporting documents and checking subsequent clearance of these reconciling items. • We tested a sample of items appearing in the exception reports on aged balances within these control accounts to consider whether the items are within the accepted business rules, to identify any potential loss accounts.

Key Audit Matter	How our audit addressed the key audit matter
<p>(ii) Other assets and other liabilities (Control Accounts) Contd.</p> <p>The balances in these control accounts are significant and need to be cleared within predetermined timeframes applicable to each balance (“accepted business rules”). Clearing these balances involves manual processes. Manual intervention is needed where balances are not automatically matched by the Company. This area was a matter of significance to our audit because, by their nature, manual processes are prone to human error and if not performed effectively or within accepted business rules, the Group/Company could potentially be exposed to significant</p>	

OTHER INFORMATION

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from

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

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

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

to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2256.



Edirisinghe & Co.,
Chartered Accountants
Colombo

26th June 2019

Statement of Profit or Loss

For the year ended 31st March	Notes	Company		Group	
		2019 Rs.	2018 Restated Rs.	2019 Rs.	2018 Restated Rs.
Gross Income	7	7,243,598,369	6,892,624,417	7,324,060,190	6,934,212,166
Interest income		6,832,724,997	6,478,637,880	6,835,674,145	6,481,420,530
Interest expenses		(3,244,034,169)	(3,206,900,561)	(3,244,034,169)	(3,202,130,796)
Net Interest Income	8	3,588,690,828	3,271,737,319	3,591,639,976	3,279,289,734
Fee and commission income		180,053,256	202,891,784	257,538,486	279,284,773
Fee and commission expenses		(214,596,424)	(161,977,815)	(214,822,571)	(161,985,713)
Net Fee and Commission Income	9	(34,543,168)	40,913,969	42,715,915	117,299,060
Net gain/(loss) from trading	10	(34,804,790)	3,333,736	(34,804,790)	3,333,736
Other operating income (net)	11	265,624,906	207,761,017	265,652,349	170,173,127
Total Operating Income		3,784,967,776	3,523,746,041	3,865,203,450	3,570,095,657
Impairment (charges) / reversal for loans and other losses	12	(813,494,810)	(512,894,347)	(813,494,810)	(512,894,347)
Net Operating Income		2,971,472,966	3,010,851,694	3,051,708,640	3,057,201,310
Operating Expenses					
Personnel expenses	13	(780,351,399)	(800,789,586)	(802,968,838)	(830,828,634)
Other operating expenses	14	(1,224,682,084)	(1,027,208,593)	(1,244,382,252)	(1,055,246,983)
Depreciation and amortization	15	(136,086,759)	(115,121,215)	(136,213,766)	(115,279,344)
Total operating expenses		(2,141,120,242)	(1,943,119,394)	(2,183,564,856)	(2,001,354,960)
Operating Profit before Taxes on Financial Services		830,352,725	1,067,732,300	868,143,785	1,055,846,350
Taxes on financial services	16	(221,190,685)	(246,235,917)	(221,190,685)	(248,635,917)
Operating Profit after Taxes on Financial Services		609,162,040	821,496,383	646,953,100	807,210,433
Share of profit/(loss) from associate		(8,893,804)	(359,463)	(8,893,804)	(359,463)
Loss on change of interest in associate		-	(11,040,075)	-	(11,040,075)
Profit before Taxation		600,268,236	810,096,845	638,059,296	795,810,895
Provision for income taxation	17	(294,096,680)	(81,601,276)	(304,370,093)	(88,524,095)
Profit for the year		306,171,556	728,495,569	333,689,203	707,286,800
Profit attributable to:					
Equity holders of the company		306,171,556	728,495,569	323,766,338	701,100,624
Non controlling interest		-	-	9,922,865	6,186,176
Profit for the year		306,171,556	728,495,569	333,689,203	707,286,800
Basic Earnings Per Share	18	9.09	21.62	9.61	20.81
Dividend Per Share	19	1.00	6.40	1.00	6.40

Figures in brackets indicate deductions.

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

Statement of Comprehensive Income

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.
Profit for the year	306,171,556	728,495,569	333,689,203	707,286,800
Other Comprehensive Income				
Other Comprehensive Income to be Reclassified to Profit or Loss				
Net gains and losses on available-for-sale financial assets:				
Sri Lanka government securities	-	(1,505,120)	-	(1,505,120)
Net other comprehensive income reclassified to profit or loss	-	(1,505,120)	-	(1,505,120)
Other Comprehensive Income not to be Reclassified to Profit or Loss				
Actuarial gains /(losses) on defined benefit plans	8,681,427	(829,525)	8,760,704	(784,570)
Deferred tax effect on above	(2,430,800)	232,267	(2,430,800)	232,267
	6,250,627	(597,258)	6,329,904	(552,303)
Deferred tax impact on revaluation of lands	-	(258,996,042)	-	(258,996,042)
Net Other Comprehensive Income not be Classified to Profit or Loss	6,250,627	(259,593,300)	6,329,904	(259,548,345)
Total Comprehensive Income for the year	312,422,183	467,397,150	340,019,107	446,233,335
Attributable to:				
Equity holders of the company	312,422,183	467,397,150	330,096,242	440,030,947
Non controlling interest	-	-	9,922,865	6,202,387
Total Comprehensive Income for the year	312,422,183	467,397,150	340,019,107	446,233,335

Figures in brackets indicate deductions.

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

Statement of Financial Position

As at 31st March	Notes	Company		Group	
		2019	2018	2019	2018
		Rs.	Restated Rs.	Rs.	Restated Rs.
Assets					
Cash and cash equivalents	22	281,584,736	510,364,191	290,719,999	551,552,815
Repurchase agreements		210,053,286	638,820,384	210,053,286	638,820,384
Placements with banks & financial institutions		732,163,843	476,510,425	732,163,843	476,510,425
Financial assets fair value through profit or loss	23	1,807,179,087	-	1,807,179,087	-
Financial investments-held for trading	24	-	751,264,686	-	751,264,686
Loans and advances - at amortised cost	25	6,512,027,536	7,877,246,355	6,512,165,856	7,877,373,054
Lease rentals receivable & stock out on hire - at amortised cost	26	18,842,072,665	17,553,965,443	18,842,072,665	17,553,965,443
Hire purchase rentals receivable & stock out on hire - at amortised cost	27	12,349,092	62,388,835	12,349,092	62,388,835
Financial assets- fair value through other comprehensive income	28	579,250	-	579,250	-
Financial investments - available for sale	29	-	381,521,952	-	381,521,952
Other trading stocks	30	401,655,826	140,786,132	401,655,826	140,786,132
Other financial assets	31	405,850,825	323,549,421	446,862,407	349,638,381
Other non financial assets	32	217,705,371	115,538,483	217,705,362	115,985,991
Investments in associates	33	48,469,100	57,362,904	84,731,550	76,411,294
Investments in subsidiaries	34	16,924,038	16,924,038	-	-
Investment property	35	549,000,000	488,090,500	549,000,000	488,090,500
Property, plant & equipment	36	1,746,403,417	1,681,946,562	1,746,660,210	1,682,240,360
Intangible assets	37	56,523,495	56,746,867	56,523,495	56,746,867
Deferred tax assets	46	291,123,246	647,838,785	291,667,571	648,285,324
Total Assets		32,131,664,813	31,780,865,962	32,202,089,499	31,851,582,443
Liabilities					
Due to banks	38	12,589,469,582	11,042,104,540	12,589,469,582	11,053,987,058
Due to customers	39	12,493,682,808	13,256,951,431	12,493,682,808	13,256,951,431
Debt instruments issued and other borrowed funds	40	819,062,771	1,645,799,918	819,062,771	1,645,799,918
Other financial liabilities	41	781,933,240	456,262,778	781,537,579	473,689,206
Other non financial liabilities	42	56,531,752	36,923,025	56,531,752	36,923,025
Derivative financial liabilities	43	99,770,779	39,238,389	99,770,779	39,238,389
Income tax liabilities	44	142,874,259	25,004,302	145,940,743	26,636,671
Retirement benefit liabilities	45	30,699,249	64,596,330	32,643,265	66,191,109
Deferred tax liabilities	46	607,383,605	914,909,474	607,459,177	914,952,510
Total Liabilities		27,621,408,045	27,481,790,187	27,626,098,456	27,514,369,317

As at 31st March	Notes	Company		Group	
		2019 Rs.	2018 Restated Rs.	2019 Rs.	2018 Restated Rs.
Shareholders' Funds					
Stated capital	47	613,980,000	613,980,000	613,980,000	613,980,000
Retained earnings	48	1,655,299,368	1,499,994,909	1,691,222,895	1,518,272,964
Reserves	49	2,240,977,401	2,185,100,867	2,240,977,401	2,185,100,867
Total Equity Attributable to Equity Holders of the Company		4,510,256,769	4,299,075,776	4,546,180,296	4,317,353,831
Non controlling interest		-	-	29,810,748	19,859,296
Total Equity		4,510,256,769	4,299,075,776	4,575,991,044	4,337,213,127
Total Liabilities and Shareholders' Funds		32,131,664,813	31,780,865,962	32,202,089,499	31,851,582,443
Net assets value per share	20	134	128	135	128

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

Certification

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



Chamindra de Silva
 Chief Financial Officer

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



Kusal Jayawardana
 Director Finance & Operations



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

26th June 2019
 Colombo

Statement of Changes in Equity

For the year ended 31st March 2019	Stated Capital	Statutory Reserve	Capital Reserve Restated	General Reserve	Available for Sale Reserve	FVOCI	Non Controlling Interest	Retained Earnings Restated	Total Restated
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Company									
Balance as at 1st April 2017 - Restated (Note 35)	613,980,000	631,208,800	1,277,405,588	388,258,055	6,863,586	-	-	1,127,932,197	4,045,648,226
Profit for the year - Restated (Note 35)	-	-	-	-	-	-	-	728,495,569	728,495,569
Other comprehensive income, net of tax	-	-	-	-	(1,505,120)	-	-	(597,258)	(2,102,378)
Deferred tax impact on revalued lands	-	-	(258,996,042)	-	-	-	-	-	(258,996,042)
Transfer to statutory reserve	-	141,866,000	-	-	-	-	-	(141,866,000)	-
Dividend paid	-	-	-	-	-	-	-	(213,969,600)	(213,969,600)
Balances as at									
31st March 2018 - Restated (Note 35)	613,980,000	773,074,800	1,018,409,546	388,258,055	5,358,466	-	-	1,499,994,909	4,299,075,776
Impact of adopting SLFRS 9 (Note 06)	-	-	-	-	(5,358,466)	5,358,466	-	(20,066,724)	(20,066,724)
Restated opening balance under SLFRS 9	613,980,000	773,074,800	1,018,409,546	388,258,055	-	5,358,466	-	1,479,928,185	4,279,009,052
Balance as at 1st April 2018									
Balance as at 1st April 2018	613,980,000	773,074,800	1,018,409,546	388,258,055	-	5,358,466	-	1,479,928,185	4,279,009,052
Profit for the year	-	-	-	-	-	-	-	306,171,556	306,171,556
Other comprehensive income, net of tax	-	-	-	-	-	-	-	6,250,627	6,250,627
Reclassified to profit or loss as per SLFRS 09	-	-	-	-	-	(5,358,466)	-	-	(5,358,466)
Transfer to statutory reserve	-	61,235,000	-	-	-	-	-	(61,235,000)	-
Dividend paid	-	-	-	-	-	-	-	(75,816,000)	(75,816,000)
Balances as at 31st March 2019	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-	-	1,655,299,368	4,510,256,769
Group									
Balance as at 1st April 2017 - Restated (Note 35)	613,980,000	631,208,800	1,277,405,588	388,258,055	6,863,586	-	35,292,909	1,173,576,454	4,126,585,392
Profit for the year - Restated (Note 35)	-	-	-	-	-	-	6,186,176	701,100,624	707,286,800
Other comprehensive income, net of tax	-	-	-	-	(1,505,120)	-	16,211	(568,514)	(2,057,422)
Deferred tax impact on revalued lands	-	-	(258,996,042)	-	-	-	-	-	(258,996,042)
Transfer to statutory reserve	-	141,866,000	-	-	-	-	-	(141,866,000)	-
Dividend paid	-	-	-	-	-	-	(21,636,000)	(213,969,600)	(235,605,600)
Balances as at									
31st March 2018 - Restated (Note 35)	613,980,000	773,074,800	1,018,409,546	388,258,055	5,358,466	-	19,859,296	1,518,272,964	4,337,213,127
Impact of adopting SLFRS 9 (note 6)	-	-	-	-	(5,358,466)	5,358,466	-	(20,066,724)	(20,066,724)
Restated opening balance under SLFRS 9	613,980,000	773,074,800	1,018,409,546	388,258,055	-	5,358,466	19,859,296	1,498,206,240	4,317,146,403
Balance as at 1st April 2018									
Balance as at 1st April 2018	613,980,000	773,074,800	1,018,409,546	388,258,055	-	5,358,466	19,859,296	1,498,206,240	4,317,146,403
Profit for the year	-	-	-	-	-	-	9,922,865	323,766,338	333,689,203
Other comprehensive income, net of tax	-	-	-	-	-	-	28,587	6,301,317	6,329,904
Reclassified to profit and loss as per SLFRS 9	-	-	-	-	-	(5,358,466)	-	-	(5,358,466)
Transfer to statutory reserve	-	61,235,000	-	-	-	-	-	(61,235,000)	-
Dividend paid	-	-	-	-	-	-	-	(75,816,000)	(75,816,000)
Balances as at 31st March 2019	613,980,000	834,309,800	1,018,409,546	388,258,055	-	-	29,810,748	1,691,222,895	4,575,991,044

Figures in brackets indicate deductions.

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

Statement of Cash Flows

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.
Cash Flows From / (Used in) Operating Activities				
Profit before Income Tax Expense	600,268,236	810,096,845	638,059,296	795,810,895
Adjustments for;				
Depreciation of property, plant & equipment	127,514,906	107,903,132	127,641,913	108,061,261
Amortization of intangible assets	8,571,853	7,218,083	8,571,853	7,218,083
Impairment (reversal)/provision	436,855,346	415,603,933	436,855,346	415,603,933
Interest on fixed deposits, commercial paper & treasury bills	(105,930,809)	(119,668,726)	(108,879,957)	(122,451,376)
(Profit) /loss on sale of securities	4,076,301	(6,378,862)	4,076,301	(6,378,862)
Fair value (gain)/loss on equity investments (FVTPL)	1,129,628	514,602	1,129,628	514,602
Fair value gain on investment property	(60,909,500)	(20,500,000)	(60,909,500)	(20,500,000)
Previous year WHT written-off	10,546	52,653	10,546	52,653
Bad debt written-off	376,639,464	97,290,414	376,639,464	97,290,414
Diminution/(appreciation) in value of investments	39,152,075	(5,187,779)	39,152,075	(5,187,779)
Diminution/(appreciation) in value of treasury bonds	(5,862,896)	-	(5,862,896)	-
Loss/(profit) on disposal of property, plant & equipment	(912,208)	(1,746,639)	(912,208)	(1,746,639)
Provision/(reversal) for defined benefit plans	32,693,185	34,308,582	33,121,699	34,674,274
Loss/(profit) on changes of interest in associate	-	11,040,075	-	11,040,076
Dividend received	(5,635,045)	(43,453,580)	(5,635,045)	(5,077,580)
Share of loss/(profit) from associates	8,893,804	359,463	8,893,804	359,463
Operating Profit before Working Capital Changes	1,456,554,885	1,287,452,198	1,491,952,318	1,309,283,417
(Increase)/decrease in trading stock	(260,869,694)	(131,010,196)	(260,869,694)	(131,010,196)
(Increase)/decrease in loans and advances	1,007,521,857	(686,706,863)	1,007,510,236	(686,717,099)
(Increase)/decrease in lease rentals receivable & stock out on hire	(1,752,643,849)	(1,949,130,899)	(1,752,643,849)	(1,949,130,899)
(Increase)/decrease in hire purchase rentals receivable & stock out on hire	30,908,072	112,837,814	30,908,072	112,837,814
(Increase)/decrease in fixed deposits & repurchase agreements	173,113,680	279,311,747	173,113,680	333,704,294
(Increase)/decrease in other financial assets	(82,301,404)	(67,770,434)	(97,224,026)	(58,080,181)
(Increase)/decrease in other non financial assets	(102,166,888)	2,800,795	(101,719,371)	2,372,598
Increase/(decrease) in amounts due to customers	(763,268,623)	3,169,129,517	(763,268,623)	3,169,129,517
Increase/(decrease) in derivative financial liabilities	60,532,390	21,501,809	60,532,390	21,501,809
Increase/(decrease) in other financial liabilities	325,670,462	(431,768,979)	307,848,373	(429,092,886)
Increase/(decrease) in other non financial liabilities	19,608,727	(14,737,994)	20,439,642	(14,737,994)
Cash generated from/(used in) Operations	112,659,615	1,591,908,515	116,579,148	1,680,060,195
Retirement benefit liabilities paid	(26,065,445)	(23,511,922)	(26,065,445)	(23,511,922)
Investment in gratuity fund	(31,843,394)	(27,175,593)	(31,843,394)	(27,175,593)
Taxes paid	(121,674,674)	(102,090,558)	(131,410,137)	(110,915,653)
Net cash generated from/(used in) operating activities	(66,923,897)	1,439,130,442	(72,739,828)	1,518,457,027

Statement of Cash Flows

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.
Cash Flows from Investing Activities				
Acquisition of property, plant & equipment	(198,964,496)	(193,621,051)	(199,054,496)	(193,749,500)
Acquisition of Intangible Assets	(8,348,481)	(14,466,327)	(8,348,481)	(14,466,327)
Proceeds from sales of property, plant & equipment	7,904,944	41,692,436	7,904,944	41,692,436
Net sales/ (purchases) of				
financial investments - FVTPL/FVOCI	(718,825,274)	616,500,314	(718,825,274)	610,951,924
Investment in unquoted equities	-	-	(17,214,060)	-
Dividend received	5,635,045	43,453,580	5,635,045	5,077,580
Interest on fixed deposits & treasury bills	105,930,809	119,668,726	108,879,957	122,451,376
Net cash generated / (used in) from investing activities	(806,667,453)	613,227,679	(821,022,365)	571,957,489
Cash flows from / (used in) financing activities				
Net increase / (decrease) in debt instruments	(826,737,147)	(902,425,888)	(826,737,147)	(902,425,888)
Net increase / (decrease) in other borrowings	1,554,607,570	(669,170,833)	1,542,725,052	(688,771,391)
Net increase / (decrease) in finance lease	(7,242,528)	(6,623,982)	(7,242,528)	(6,623,982)
Dividend paid	(75,816,000)	(213,969,600)	(75,816,000)	(235,605,600)
Net cash generated from/ (used in) financing activities	644,811,895	(1,792,190,303)	632,929,377	(1,833,426,861)
Net increase/ (decrease) in cash and cash equivalents	(228,779,455)	260,167,818	(260,832,816)	256,987,655
Cash and cash equivalents at the beginning of the year	510,364,191	250,196,373	551,552,815	294,565,160
Cash and cash equivalents at the end of the year	281,584,736	510,364,191	290,719,999	551,552,815
Movement in cash and cash equivalent	(228,779,455)	260,167,818	(260,832,816)	256,987,655

Note : Reporting cash flows from operating activities

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

Significant Accounting Policies

1. CORPORATE INFORMATION

1.1 General

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

1.2 Consolidated Financial Statements

Consolidated Financial Statements of the Group for the year ended 31st March 2019 comprises the Company and its Subsidiaries (together referred to as the "Group" and individually as 'Group entities'). The subsidiary company of the Group as at 31st March 2019 was Alfinco Insurance Brokers (Pvt) Ltd.

All the Group entities are limited liability Companies, incorporated and domiciled in Sri Lanka.

1.3 Principal Activities and Nature of Operations

1.3.1 The Company

During the year under review, the Company provides a comprehensive range of financial services encompassing accepting deposits, lease financing, hire purchase financing, mortgage loans, gold loans, term loans, operating leases, vehicle hiring, consumer credit, group loans and other financial services.

1.3.2 Subsidiary

Ownership of Subsidiary as on 31st March 2019 is given below

Subsidiary	Principal Activities	Ownership %
Alfinco Insurance Brokers (Pvt.) Ltd	Insurance Brokering	63.94

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Group and the separate Financial Statements of the Company, have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRS s) and Lanka Accounting Standards (LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Finance Business Act No. 42 of 2011 and amendments thereto, and provides appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

Financial Statements comprised of the Statement of Financial Position, Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow, together with the accounting policies and notes.

2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements of the Group and the Company as per Sri Lanka Accounting Standards (SLFRSs and LKASs) and the provisions of the Companies Act No. 7 of 2007.

2.3 Date of Authorization for Issue

The Financial Statements for the year ended 31st March 2019, were approved and authorized for issue in accordance with a resolution of the Board of Directors on 26th June 2019.

2.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the following material items in the Statements of Financial Position.

- Financial assets held at fair value through other comprehensive income(FVOCI) / Available for sale financial assets are measured at fair value (note 28 & 29)
- Financial assets recognized through profit or loss (FVTPL) are measured at fair value / financial investment held for trading (note 23 & 24)
- Retirement benefit obligation measured at difference between present value of defined benefit plan asset and the present value of defined benefit plan liability (note 45).

Significant Accounting Policies

- Land and buildings which are measured at cost at the time of acquisition, subsequently measured at revalued amounts, which are the fair values at the date of revaluation (note 36)
- Investment properties are measured at fair value (note 35).

2.5 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Group's functional and presentation note 54 currency of the primary economic environment in which Alliance Finance Company PLC operates. All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee, unless otherwise stated.

2.6 Presentation of Financial Statements

The Group presents its Statement of Financial Position broadly in order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 55.

2.7 Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in

the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretations, and as specifically disclosed in the accounting policies.

2.8 Comparative Information

The comparative information is re-classified wherever necessary to conform to the current year's presentation. However, the Group has not restated comparative information for 2018 for financial instruments within the scope of SLFRS 9. Therefore, the comparative information for 2018 is reported under LKAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of SLFRS 9 have been disclosed in note 6.

2.9 Statement of Cash Flows

Statement of Cash Flows has been prepared by using the 'Indirect Method', as stipulated in Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows', whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows, cash and cash equivalents comprise short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks money at call and short notice.

2.10 Use of Significant Accounting Judgments, Estimates and Assumptions

In preparing Financial Statements of the Group in conformity with Sri Lanka Accounting Standards (SLFRSs and LKASs), requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments, estimates and assumptions in applying accounting policies that could have a significant effect on the Financial Statements of the Group are as follows:

2.10.1 Going concern

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

2.10.2 Fair value of financial instruments

The determination of fair values of financial assets and financial liabilities which recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significant of input used in making measurements.

2.10.3 Impairment losses on loans and receivables

Policy applicable after 01st April 2018

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;

- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The above assumptions and judgments are discussed in detail under note 4.4.7 to the Financial Statements.

Policy applicable before 1st April 2018

The Group reviews its individually significant loans and receivables at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss. In particular, Management's Judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and receivables that have been assessed individually are considered as individually significant and all other loans and receivables are assessed collectively, by categorizing them into groups of assets with similar risk characteristics, to determine whether a 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

assessment takes account of data from the loan portfolio and judgement on the effect of concentrations of risks and economic data.

2.10.4 Taxation

The Group is subject to income taxes and other taxes including VAT on financial services, Debt repayment levy and Nations Building Tax. Significant judgement was required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws at the time of the preparation of these financial statements.

The Group recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

2.10.5 Deferred tax

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against such tax losses which can be set-off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.10.6 Defined benefit plans

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various

Significant Accounting Policies

assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increment rate, 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 increment rate of the Group.

2.10.7 Fair value of property and equipment

The land and buildings of the Group are reflected at fair value. The Group engaged independent valuation specialist to determine the fair value of land and buildings. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets.

2.10.8 Useful life-time of the property and equipment

The Group review the residual values, useful lives and methods of depreciation of assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.10.9 Commitment and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote. All discernible risks are accounted for in determining the amount of all known liabilities. Details of commitments and contingencies are given in note 53.

2.10.10 Impairment of Other Financial Assets

The Group reviews its debt securities classified as FVOCI / amortised cost, at each reporting date to assess whether they are impaired. From 1st April 2018, with the adoption of SLFRS 9 equity investment are not subjective for impairment assessment.

2.11 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in note 54.

3. NEW AMENDMENTS TO ACCOUNTING STANDARDS APPLICABLE FROM 1ST APRIL 2018

The Group applied SLFRS 9, SLFRS 7R and SLFRS 15 which are effective for annual periods beginning on or after 1st January 2018, for the first time. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1 SLFRS 9 Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1st January 2018. SLFRS 9 requires an entity to restate prior periods if and only if the restatement is possible without the use of hindsight. The Group has not restated comparative information for 2017/18 for financial instruments within the scope of SLFRS 9. Therefore, the comparative information for 2017/18 is reported under LKAS 39 and is not comparable to the information presented for 2018/19. Differences arising from the adoption of SLFRS 9 have been recognized directly in retained earnings as of 1st April 2018 and are disclosed in note 06, Transition disclosures.

3.1.1 Changes to Classification & Measurement

Up to 01st April 2018 as per LKAS 39, the Group classified its financial assets into one of the following categories:

- Financial assets at fair value through profit or loss (FVTPL), and within this category
 - Held for trading
 - Designated at fair value through profit or loss

- Loans and receivables
- Held to maturity
- Available for sale

From 01st April 2018 as per SLFRS 9, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Financial assets measured at amortised cost (AC)
- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets measured at fair value through profit or loss (FVTPL)

(a) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

Debt Instrument

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of equity from the perspective of the issuer as defined in LKAS 32 – "Financial instrument: Recognition & measurement". For all other equity instruments, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

- All the equity instrument for which the irrecoverable option is not made should be measured at fair value through profit or loss

(c) Financial assets measured at FVTPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL.

Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

As per LKAS 39, financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Significant Accounting Policies

Changes to the classification and measurement of financial assets after application of SLFRS 9 – “Financial Instruments” is given below:

Financial Assets	LKAS 39 - Classification	SLFRS 09 - Classification
Financial assets that are classified as held-for-trading	Measured at fair value	Measured at FVTPL
Loans and receivables to customers	Measured at amortised cost	Measured at amortised cost

The accounting for financial liabilities remains largely the same as it was under LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent classification to the Statement of Profit or Loss.

The Group did not have any quantitative impact from the adoption of classification principles of SLFRS 9 as at 1st April 2018.

3.1.2 Changes to Impairment Calculation

The adoption of SLFRS 9 has fundamentally changed the Group's accounting for loan loss impairment by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The impairment is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in the credit risk. Since origination in which case the impairment will be based on the ECLs associated with the probability of default over the entire lifetime of the loan.

For other receivables, Group applies the simplified approach permitted by SLFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Details of the Group's impairment method are disclosed in note 4.4.7. The quantitative impact of applying expected credit loss approach in SLFRS 9 as at 1st April 2018 is disclosed in note 6.

3.2 SLFRS 7R – Financial Instrument Disclosures

To reflect the difference between SLFRS 9, LKAS 39 and SLFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with SLFRS 9, for the year beginning 1st April 2018. Changes including transition disclosures, detailed qualitative and quantitative information about the ECL calculations are set out in note 6.

3.3 SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 became effective for financial periods beginning on or after 1st January 2018. The core principle of SLFRS 15 is that an entity have to recognise revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as disclosed below.

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligations.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

The Group did not have any material impact on its fee and commission income with the adoption of SLFRS 15 for the year beginning 1st April 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Company and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 (Consolidation Financial Statements).

4.1.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard – SLFRS 03 (Business Combinations).

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interests in the acquire, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in Profit or Loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in Profit or Loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

4.1.2 Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company (the Parent) holds more than 50% of the voting rights and/or has the power, directly or indirectly, to govern the financial and operational policies of an enterprise to obtain benefits from its activities.

The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on March, 31.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration, given on the date of transferring the title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Company continues to recognize the investments in Subsidiaries at cost.

The total assets and liabilities of the Subsidiaries as at the reporting date are included in the Consolidated Statements

of Financial Position. The total Profit or Loss for the year of the subsidiaries is included in the Consolidated Statements of Profit or Loss.

The non-controlling interest is presented in the Consolidated Statements of Financial Position within equity; separately from the equity attributable to the equity holders of the Company. Non-controlling interest in the Profit or Loss of the Group is disclosed in the Consolidated Statement of Comprehensive Income. Total Comprehensive Income is allocated to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where subsidiaries have been acquired or sold during the year, their operating results have been included from the date of acquisition or to the date of disposal.

Upon the loss of control, the Group derecognized the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the Statement of Changes in Equity. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained (note 34).

Significant Accounting Policies

4.1.3 Associates and Jointly control entities

Associates

Associates are those entities which the Group has significant influence, but not control or power to govern the financial and operating policies of the entities so as to obtain benefits from their activities.

The Group Financial Statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis from the date that significant influence commences until the date that significant influence ceases.

Accordingly, under the equity method, investment in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The Statement of Profit or Loss reflects the share of current year's Profit or Loss of the Associates (note 33).

When the Group and Associate's share of losses exceed the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses are discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

Jointly controlled entities

Jointly controlled entities are those entities where the Group has entered into a contractual agreement to share the control over strategic, financial and operating decisions relating to economic activities of the entities through unanimous consent of other parties sharing control.

4.1.4 Transactions eliminated on consolidation

Intra-group balances and any income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains (except that they are only eliminated to the extent that there is no evidence of impairment).

4.2 Foreign Currency Transactions and Balances

Monetary assets and liabilities denominated in foreign currencies have been translated into local currency as per the exchange ruling at the date of the Statement of Financial Position while all non-monetary items are reported at the rate prevailing at the time transactions were affected.

4.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks and money at call and 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.

They are brought to Financial Statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

4.4 Financial Instruments – Initial recognition, classification and subsequent measurement

4.4.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognizes balances due to customers when funds are transferred to the Group.

4.4.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at Fair Value through Profit or Loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through Profit or Loss are dealt through the Statement of Profit or Loss.

4.4.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' Profit or Loss) in 'Net trading income'.

4.4.3 Financial Assets and Liabilities

Before 1st April 2018, loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term
- That the Group, upon initial recognition, designated as FVTPL or as available-for-sale
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for sale.

From 1st April 2018, the Group only measures loans and advances to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

4.4.3.1 (a) Business Model Assessment

The Company determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The business model assessment is based on reasonably expected scenarios without taking into account "worse case" or "stress case" scenarios. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.4.3.1 (b) The SPPI Test

As a second step of its classification process the Company assesses the contractual terms of the financial assets to identify whether they meet the SPPI test. "Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value

of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

4.4.3.2 Financial Instrument classification (before 01st April 2018)

The Group recognized financial assets by the following four categories:

- Financial assets at fair value through Profit or Loss
 - a) Held for Trading; or
 - b) Designated at fair value through Profit or Loss
- Held-to maturity investments
- Loans and receivables
- Available - for - Sale financial investments

Subsequent measurement of financial assets depends on their classification.

4.4.3.2 (a) Financial assets at fair value through Profit or Loss

A financial asset is classified as fair value through Profit or Loss if, it is Held for Trading or is designated at fair value through profit of loss.

Significant Accounting Policies

a) Financial Assets Held for Trading

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

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

b) Financial assets designated at fair value through Profit or Loss (FVTPL)

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or 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 Rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

4.4.3.2 (b) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity.

Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss line 'Impairment gain/ (loss) on financial investment'.

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

following two years. The Group has not designated any financial instrument as Held-to-Maturity Financial Investment.

4.4.3.2 (c) Due from banks and loans and receivables from customers

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

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

4.4.3.2 (d) Available - for - Sale financial investments

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

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

4.4.4 Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rate, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in Statement of Profit or Loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income). Fair values may be obtained from quoted market prices in an active markets,

recent market transactions and valuation techniques, including discounted cash flow models and option pricing models as appropriate, where the initially recognised fair value of a derivative contract is based on a valuation model that uses the inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments such as the conversion option in a convertible bond holds are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through Profit or Loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Statement of Profit or Loss. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives. The group did not have separate embedded derivatives as at 31st March 2019.

Further the Group has not applied hedge accounting for any of its derivatives during the years ended 31st March 2019 and 2018.

4.4.5 Reclassification of financial assets

From 1st April 2018, with the adoption of SLFRS 9, the Group reclassifies its financial assets subsequent to the initial recognition when an only when the business model for managing such financial assets is changed. Such reclassifications is applied prospectively from the reclassification date. Financial liabilities are never reclassified.

If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in Statement of Profit or Loss. If the reclassification takes place out of the fair value through profit or loss category into the amortised cost measurement category, its fair value at the reclassification date becomes the new gross carrying amount.

If the reclassification takes place out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income.

The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

During the year Investment in government treasury bond which were previously classified under available for sale category, have been reclassified as financial assets fair value through profit and loss.

4.4.6 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

Significant Accounting Policies

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amounts of the asset and consideration received and any cumulative gain or loss that had been recognised in the Other Comprehensive Income is recognised in the Profit or Loss. When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4.4.7 Impairment of financial assets

(a) After 01st April 2018

Overview of the ECL principles

As described in the note 3.1.2, SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 with a forward-looking 'Expected Credit Loss' (ECL) model. This requires considerable judgement about how changes in economic factors affect ECLs, which determined on a probability-weighted basis.

SLFRS 9 presents a "three-stage" model for estimating expected losses on the basis of changes in credit quality since initial recognition.

Stage 1: When loans are originated, the Group recognises an allowance based on 12 months ECL and performed assessment collectively. Stage 1 loans also contain the facilities which are reclassified from Stage 2 since the credit risk has improved.

Stage 2: When a loan credit risk increases significantly, the Group records an allowance for the Life Time Expected Credit Loss (LTECL), which performed collective basis. Stage 2 loans also include facilities, which are reclassified from stage 3 since the credit risk has improved.

Stage 3: When a loan is considered to be credit impaired, contain objective evidences of incurred loss, the Group records an allowance for the LTECL. Stage 3 assessment performed either individually or collectively.

Under SLFRS 9, loss allowances measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.
- Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Twelve months ECL measurement applies if it has not increased an entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

Based on the computations:

- The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the SLFRS 9 impairment model.
- The estimated ECLs were calculated based on actual credit loss experience over the past five years.
- The Group performed the calculation of ECL rates separately for each product types.

Exposures within each group were segmented based on common credit risk characteristics such as product type, delinquency status, age of relationship and type of product purchased.

The Group to be performed an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition.

Definition of default and cure

The Group considers a financial instrument as defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 180 days past due on its contractual payments.

As a part of a qualitative assessment of whether an individually significant customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria have been present and the borrower is no longer considered as non performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the days past due, at the time of the cure. The Group's criterion for 'cure' for rescheduled / restructured loans is more stringent than ordinary loans.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in the credit risk since initial recognition. The Group considers an exposure to have a significantly increase in the credit risk when it is past due for more than 90 days.

Calculation of ECL

The Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below:

- **Probability of default (PD)**

Probability of default is computed using transition matrix for last five years and computed average matrix from year 1 to 5. To minimize the sum of squared errors between average matrix and empirical matrix for that year computed a credit index. Regress macro-economic/ other variables to forecast future indexes.

- **Exposure at default computation (EAD)**

The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

- **Loss Given Default (LGD)**

The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would

expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Actual credit loss experience will be adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors were based on GDP and unemployment rate forecasts and industry outlook.

Calculation of ECLs for Individually significant loans

The Group first assesses ECLs individually for financial assets that are individually significant to the Group. In the event the Group determines that such assets are not impaired (Not in stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed

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impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;

Grouping financial assets measured on collective basis

The Group calculates ECLs either on a collective or an individual basis. The Group categorise the collective impairment exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral
- Industry of the borrower

The PD estimation Process

PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Companies in the country at present.

Accordingly, exposures are categorised among 8 groups based on the DPD as follows.

- Zero days past due
- 1 – 30 days past due

- 31 - 60 days past due
- 61 – 90 days past due
- 91-120 days past due
- 121 – 150 days past due
- 151 – 180 days past due
- Above 180 days past due

Exposure at Default

The exposure at default (EAD) represents the gross carrying amount of the financial instrument subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and stage 3 financial assets and credit impaired assets at origination, events over the lifetime of the instruments are considered. The Group determines EADs by modeling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

LGD values are assessed at least annually for each material collateral type. The Group segregates its customer loan book based on following major types of collaterals when calculating the LGD,

- Secured against immovable property
- Secured against motor vehicles and other movable properties

- Secured against gold
- Secured against lease receivables

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Interest rates
- Treasury bill rate
- Inflation rate

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. To ensure completeness and accuracy, the Group obtains the above data from third party sources (Central Bank, World Bank and etc).

Policy applicable before 01st April 2018

The Group assesses at each reporting date whether there are any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the

initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Loans, advances to customers, leases and hire purchases

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

Individually assessed loans & advances, leases and hire purchases

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

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

evidence of impairment exists, impairment losses are determined by considering the following factors:

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

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

Collectively assessed loans, advances, leases and hire purchases

Impairment is assessed on a collective basis in two circumstances:

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

(b) Incurred but not yet identified impairment

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

The collective impairment allowance is determined after taking into account:

- historical loss experienced in portfolios of similar credit risk; and
- management's experienced 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

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

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

Net flow rate method

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

Under above methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately prove irrecoverable. Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required for covering inherent loss.

These additional macro and portfolio risk factors may include:

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

4.5 Write-off of loan & advances, leases and hire purchases

Loans, advances, leases and hire purchases (the related impairment allowance was accounted) are normally written off, either partially or in full, when there are no realistic prospects of recovery. Where such balances are secured, these are generally after receipt of any proceeds from the realisation of security.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

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

However, the amount recorded for an impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss. In the case of equity investments classified as Available - for - Sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is an evidence of an impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised in the Statement of Profit or Loss, is removed from equity and recognised in the Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss; increases in the fair value after impairment are recognised in Other Comprehensive Income.

Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR and is recognized in Statement of Profit or Loss. 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 Profit or Loss.

Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/ guarantees, gold, real estate, receivables, and other non-financial assets. The fair value of the collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

Non-financial collateral such as real estate, is valued based on data provided by third parties such as independent valuers and other independent sources.

Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.6 Repurchase Agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid including accrued interest, is recorded in the Statement of Financial Position, under 'Other Financial Assets which reflects the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell, are subsequently sold to third parties, the obligation to return the securities is

recorded as a short sale within 'Financial liabilities Held for Trading' and measured at fair value with any gains or losses included in 'Net trading income'.

4.7 Non – Financial Asset

4.7.1 Investment Property Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, based in the production or supply of goods or services or for administrative purposes. Investment properties are recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured. Where the Group provides ancillary services to the occupants of a property it holds, the Group treats such a property as investment property if the services are insignificant to the arrangement as a whole.

If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply LKAS 16 "Property, plant and equipment" up to the date of change in use. When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and classified as Investment Property. The entity shall treat any difference at that date between the carrying amount of the property in accordance with LKAS 16 "Property, plant and equipment" and its fair value in the same way as a revaluation in accordance with LKAS 16 "Property, plant and equipment". The land is non-depreciated. Accordingly, land and building classified as investment properties are stated at fair value.

The Group obtains the services of independent valuers who are not connected with the Company, in order to determine the fair value of its investment properties annually, for disclosure purposes and such fair values have been disclosed as required by Sri Lanka Accounting Standard - LKAS 40 on "Investment Property".

De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from the use since no future economic benefits are expected. Gains or losses arising from de-recognition of an investment property are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss.

4.7.2 Property, plant and equipment

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

Recognition and measurement Cost Model

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

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Revaluation Model

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

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

Subsequent Cost

These are costs that are recognised in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in Profit or Loss as incurred.

Depreciation

The group provides depreciation from the date the assets are available for use and up to the date of disposal at the following rates on straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Category of Asset	Rate of Depreciation per annum %
Building	5
Office Equipment	20
Plant & Machinery	20
Furniture & Fittings	12.5
Cutlery & Crockery	20
Motor Vehicles	20
Computers	33.33

Freehold lands are not depreciated. Depreciation of an asset ceases at the earlier of the date that the asset is classified as Held for Sale or the date that the asset is derecognised.

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Derecognition

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Statement of Profit or Loss in the year the asset is derecognised.

4.7.3 Intangible assets

The Group's intangible assets include the value of computer software.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standards LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets are stated in the Statement of Financial Position at cost less accumulated amortisation and accumulated impairment losses, if any.

Expenditure of internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can be reliably measured the costs to complete the development.

Subsequent expenditure

Subsequent expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embedded in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortisation

Group owned intangible assets are amortised over the period of 10 years unless otherwise stated.

Derecognition of intangible assets

The carrying amount of an item of an intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset, is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

Intangible assets reported in note 37 only included computer software and cost of licences.

4.7.4 Impairment of non-financial assets

The Group assess at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there are any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last

impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

4.7.5 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

4.7.5.1 Finance lease

Agreements which transfer to counter parties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as Finance Leases. When the Group is a lessor under finance leases the amounts due under the leases after deduction of unearned charges, are included in 'Lease Receivables to Group's or 'Loans and advances to customers', as appropriate. The finance income receivable is recognised in 'Net Interest Income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, Plant and Equipment' and the corresponding liability to the lessor is included in 'Other Liabilities'. A finance lease and its corresponding liability are

recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net Interest Income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

4.7.5.2 Operating lease

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

4.8 Financial Liabilities

4.8.1 Initial recognition and measurement

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income (OCI);
- and

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- The remaining amount of change in the fair value is presented in the Statement of Profit or Loss.

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
- Held-for-trading; or
- Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

4.8.1.1 Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated as such upon initial recognition as at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognized in the Statement of Profit or Loss.

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

Changes in fair value are recorded in “Net fair value gains/ (losses) from financial

instruments at fair value through profit or loss” with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Companies’ own credit risk. Interest paid/payable is accrued in “Interest expense”, using the EIR. The Group has not designated any financial liabilities as at fair value through profit or loss as at the end of the reporting period.

4.8.1.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost under “Due to banks”, “Due to depositors” “Other borrowings” as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in “Interest expense” in the Statement of Profit & Loss. Gains and losses too are recognised in the Statement of Profit & Loss when the liabilities are derecognised as well as through the EIR amortisation process.

4.8.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid are recognised in Statement of Profit or Loss.

4.8.3 Reclassification of financial liabilities

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

4.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date after taking in to account the risks and uncertainties surrounding the obligation as at that date. The expense relating to any provision, is presented in the Statement of Profit or Loss net of any reimbursement.

4.10 Retirement Benefit Obligations

4.10.1 Gratuity

All the employees of the Group are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of half of the gross salary applicable to the last month of the financial year in which the employment is terminated or resigned for each year of completed service, for those who have served in excess of 5 years.

The Group operates an approved non-contributory Gratuity Fund to facilitate the Gratuity payments to the retiring employees of the Group. The Group determines the adequacy of gratuity liability in terms of Payment of Gratuity Act No.12 of 1983. In order to meet this liability, the Group carries forward a provision in the Statement of Financial Position based on:

- Half a month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have complete service 5 to 10 years,
- One month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who completed the service over 10 years but not exceeding 15 years,
- One and half month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have completed the service over 15 years but not exceeding 25 years.

- Two months' salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have completed the service over 25 years.

An actuarial valuation is carried out as every year end to ascertain the full liability under gratuity. The valuation was carried out as at 31st March 2019 by M/s Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries based on the Projected Unit Credit Method recommended by the actuarial present value of the defined benefit obligation (PV-DBO) under the PUC method.

Recognition of actuarial losses / gains

The Group recognised the total actuarial gain and losses that arose in calculating the Group's obligation in respect of gratuity in Other Comprehensive Income during the period which it occurred.

Recognition of past service cost (applicable only when a plan has been changed)

Past service cost are recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the instruction of, or changes to the plan, past service costs are recognized immediately.

Management of the fund's assets

The assets of the Gratuity Fund and the Employees' Provident Fund are held separately from those of the Group and are independently administered by a separate management team appointed by the Group. As at 31st March 2019 fair value of plan assets is Rs. 246,528,429/- (2018 - Rs. 196,188,217/-)

4.10.2 Employees' provident fund (EPF)

The Parent company and employees contribute 20% and 10% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

The subsidiary company and employee's contribute 12% and 8% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

The Group operates an approved private fund to manage EPF and managed by the committee of management.

4.10.3 Employees' trust fund (ETF)

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

4.11 Taxation

As per the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes' tax expense (Tax income) is the aggregate amount included in determination of Profit or Loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Profit or Loss except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in the Statement of Changes in Equity or in OCI.

4.11.1 Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially

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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. 24 of 2017 and the amendments thereto.

4.11.2 Deferred tax

Deferred tax is provided using the liability temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible differences carrying forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of a deferred tax asset is reviewed at end of the reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax asset are reassessed at the end of the reporting period and are recognised to the extent that it is probable that the future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable

right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Due to the rectification of classification error the freehold land and building have been transferred to investment property, the differed tax impact on such adjustment has reversed to the Statement of Other Comprehensive Income.

4.11.3 Value Added Tax on Financial Services (FVAT)

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto. The value base for the computation of Value Added Tax on Financial Services is calculated by adjusting the depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable.

4.11.4 Crop Insurance Levy (CIL)

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

4.11.5 Withholding Tax on Dividends

Dividend distributed out of taxable profit of the subsidiaries attracts WHT at source and is not available to set off against the tax liability of the Company. Thus, the WHT deducted at source, on the dividends distributed by the subsidiaries is charged to the Consolidated Statement of Profit or Loss as a consolidation adjustment.

Withholding tax that arises from the distribution of dividends by the Group is

recognised at the time of the liability is payable.

4.11.6 Nation Building Tax (NBT) on Financial Services

With effect from 01st January 2014, NBT rate of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on Financial Services.

4.11.7 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto. Currently the ESC is payable on aggregate turnover of the Company at 0.5% and is deductible from income tax payable. Unclaimed ESC, if any, can be carried forward and set off against the income tax payable in the three subsequent years including the current year of assessment.

4.11.8 Debt Repayment Levy (DRL) on financial services

As per the Finance Act No. 35 of 2018, with effect from October 1, 2018 to 31st December 2021. DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services.

4.12 Recognition of Income

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

4.12.1 Interest income

Under both SLFRS 9 and LKAS 39, interest income is recorded using effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designed at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available for sale or held to maturity under LKAS 39 is also recorded by using the EIR method. EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset.

EIR (and therefore, the amortised cost of the assets) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycles (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial assets are revised for reasons other than credit risk, the adjustments is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction of interest income. The adjustment is subsequently amortised through interest and similar income in the Statement of Profit and Loss.

When a financial asset becomes credit-impaired, and is therefore regarded as "Stage 3", the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset, if the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognised using the contractual interest rate under net interest income.

4.12.2 Net Fee and commission income Service Income

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed

Fee and Commission Income

The Group earns fee and commission income from a diverse range of services, it provides to its customers. Fee and commission income relates mainly to transactions and services fees which are charged from customers to provide relevant financial services. It mainly include CRIB verification charges, Yard fees, Loan processing fees and vehicles transfer fees, income account on cash basis.

Fee and Commission Expense

Fee and commission expense mainly relates to transactions and services fees which are expensed to third parties on behalf of customers. These expenses mainly includes RMV expenses and Insurance expenses. Fee and commission expenses are recognised on an accrual basis.

4.12.3 Dividend income

Dividend income is recognised when the right to receive the payment is established. Usually, this is the ex-dividend date for equity securities. Dividends are presented in the 'Other Operating Income' in Statement of Profit or Loss.

4.12.4 Net Trading Income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'Held for Trading' other than interest income.

4.12.5 Other Income

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

4.13 Dividends on Ordinary Shares

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

4.14 Earnings per Share

The Group presents basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

4.15 Operating Segments

A business segment is a distinguishable component of the Group, engaged in

Significant Accounting Policies

providing products or services subject to risks and returns that are different from those of other business segments. Operating results of those segments are reviewed regularly by the Board of Directors to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The primary business format is based on the core business activities of the Group, namely, lease, hire purchase & consumer durable, loans, gold loans, 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 by taking into account the objective of reporting financial information by segment as set forth in Sri Lanka Accounting Standard, SLFRS 8 "Operating Segments", segment reporting and qualitative characteristics of financial statements as identified in the Framework for the Preparation and Presentation of Financial Statements.

The Group's business activities are carried out in Sri Lanka. Consequently, the economic environment in which the Group operates in, is not subject to risk and returns that are significantly deferent on a geographical basis. Hence, disclosure by geographical region has not been provided. For the purpose of segment reporting disclosures, the information presented in respect of the Group's business segments is based on the Group's management and internal reporting structure.

Income recognised in segments is an income which is directly identified and reported in those segments and expenses directly identified to a particular segment

are charged accordingly and expenses that cannot be directly identified to a particular segment are allocated on basis decided by the management and applied consistently throughout the period. Unallocated items mainly comprise of head office expenses. Measurement of segments assets, liabilities, segment revenue and results are based on the group accounting policies. Segments revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segments assets that are expected to be used for more than one accounting period.

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLICABLE AS AT 31ST MARCH 2019

The following new accounting standards and amendments were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), which are not yet applicable as at 31st March 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Consolidated Financial Statements.

5.1 SLFRS 16 Leases

Sri Lanka Accounting Standard – SLFRS 16 "Leases" (SLFRS 16) which has been issued but not yet effective as at the reporting date, has not been applied in preparing these Consolidated Financial Statements. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("Lessee") and the supplier ("Lessor"). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS

16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases

The new Standard requires a lessee to:

- recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- present depreciation of lease assets separately, from interest on lease liabilities in the Statement of Profit and Loss.
- SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17.

Accordingly, a lessor continues to classify its leases as operating lease or finance lease and to account for those two types of leases differently.

SLFRS – 16 will become effective on 1st January 2019. The Group has no material impact on the implementation of the above Standard. The Group plans to apply this standard on the respective effective date.

6. TRANSITIONAL DISCLOSURES

The following notes set out the impact of adopting Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) at transition date, 1st April 2018 on the Statement of Financial Position, and retained earnings including the effect of replacing incurred credit loss calculations under Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - recognition and measurement) with expected credit loss (ECL) calculations under SLFRS 9.

6.1 Reclassification

These adjustments reflect the movement of balance between categories on the Statement of Financial Position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassification.

6.2 Re-Measurement

These adjustments, which include expected credit loss, result in a change to the carrying value of the items on the Statement of Financial Position with an impact to shareholders' equity net of tax.

6.3 Reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as at 1st April 2018

6.3.1 Company

		LKAS 39 Measurement		Reclassification	Re-measurement		SLFRS 09
	Note	Category	Amount			Category	Amount
			Rs	Rs	Rs		Rs
Financial assets							
Cash & cash equivalents	B	L&R	510,364,191	-	-	AC	510,364,191
Repurchase Agreements	B	L&R	638,820,384	-	-	AC	638,820,384
Placements with banks	B	L&R	476,510,425	-	-	AC	476,510,425
Treasury bills	n/a	HFT	544,527,194	-	-	FVTPL	544,527,194
Quoted equity investments	n/a	HFT	206,737,492	-	-	FVTPL	206,737,492
Loans and advances	25.4 & B	L&R	7,877,246,355	-	35,493,438	AC	7,912,739,793
Lease rentals receivable	26.2 & B	L&R	17,553,965,443	-	(37,507,140)	AC	17,516,458,303
Hire purchase rentals receivable	27.2 & B	L&R	62,388,835	-	(25,856,748)	AC	36,532,088
Treasury bonds	A	AFS	380,942,702	-	-	FVOCI	380,942,702
Unquoted equity investment	A	AFS	579,250	-	-	FVOCI	579,250
Other financial assets	B	L&R	323,549,421			AC	323,549,421
			28,575,631,692	-	(27,870,450)		28,547,761,242
Non-financial assets							
Other trading stocks	n/a	n/a	140,786,132	-	-	n/a	140,786,132
Other non-financial assets	n/a	n/a	115,538,483	-	-	n/a	115,538,483
Investments in associates	n/a	n/a	57,362,904	-	-	n/a	57,362,904
Investments in subsidiaries	n/a	n/a	16,924,038	-	-	n/a	16,924,038
Investment property	n/a	n/a	488,090,500	-	-	n/a	488,090,500
Property, plant & equipment	n/a	n/a	1,681,946,562	-	-	n/a	1,681,946,562
Intangible assets	n/a	n/a	56,746,867	-	-	n/a	56,746,867
Deferred tax assets	n/a	n/a	647,838,785	-	7,803,726	n/a	655,642,511
			3,205,234,271		7,803,726		3,213,037,997
Total Assets			31,780,865,963		(20,066,724)		31,760,799,239

Significant Accounting Policies

	LKAS 39 Measurement			Reclassification	Re-measurement	SLFRS 09	
	Note	Category	Amount Rs	Rs	Rs	Category	Amount Rs
Financial liabilities							
Due to banks	n/a	AC	11,042,104,540	-	-	AC	11,042,104,540
Due to customers	n/a	AC	13,256,951,431	-	-	AC	13,256,951,431
Debt instruments issued and other borrowed funds	n/a	AC	1,645,799,918	-	-	AC	1,645,799,918
Derivative financial liabilities	n/a	HFT	39,238,389	-	-	FVTPL	39,238,389
Other financial liabilities	n/a	AC	456,262,778	-	-	AC	456,262,778
			26,440,357,056	-	-		26,440,357,056
Non - financial liabilities							
Other non-financial liabilities	n/a	n/a	36,923,025	-	-	n/a	36,923,025
Income tax liabilities	n/a	n/a	25,004,302	-	-	n/a	25,004,302
Retirement benefit liabilities	n/a	n/a	64,596,330	-	-	n/a	64,596,330
Deferred tax liabilities	n/a	n/a	914,909,474	-	-	n/a	914,909,474
			1,041,433,132	-	-		1,041,433,132
Total Liabilities			27,481,790,188				27,481,790,188
Shareholders' Funds							
Stated Capital	n/a	n/a	613,980,000	-	-	n/a	613,980,000
Reserves	n/a	n/a	2,185,100,867	-	-	n/a	2,185,100,867
Retained Earnings	B	n/a	1,499,994,909	-	(20,066,724)	n/a	1,479,928,185
			4,299,075,776	-	(20,066,724)		4,279,009,052
Total Liabilities and Shareholders funds			31,780,865,963		(20,066,724)		31,760,799,239

Notes to the Financial Statements

6.3.2 Group

As at 1st April 2018

	LKAS 39 Measurement			Reclassification	Re-measurement	SLFRS 09	
	Note	Category	Amount Rs	Rs	Rs	Category	Amount Rs
Financial assets							
Cash & cash equivalents	B	L&R	551,552,815	-	-	AC	551,552,815
Repurchase Agreement	B	L&R	638,820,384	-	-	AC	638,820,384
Placements with banks	B	L&R	476,510,425	-	-	AC	476,510,425
Treasury bills	n/a	HFT	544,527,194	-	-	FVTPL	544,527,194
Quoted equity investment	n/a	HFT	206,737,492	-	-	FVTPL	206,737,492
Loans and advances	25.4 & B	L&R	7,877,373,054	-	35,493,438	AC	7,912,866,492
Lease rentals receivable	26.2 & B	L&R	17,553,965,443	-	(37,507,140)	AC	17,516,458,303
Hire purchase rentals	27.2 & B	L&R	62,388,835	-	(25,856,748)	AC	36,532,087
Treasury bonds	A	AFS	380,942,702	-	-	FVOCI	380,942,702
Unquoted equity investment	A	AFS	579,250	-	-	FVOCI	579,250
Other financial assets	B	L&R	349,638,381	-	-	AC	349,638,381
			28,643,035,975	-	(27,870,450)		28,615,165,525
Non-financial assets							
Other trading stocks	n/a	n/a	140,786,132	-	-	n/	140,786,132
Other non-financial assets	n/a	n/a	115,985,993	-	-	n/a	115,985,993
Investments in associates	n/a	n/a	76,411,294	-	-	n/a	76,411,294
Investment property	n/a	n/n	488,090,500	-	-	n/a	488,090,500
Property, plant & equipment	n/a	n/a	1,682,240,360	-	-	n/a	1,682,240,360
Intangible assets	n/a	n/a	56,746,867	-	-	n/a	56,746,867
Deferred tax assets	n/a	n/a	648,285,324	-	7,803,726	n/a	656,089,050
			3,208,546,468	-	7,803,726		3,216,350,194
Total Assets			31,851,582,443		(20,066,724)		31,831,515,719
Financial liabilities							
Due to banks	n/a	AC	11,053,987,058	-	-	AC	11,053,987,058
Due to customers	n/a	AC	13,256,951,431	-	-	AC	13,256,951,431
Debentures	n/a	AC	1,645,799,918	-	-	AC	1,645,799,918
Derivative financial liabilities	n/a	HFT	39,238,389	-	-	FVTPL	39,238,389
Other financial liabilities	n/a	AC	473,689,206	-	-	AC	473,689,206
			26,469,666,002	-	-		26,469,666,002
Non - financial liabilities							
Other non-financial liabilities	n/a	n/a	36,923,025	-	-	n/a	36,923,025
Income tax liabilities	n/a	n/a	26,636,671	-	-	n/a	26,636,671
Retirement benefit liabilities	n/a	n/a	66,191,109	-	-	n/a	66,191,109
Deferred tax liabilities	n/a	n/a	914,952,510	-	-	n/a	914,952,510
			1,044,703,315	-	-		1,044,703,315
Total Liabilities			27,514,369,317				27,514,369,317

Significant Accounting Policies

	LKAS 39 Measurement		Reclassification	Re-measurement	SLFRS 09
	Note	Category	Amount Rs	Rs	Category Amount Rs
Shareholder's Funds					
Stated Capital	n/a	n/a	613,980,000	-	n/a 613,980,000
Reserves	n/a	n/a	2,185,100,867	-	n/a 2,185,100,867
Retained Earnings	B	n/a	1,518,272,964	-	(20,066,724) n/a 1,498,206,240
			4,317,353,831	-	(20,066,724) 4,297,287,107
Total Equity Attributable to Equity Holders of the Company					
			31,831,723,148	-	(20,066,724) - 31,811,656,424
Non controlling interest	n/a	n/a	19,859,296	-	- 19,859,296
Total Liabilities and Shareholders funds					
			31,851,582,443	-	(20,066,724) 31,831,515,719

Notes

- A. Financial assets previously classified under available for sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 09.
- B. As at 01st April 2018, financial assets previously classified as other loans and receivables have been reclassified as debt & other instruments at amortised cost. These assets met the "Solely Payment of Principal and Interest" (SSPI) criterion. They were not actively traded and held with the intention to collect cash flows and without the intention to sell.
- C. The impact on retained earnings by transition to SLFRS 9 and re measurement is shown in the table below,

	Company Rs.	Group Rs.
Closing balance under LKAS 39 as at 31st March 2018	1,499,994,909	1,518,272,964
Re-measurement adjustments on adoption of SLFRS 9		
Recognition of SLFRS 9 ECLs for loans and investments	(27,870,450)	(27,870,450)
Deferred tax on above	7,803,726	7,803,726
Total change in equity due to adoption of SLFRS 9	(20,066,724)	(20,066,724)
Opening balance under SLFRS 9 as at 1st April 2018	1,479,928,185	1,498,206,240

Notes to the Financial Statements

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.

7. GROSS INCOME

Interest income (note 8.1)	6,832,724,997	6,478,637,880	6,835,674,145	6,481,420,530
Fee & commission income (note 9)	180,053,256	202,891,784	257,538,486	279,284,773
Net trading income (note 10)	(34,804,790)	3,333,736	(34,804,790)	3,333,736
Other operating income (note 11)	265,624,906	207,761,017	265,652,349	170,173,127
	7,243,598,369	6,892,624,417	7,324,060,190	6,934,212,166

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.

8. NET INTEREST INCOME

8.1 Interest Income

Financial investments - recognised through profit or loss	97,060,174	109,237,293	97,060,174	109,237,293
Loans and advances (note 8.1.1)	1,931,855,938	2,250,881,453	1,931,855,938	2,250,881,453
Lease rentals receivable	4,529,533,148	3,978,641,847	4,529,533,148	3,978,641,847
Hire purchase & consumer durables	4,586,859	20,208,561	4,586,859	20,208,561
Financial investments				
- fair value through other comprehensive income	28,861,850	-	28,861,850	-
Financial investments - available for sale	-	25,948,503	-	28,693,596
Repurchase agreements	13,542,238	16,589,251	13,542,238	14,861,380
Placements with banks & other financial institutions	63,526,721	77,130,972	66,475,869	78,896,400
Interest income accrued on impaired loans & receivables	163,758,069	-	163,758,069	-
Total interest income	6,832,724,997	6,478,637,880	6,835,674,145	6,481,420,530

8.1.1 Interest Income from Loans & Advances

Interest income from loans	698,387,181	838,218,729	698,387,181	838,218,729
Interest income from pledge loan	239,402,225	349,599,848	239,402,225	349,599,848
Interest income from gold loan	369,534,321	254,260,958	369,534,321	254,260,958
Interest income from Group loans	624,532,211	808,801,918	624,532,211	808,801,918
	1,931,855,938	2,250,881,453	1,931,855,938	2,250,881,453

8.2 Interest Expenses

Due to banks	1,255,747,782	1,297,102,851	1,255,747,782	1,297,102,851
Due to customers (fixed deposits & savings accounts)	1,642,290,238	1,488,565,018	1,642,290,238	1,483,795,253
Debt instruments issued and other borrowed funds	137,575,959	289,885,133	137,575,959	289,885,133
Other financial liabilities	208,420,190	131,347,559	208,420,190	131,347,559
Total interest expenses	3,244,034,169	3,206,900,561	3,244,034,169	3,202,130,796
Net interest income	3,588,690,828	3,271,737,319	3,591,639,976	3,279,289,734

Notes to the Financial Statements

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.

9. FEE AND COMMISSION INCOME

9.1 Fees and Commission Income

Commission income	-	-	87,985,749	76,392,989
Service charges	134,405,904	155,856,237	123,905,385	155,856,237
Transfer fees	35,504,261	35,157,897	35,504,261	35,157,897
Other fees	10,143,091	11,877,650	10,143,091	11,877,650
Total fee and commission income	180,053,256	202,891,784	257,538,486	279,284,773

9.2 Fee and Commission Expenses

Brokerage	(89,245,684)	(48,859,669)	(89,245,684)	(48,859,669)
Credit related fees	(125,350,740)	(113,118,146)	(125,576,887)	(113,126,044)
Total fee and commission expenses	(214,596,424)	(161,977,815)	(214,822,571)	(161,985,713)
Net fee and commission income	(34,543,168)	40,913,969	42,715,915	117,299,060

10. NET GAINS /(LOSSES) FROM TRADING

Profit/(loss) on sale of financial investments - FVTPL	(4,076,301)	6,378,862	(4,076,301)	6,378,862
Profit/(loss) on sale of foreign currencies	3,690,318	(7,718,303)	3,690,318	(7,718,303)
Fair value gain/(loss) on financial investments - FVTPL	(40,281,703)	4,673,177	(40,281,703)	4,673,177
Fair value gain on treasury bonds reclassified to profit or loss	9,539,227	-	9,539,227	-
Impairment of unquoted investments reclassified to profit or loss	(3,676,331)	-	(3,676,331)	-
Net trading income /(loss)	(34,804,790)	3,333,736	(34,804,790)	3,333,736

During the financial year 2018/19, Company has reclassified the treasury bonds which were classified under fair value through other comprehensive income category, to fair value through profit or loss.

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.

11. OTHER OPERATING INCOME

Income from financial investment - FVTPL	5,635,045	43,453,580	5,635,045	5,089,580
Profit/(loss) on disposal of property, plant & equipment	912,208	1,746,639	912,208	1,746,639
Fair value gain on investment property	60,909,500	20,500,000	60,909,500	20,500,000
Profit on sale of vehicles	68,443,282	21,676,595	68,443,282	21,676,595
Rental income from hiring vehicles	27,463,131	25,614,507	27,463,131	25,614,507
Income from sale of tiles & furniture	3,413,430	753,552	3,413,430	753,552
Bad debt recoveries	33,790,120	48,350,905	33,790,120	48,350,905
Others	65,058,190	45,665,239	65,085,633	46,441,349
Total Other Operating Income	265,624,906	207,761,017	265,652,349	170,173,127

Investment property comprises of lands and building which was erroneously classified under property plant and equipment has been rectified in accordance with LKAS 08-"Accounting Policies, Estimates and Errors". Further details on retrospective adjustment has been disclosed in note no 35.

For the year ended 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.

12. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

Impairment Charges / (Write Back)

Lease rentals receivable	134,982,865	158,087,866	134,982,865	158,087,866
Hire purchase rentals receivable	(24,993,983)	(7,977,866)	(24,993,983)	(7,977,866)
Loans and advances	326,866,464	265,493,933	326,866,464	265,493,933
	436,855,346	415,603,933	436,855,346	415,603,933

Bad Debts Written off

Lease rentals receivable	292,046,622	74,508,103	292,046,622	74,508,103
Hire purchase rentals receivable	18,268,907	348,712	18,268,907	348,712
Loans and advances	66,323,935	22,433,599	66,323,935	22,433,599
	376,639,464	97,290,414	376,639,464	97,290,414
	813,494,810	512,894,347	813,494,810	512,894,347

12.1 Impairment Charge / (Reversal) to the Profit or Loss

	2019			Total Rs.	2018
	Stage 01 Rs.	SLFRS 9 Stage 02 Rs.	Stage 03 Rs.		LKAS 39 Total Rs.
Loans and advances - at amortised cost					
Collective impairment	41,039,612	33,201,935	107,508,874	181,750,421	199,861,196
Individual impairment	-	-	145,116,042	145,116,042	65,632,737
Lease rentals receivable & stock out on hire					
- at amortised cost					
Collective impairment	(47,100,793)	68,727,587	93,131,246	114,758,040	158,087,866
Individual impairment	-	-	20,224,826	20,224,826	-
Hire purchase rentals receivable & stock out on hire - at amortised cost					
Collective impairment	(505,018)	(513,321)	317,488	(700,851)	(7,977,866)
Individual impairment	-	-	(24,293,132)	(24,293,132)	-
	(6,566,199)	101,416,201	342,005,344	436,855,346	415,603,933

Notes to the Financial Statements

For the year ended 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
13. PERSONNEL EXPENSES				
Salaries and bonus	570,406,203	615,785,757	591,105,743	643,711,879
Gratuity charge for the year	32,690,685	34,293,582	33,119,199	34,659,274
Employer's contribution to EPF	113,776,567	101,463,722	114,574,185	102,169,386
Employer's contribution to ETF	17,067,629	15,219,767	17,267,034	15,396,183
Staff welfare	30,863,068	21,230,004	31,328,469	21,817,392
Other allowances & staff related expenses	15,547,247	12,796,754	15,574,208	13,074,520
	780,351,399	800,789,586	802,968,838	830,828,634

14. OTHER OPERATING EXPENSES

14.1

Auditor's remuneration				
Auditors' fee	1,050,065	913,100	1,162,565	1,035,200
Non audit fees and expenses	253,000	72,000	305,500	121,300
Directors emoluments and other expenses (14.1.1)	59,293,719	62,795,530	60,893,719	65,995,530
Professional fees	8,981,274	4,833,217	8,981,274	4,833,217
Office administration & establishment expenses	392,279,805	341,355,386	398,874,142	350,684,247
Advertising & business promotion expenses	100,474,297	37,675,286	108,840,527	50,195,842
Motor vehicle running & maintenance	547,089,050	477,842,832	550,063,651	480,660,405
Loss on fair value of unquoted securities	-	443,487	-	443,487
Others	115,260,874	101,277,755	115,260,874	101,277,755
	1,224,682,084	1,027,208,593	1,244,382,252	1,055,246,983

14.1.1 Directors emoluments and other expenses represent the fees, salaries, allowances (except gratuity provision) and other expenses of both executive and non-executive directors of the Company.

For the year ended 31st March	Company		Group	
	2019 Rs.	2018 Restated Rs.	2019 Rs.	2018 Restated Rs.
15. DEPRECIATION AND AMORTIZATION				
Depreciation of property, plant and equipment	127,514,906	107,903,132	127,641,913	108,061,261
Amortization of intangible assets	8,571,853	7,218,083	8,571,853	7,218,083
	136,086,759	115,121,215	136,213,766	115,279,344

For the year ended 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.

16. TAXES ON FINANCIAL SERVICES

Value added tax	163,627,044	220,369,251	163,627,044	220,369,251
Nation building tax	19,235,821	25,866,666	19,235,821	28,266,666
Debt repayment levy	38,327,820	-	38,327,820	-
	221,190,685	246,235,917	221,190,685	248,635,917

	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.

17. TAXATION

17.1 The Major Components of Income Tax Expense

Current Income Tax Expenses

Current tax on profit for the year (note 17.2)	245,322,833	146,231,978	256,492,414	153,242,525
Under/ (over) provision of current taxes in respect of prior years	(5,788,748)	(127,402,223)	(6,619,664)	(127,402,223)
	239,534,085	18,829,755	249,872,750	25,840,302

Deferred Tax Expenses

Deferred taxation charge/ (reversal) (note 17.4)	54,562,595	62,771,521	54,497,343	62,683,793
	294,096,680	81,601,276	304,370,093	88,524,095

Current Tax on Profit for the year - Subsidiary

Alfinco Insurance Brokers (Pvt) Ltd			10,273,414	6,922,819
			10,273,414	6,922,819

17.2 Reconciliation of Accounting Profit to Current Tax Expense

Accounting profit before income taxation	600,268,236	810,096,845	638,059,296	795,810,895
Tax effect of non deductible expenses	5,579,056,797	6,240,322,475	5,581,246,593	6,241,477,650
Tax effect of other allowable credits	(3,615,019,561)	(5,350,145,775)	(3,618,058,204)	(5,357,863,745)
Tax effect of exempt income	(940,363,640)	(950,783,414)	(937,414,492)	(904,866,999)
Tax effect of Tax losses claimed	(747,788,858)	(227,233,067)	(747,788,858)	(227,233,067)
	876,152,974	522,257,065	916,044,335	547,294,733
Tax rate at 28%	28%	28%	28%	28%
Income tax for the year	245,322,833	146,231,978	256,492,414	153,242,525

17.3 Applicable Income Tax Rates for Subsidiary and Associates

Alfinco Insurance Brokers (Pvt) Ltd	28%
Macbertan (Pvt) Ltd	28%

Notes to the Financial Statements

17.4 Deferred Tax Expense/(Reversal)

The following table shows deferred tax expense recorded in the profit or loss due to changes in the deferred tax assets and liabilities.

For the year ended 31 st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.
Deferred Tax Liabilities				
Defined benefit obligation - profit or loss	9,723,450	4,121,567	9,625,665	4,031,760
Other temporary differences	346,630,801	-	346,630,801	-
Accelerated depreciation - leased assets	1,439,630	2,174,671	1,439,630	2,174,671
Accelerated depreciation - own assets	27,674,701	70,902,189	27,707,234	70,902,189
Lease rentals	-	194,028,177	-	194,028,177
	385,468,582	271,226,604	385,403,330	271,136,797
Deferred Tax Assets				
Accelerated depreciation - own assets	-	-	-	(2,079)
Lease rentals	328,475,187	-	328,475,187	-
Other temporary differences	-	208,687,350	-	208,687,350
	328,475,187	208,687,350	328,475,187	208,685,271
Total Deferred tax expense / (reversal)	56,993,395	62,539,254	56,928,143	62,451,526
Defined benefit obligation - other comprehensive income	(2,430,800)	232,267	(2,430,800)	232,267
Deferred tax expense adjusted through profit or loss	54,562,595	62,771,521	54,497,343	62,683,793

18. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

For the year ended 31 st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.
Amounts used as the numerators:				
Net profit for the year attributable to equity shareholders for basic earnings per ordinary share	306,171,556	728,495,569	323,766,338	701,110,624
Number of ordinary shares used as denominators for Basic Earnings per share				
Weighted average number of ordinary shares in issue	33,696,000	33,696,000	33,696,000	33,696,000
Basic earnings per ordinary share (Rs.)	9.09	21.62	9.61	20.81

The company diluted EPS is equal to the Basic Earning Per Ordinary Share since the Company does not have any convertible securities as at the reporting date.

For the year ended 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.

19. DIVIDENDS

Dividends on ordinary shares:

Interim dividends (2018-Rs. 4.15 per share)	-	139,838,400	-	139,838,400
Final dividend proposed for 2019				
- Rs. 1 per share (2018 - Rs.2.25/- per share)	33,696,000	75,816,000	33,696,000	75,816,000
	33,696,000	215,654,400	33,696,000	215,654,400
Dividend Per Share (Rs.)	1.00	6.40	1.00	6.40
Dividend yield	1.87	9.74	1.87	9.74

The Board of Directors of the Company has recommended the payment of a final dividend of Rs. 1 per share to the ordinary shareholders of the Company for the year ended 31st March 2019. (Company declared Rs. 2.25 per share in 2018). Final dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on 31st July 2019. The Company paid interim dividend of Rs.4.15 per share in 2017/2018.

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

As at 31st March	Company		Group	
	2019 Rs.	2018 Restated Rs.	2019 Rs.	2018 Restated Rs.

20. NET ASSETS VALUE PER ORDINARY SHARE

Amount used as the numerator

Total equity attributable to equity holders of the Company	4,510,256,769	4,299,075,776	4,546,180,296	4,317,353,831
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Number of ordinary shares used as the denominator

Total number of ordinary shares	33,696,000	33,696,000	33,696,000	33,696,000
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Net assets value per ordinary share	134	128	135	128
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Notes to the Financial Statements

21. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in SLFRS 9 (2018: LKAS 39) on 'Financial Instruments Recognition & Measurement' under the headings of the Statement of Financial Position.

As at 31st March 2019	Fair Value Through Profit or Loss	Amortised Cost	Fair value Through Other Comprehensive Income	Total
	Rs.	Rs.	Rs.	Rs.
21.1 Company				
Financial Assets				
Cash and cash equivalents	-	281,584,736	-	281,584,736
Repurchase agreements	-	210,053,286	-	210,053,286
Placements with banks & financial institutions	-	732,163,843	-	732,163,843
Financial assets fair value through profit or loss				
- measured at fair value	1,807,179,087	-	-	1,807,179,087
Loans and advances - at amortised cost	-	6,512,027,536	-	6,512,027,536
Lease rentals receivable - at amortised cost	-	18,842,072,665	-	18,842,072,665
Hire purchase rentals receivable - at amortised cost	-	12,349,092	-	12,349,092
Financial assets - fair value through other comprehensive income	-	-	579,250	579,250
Other financial assets	-	405,850,825	-	405,850,825
Total Financial Assets	1,807,179,087	29,996,101,983	579,250	28,803,860,320
			Other Financial Liabilities at Amortised cost	Total
			Rs.	Rs.
Financial Liabilities				
Due to banks			12,589,469,582	12,589,469,582
Due to customers			12,493,682,808	12,493,682,808
Debt instruments issued and other borrowed funds			819,062,771	819,062,771
Derivative financial liabilities			99,770,779	99,770,779
Other financial liabilities			781,933,240	781,933,240
Total Financial Liabilities			26,783,919,180	26,783,919,180

As at 31st March 2018	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
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21.2 Company

Financial Assets

Cash and cash equivalents	-	510,364,191	-	510,364,191
Repurchase agreements	-	638,820,384	-	638,820,384
Placements with banks & financial institutions	-	476,510,425	-	476,510,425
Financial investments - Held for trading	751,264,686	-	-	751,264,686
Loans and advances	-	7,877,246,355	-	7,877,246,355
Lease rentals receivable	-	17,553,965,443	-	17,553,965,443
Hire purchase rentals receivable	-	62,388,835	-	62,388,835
Financial investments - Available for sale	-	-	381,521,952	381,521,952
Other financial assets	-	323,549,421	-	323,549,421
Total Financial Assets	751,264,686	27,442,845,054	381,521,952	28,575,631,691

	Other Financial Liabilities at Amortised cost Rs.	Total Rs.
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Financial Liabilities

Due to banks	11,042,104,540	11,042,104,540
Due to customers	13,256,951,431	13,256,951,431
Debt Instruments issued and other borrowed funds	1,645,799,918	1,645,799,918
Derivative financial liabilities	39,238,389	39,238,389
Other financial liabilities	456,262,778	456,262,778
Total Financial Liabilities	26,440,357,057	26,440,357,057

Notes to the Financial Statements

As at 31st March 2019	Fair Value Through Profit or Loss	Amortised Cost	Fair value Through Other Comprehensive Income	Total
	Rs.	Rs.	Rs.	Rs.
21.3 Group				
Financial Assets				
Cash and cash equivalents	-	290,719,999	-	290,719,999
Repurchase agreements	-	210,053,286	-	210,053,286
Placements with banks & financial institutions	-	732,163,843	-	732,163,843
Financial assets fair value through profit or loss				
-measured at fair value	1,807,179,087	-	-	1,807,179,087
Loans and advances - at amortised cost	-	6,512,165,856	-	6,512,165,856
Lease rentals receivable - at amortised cost	-	18,842,072,665	-	18,842,072,665
Hire purchase rentals receivable - at amortised cost	-	12,349,092	-	12,349,092
Financial assets - fair value through other comprehensive income	-	-	579,250	579,250
Other financial assets	-	446,862,405	-	446,862,405
Total Financial Assets	1,807,179,087	27,046,387,148	579,250	28,854,145,485
			Other Financial Liabilities at Amortised Cost	Total
			Rs.	Rs.
Financial Liabilities				
Due to banks			12,589,469,582	12,589,469,582
Due to customers			12,493,682,808	12,493,682,808
Debt Instruments issued and other borrowed funds			819,062,771	819,062,771
Derivative financial liabilities			99,770,779	99,770,779
Other financial liabilities			781,537,579	781,537,579
Total Financial Liabilities			26,783,523,519	26,783,523,519

As at 31st March 2018	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
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21.4 Group

Financial Assets

Cash and cash equivalents	-	551,552,815	-	551,552,815
Repurchase agreements	-	638,820,384	-	638,820,384
Placements with banks & financial institutions	-	476,510,425	-	476,510,425
Financial investments - Held for trading	751,264,686	-	-	751,264,686
Loans and advances	-	7,877,373,054	-	7,877,373,054
Lease rentals receivable	-	17,553,965,443	-	17,553,965,443
Hirepurchase rentals receivable	-	62,388,835	-	62,388,835
Financial investments - Available for sale	-	-	381,521,952	381,521,952
Other financial assets	-	349,638,381	-	349,638,381
Total Financial Assets	751,264,686	27,510,249,337	381,521,952	28,643,035,974

			Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
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Financial Liabilities

Due to banks			11,053,987,056	11,053,987,056
Due to customers			13,256,951,431	13,256,951,431
Debt Instruments issued and other borrowed funds			1,645,799,918	1,645,799,918
Derivative financial liabilities			39,238,389	39,238,389
Other financial liabilities			473,689,206	473,689,206
Total Financial Liabilities			26,469,666,000	26,469,666,000

As at 31st March 2019	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.

22. CASH AND CASH EQUIVALENTS

Cash in hand	57,302,252	55,992,471	57,302,252	55,992,471
Balances with banks	224,282,484	454,371,720	233,417,747	495,560,344
	281,584,736	510,364,191	290,719,999	551,552,815

Notes to the Financial Statements

As at 31st March 2019	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
23. FINANCIAL ASSETS				
- RECOGNISED THROUGH PROFIT OR LOSS				
Government of Sri Lanka treasury bills	1,242,399,963	-	1,242,399,963	-
Government of Sri Lanka treasury bonds	400,476,681	-	400,476,681	-
Quoted equity securities (note 24.1)	164,302,443	-	164,302,443	-
	1,807,179,087	-	1,807,179,087	-

24 FINANCIAL INVESTMENTS - HELD FOR TRADING

Government of Sri Lanka treasury bills	-	544,527,194	-	544,527,194
Quoted equity securities (note 24.1)	-	206,737,492	-	206,737,492
	-	751,264,686	-	751,264,686

During the financial year 2018/19, Company has reclassified the treasury bonds which were classified under fair value through other comprehensive income category, to fair value through profit and loss category.

	2019 Company & Group			2018 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
24.1 Quoted Equities						
Banks, Finance & Insurance						
Central Finance Co PLC	31,272	4,111,690	2,642,484	31,000	4,084,490	3,096,900
Ceylinc Insurance PLC - non voting	1,500	602,749	1,350,600	1,500	602,749	1,500,000
Commercial Bank - non voting	81	9,513	6,804	79	9,233	8,216
Hatton National Bank PLC	29,783	6,652,663	5,212,025	29,783	6,652,663	7,326,618
Merchant Bank of Sri Lanka PLC	385	718,750	4,120	385	718,750	4,928
National Development Bank PLC	16,369	2,289,695	1,541,960	15,522	2,199,950	2,064,426
People's Leasing Company PLC	529,800	12,043,920	7,099,320	529,800	12,043,920	8,317,860
People's Insurance PLC	299,883	6,893,033	5,667,789	-	-	-
Sanasa Development Bank	39,836	6,046,150	2,390,160	38,741	5,929,554	4,164,658
Seylan Bank PLC	140,964	15,267,359	8,852,539	137,598	15,030,690	11,651,799
Seylan Bank PLC - non voting	52,773	3,772,483	1,974,060	52,773	3,681,714	2,876,129
Sinhaputhra Finance PLC - preference shares	50,000	125,000	335,000	50,000	125,000	375,000
Union Bank PLC	91,764	2,366,190	1,009,404	91,764	2,366,190	1,174,579
		60,899,195	38,086,264		53,444,902	42,561,113

	2019 Company & Group			2018 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
24.1 Quoted Equities Contd.						
Land & Property						
East West Properties PLC	2,149,885	32,440,675	37,622,988	2,149,885	32,440,675	41,707,769
		32,440,675	37,622,988		32,440,675	41,707,769
Hotels & Travels						
Amaya Leisure PLC	24	1,121	893	-	-	-
Browns Beach Hotels PLC	-	-	-	100,000	2,231,637	1,460,000
Ceylon Hotels Corporation PLC	53,331	2,139,964	490,645	53,331	2,139,964	799,965
Dolphin Hotels PLC	135,000	7,245,218	3,577,500	135,000	7,245,218	3,510,000
Hotel Sigiriya PLC	35,000	3,539,200	2,065,000	35,000	3,539,200	2,198,000
Jetwing Symphony PLC	750,000	8,250,000	7,275,000	750,000	8,250,000	10,125,000
Mahaweli Reach Hotels PLC	71,928	2,970,734	978,221	71,928	2,970,734	1,244,354
The Nuwara Eliya Hotels Company PLC	327	455,040	408,750	327	455,040	440,404
Serendib Hotels PLC -non voting	14,510	334,376	182,826	14,510	334,376	217,650
Sigiriya Village Hotels PLC	64,902	6,779,287	3,030,923	64,902	6,779,287	2,667,472
Taj Lanka Hotels PLC	17,800	997,893	167,320	17,800	997,893	300,820
Tangerine Beach Hotels PLC	7,516	630,813	305,150	7,516	630,813	340,475
		33,343,646	18,482,228		35,574,162	23,304,140
Manufacturing						
ACL Cables PLC	10,000	635,515	323,000	10,000	635,515	410,000
Alumex PLC	-	-	-	250,000	4,550,400	4,225,000
Central Industries PLC	200,000	11,764,452	5,640,000	200,000	11,764,452	7,860,000
Lanka Aluminium Industries PLC	-	-	-	10,000	1,152,728	638,000
Regnis Lanka PLC	29,410	3,622,634	1,841,066	29,410	3,622,634	2,946,882
Tokyo Cement PLC - non voting	26,400	498,319	472,560	26,400	498,319	1,214,400
		16,520,920	8,276,626		22,224,048	17,294,282
Trading						
Singer Sri Lanka PLC	91,215	3,675,127	2,371,590	91,215	3,675,127	3,648,600
		3,675,127	2,371,590		3,675,127	3,648,600
Investment Trusts						
Lee Hedges PLC	284,800	17,621,544	19,936,000	284,800	17,621,544	23,923,200
Renuka Holdings PLC	674,529	23,042,074	9,038,689	674,529	23,042,074	13,490,580
		40,663,618	28,974,689		40,663,618	37,413,780

Notes to the Financial Statements

	2019			2018		
	Company & Group			Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
24.1 Quoted Equities Contd.						
Diversified Holdings						
Aitken Spence PLC	354,551	36,661,167	14,536,591	354,551	36,661,167	18,082,101
Hayleys PLC	35,000	12,386,795	5,880,000	35,000	12,386,795	7,007,000
John Keells Holdings PLC	105	19,025	16,380	105	19,025	16,800
		49,066,987	20,432,971		49,066,987	25,105,901
Plantations						
Horana Plantations PLC	25,000	1,873,625	425,000	25,000	1,873,625	550,000
Kegalle Plantations PLC	37,100	8,266,496	2,040,500	37,100	8,266,496	2,444,890
		10,140,121	2,465,500		10,140,121	2,994,890
Construction & Engineering						
Access Engineering PLC	21,500	500,038	288,100	21,500	500,038	440,750
MTD Walkers PLC	-	-	-	45,000	2,803,621	922,500
Colombo Dockyard PLC	6,580	1,232,107	348,740	6,580	1,232,107	546,140
		1,732,145	636,840		4,535,766	1,909,390
Power & Energy						
Lanka IOC PLC	25,000	1,302,426	442,500	25,000	1,302,426	752,500
Mackwoods Energy PLC	100,000	1,399,997	-	100,000	1,399,997	210,000
		2,702,423	442,500		2,702,423	962,500
Motors						
C M Holding PLC	2,285	800,794	82,489	2,285	800,794	168,633
Diesel & Motor Engineering PLC	17,500	19,143,781	5,332,250	17,500	19,143,781	8,135,750
United Motors PLC	6,819	668,851	455,509	6,819	668,851	518,244
		20,613,426	5,870,248		20,613,426	8,822,627
Chemicals & Pharmaceuticals						
CIC Holdings PLC	25,000	1,320,665	640,000	25,000	1,320,665	1,012,500
		1,320,665	640,000		1,320,665	1,012,500
Total Investment		273,118,948	164,302,443		276,401,921	206,737,492

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
25. LOANS AND ADVANCES				
Term loan receivable	3,109,714,400	3,456,171,138	3,109,714,400	3,456,171,138
Gold loans	1,315,671,113	1,183,219,907	1,315,671,113	1,183,219,907
Pledge loans	1,488,717,679	1,308,844,192	1,488,717,679	1,308,844,192
Group loans	1,172,537,357	2,170,441,301	1,172,537,357	2,170,441,301
Loans against fixed deposits	137,312,571	135,206,079	137,312,571	135,206,079
Staff loans (note 25.1)	3,100,447	4,151,358	3,238,767	4,278,058
	7,227,053,567	8,258,033,975	7,227,191,887	8,258,160,674
Less : Allowance for impairment losses (note 25.2, 25.3 & 25.4)	(715,026,031)	(380,787,620)	(715,026,031)	(380,787,620)
Net loans and advances	6,512,027,536	7,877,246,355	6,512,165,856	7,877,373,054

Allowance for impairment losses for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period have not been restated.

25.1 Staff Loans

Staff loans include loans granted to company officers, the movement of which is as follows :

As at 1st April	4,151,358	8,385,380	4,278,058	8,501,843
Loans granted during the year	20,314,385	20,171,554	20,722,385	20,171,554
Repayments during the year	(20,850,721)	(24,405,576)	(21,247,101)	(24,395,339)
Provision for staff loan	(514,575)	-	(514,575)	-
As at 31st March	3,100,447	4,151,358	3,238,767	4,278,058

25.2 Allowances for Impairment Losses

As at 01st April	380,787,620	115,293,687	380,787,620	115,293,687
Impact on adoption of SLFRS 9 as at 1st April 2018	(35,493,437)	-	(35,493,437)	-
Charge / (Reversal) for the year	326,866,464	265,493,933	326,866,464	265,493,933
Interest income accrued on impaired loans and receivables	42,865,385	-	42,865,385	-
As at 31 st March	715,026,031	380,787,620	715,026,031	380,787,620

25.3 Loan Category wise Allowances for Impairment Losses

Term loan receivable	158,350,817	105,966,283	158,350,817	105,966,283
Gold loans	4,789,329	27,968,381	4,789,329	27,968,380
Pledge loans	276,960,762	117,741,501	276,960,762	117,741,502
Group loans	274,925,123	129,111,455	274,925,123	129,111,455
	715,026,031	380,787,620	715,026,031	380,787,620

Notes to the Financial Statements

25.4 Analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below:

	2018-2019				2018
	SLFRS 09				LKAS 39
	Stage 1	Stage 2	Stage 3	Total	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Gross loans and advances 31st March 2018	7,057,203,163	415,669,268	785,161,543	8,258,033,974	8,258,033,975
Less: Provision for collective impairment	(74,654,290)	(52,992,103)	(140,518,394)	(268,164,787)	(315,154,883)
Less: Provision for individual impairment	-	-	(77,129,395)	(77,129,395)	(65,632,737)
	6,982,548,873	362,677,165	567,513,754	7,912,739,792	7,877,246,355
Gross loans and advances 31st March 2019	5,591,109,830	475,627,833	1,160,315,904	7,227,053,567	n/a
Less: Provision for collective impairment	(115,693,903)	(86,194,038)	(289,096,761)	(490,984,702)	n/a
Less: Provision for individual impairment	-	-	(224,041,329)	(224,041,329)	n/a
	5,475,415,927	389,433,795	647,177,814	6,512,027,536	-

As at 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.

26 LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

Gross rentals receivables				
- Lease rentals	25,664,367,129	23,546,676,458	25,664,367,129	23,546,676,458
- Amounts receivable from hirers	1,265,525,727	847,617,275	1,265,525,727	847,617,275
	26,929,892,856	24,394,293,733	26,929,892,856	24,394,293,733
Less: Unearned income	(7,552,650,617)	(6,486,875,230)	(7,552,650,617)	(6,486,875,230)
Net rentals receivables	19,377,242,239	17,907,418,503	19,377,242,239	17,907,418,503
Less: Allowance for impairment losses (note 26.1 & 26.2)	(535,169,574)	(353,453,060)	(535,169,574)	(353,453,060)
Total net rentals receivable (note 26.3)	18,842,072,665	17,553,965,443	18,842,072,665	17,553,965,443

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

26.1 Allowances for Impairment Losses

As at 01st April	353,453,060	195,365,194	353,453,060	195,365,194
Impact on adoption of SLFRS 9 as at 1st April 2018	37,507,140	-	37,507,140	-
Charge / (Reversal) for the year	134,982,865	158,087,866	134,982,865	158,087,866
Interest income accrued on impaired loans and receivables	9,226,509	-	9,226,509	-
As at 31st March	535,169,574	353,453,060	535,169,574	353,453,060

26.2 Analysis of the impairment for lease rentals receivable, based on the staging of the underlying leases is given below:

	2018-2019 SLFRS 09				2018 LKAS 39
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Total Rs.
Gross lease rentals receivable 31st March 2018	16,721,191,030	688,255,743	497,971,730	17,907,418,503	17,907,418,503
Less: Provision for collective impairment	(154,052,232)	(54,095,401)	(56,026,697)	(264,174,330)	(353,453,060)
Less: Provision for individual impairment	-	-	(126,785,869)	(126,785,869)	-
	16,567,138,798	634,160,342	315,159,164	17,516,458,304	17,553,965,443
Gross lease rentals receivable 31st March 2019	16,420,209,600	1,982,777,416	974,255,223	19,377,242,239	n/a
Less: Provision for collective impairment	(106,951,439)	(122,822,988)	(158,384,452)	(388,158,879)	n/a
Less: Provision for individual impairment	-	-	(147,010,695)	(147,010,695)	n/a
	16,313,258,161	1,859,954,428	668,860,076	18,842,072,665	n/a

26.3 Age analysis of lease rentals receivable Company & Group

As at 31st March 2019	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivable				
- Lease rentals	1,316,061,360	24,344,945,288	3,360,481	25,664,367,129
- Amounts receivable from hirers	322,966,856	942,603,770	(44,899)	1,265,525,727
	1,639,028,216	25,287,549,058	3,315,582	26,929,892,856
Less: Unearned income	(132,813,295)	(7,418,452,038)	(1,385,284)	(7,552,650,616)
Net rentals receivable	1,506,214,921	17,869,097,020	1,930,298	19,377,242,240
Less: Allowance for impairment losses				(535,169,574)
Total net rentals receivable				18,842,072,665
As at 31st March 2018	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivable				
- Lease rentals	1,067,933,896	22,478,742,562	-	23,546,676,458
- Amounts receivable from hirers	250,218,734	597,398,541	-	847,617,275
	1,318,152,630	23,076,141,103	-	24,394,293,733
Less: Unearned income	(100,731,826)	(6,386,143,404)	-	(6,486,875,230)
Net rentals receivable	1,217,420,804	16,689,997,699	-	17,907,418,503
Less: Allowance for impairment losses				(353,453,060)
Total net rentals receivable				17,553,965,443

Lease rentals receivable includes receivable amounting to Rs. 11,871,666,996/- that has been assigned under a securitization funding arrangement.

Notes to the Financial Statements

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
27. HIRE PURCHASE RENTALS RECEIVABLE & STOCK OUT ON HIRE				
Gross rentals receivable				
- Hire purchase rentals	4,972,689	38,124,722	4,972,689	38,124,722
- Amounts receivable from hirers	7,928,525	32,627,925	7,928,525	32,627,925
	12,901,214	70,752,647	12,901,214	70,752,647
Less: Unearned income	(217,362)	(3,818,426)	(217,362)	(3,818,426)
Net rentals receivable	12,683,852	66,934,221	12,683,852	66,934,221
Less: Allowance for impairment losses (note 27.1 & 27.2)	(334,760)	(4,545,386)	(334,760)	(4,545,386)
Total net rentals receivable (note 27.3)	12,349,092	62,388,835	12,349,092	62,388,835

The amounts for the year ended 31st March 2019 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
27.1 Allowance for Impairment Losses				
As at 01st April	4,545,386	12,523,252	4,545,386	12,523,252
Impact on adoption of SLFRS 9 as at 1st April 2018	25,856,747	-	25,856,747	-
Charge / (Reversal) for the year	(24,993,983)	(7,977,866)	(24,993,983)	(7,977,866)
Interest income accrued on impaired loans and receivables	(5,073,390)	-	(5,073,390)	-
As at 31 st March	334,760	4,545,386	334,760	4,545,386

27.2 Analysis of the impairment for hire purchase rentals receivable, based on the staging of the underlying leases is given below:

	2018-2019 SLFRS 09				2018 LKAS 39
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Total Rs.
Gross lease rentals receivable 31 March 2018	28,958,112	8,068,153	29,907,956	66,934,221	66,934,221
Less: Provision for collective impairment	(608,851)	(587,456)	(18,862)	(1,215,169)	(4,545,385)
Less: Provision for individual impairment	-	-	(29,186,964)	(29,186,964)	-
	28,349,261	7,480,697	702,130	36,532,088	62,388,835
Gross lease rentals receivable 31 March 2019	3,470,016	1,231,640	7,982,196	12,683,852	n/a
Less: Provision for collective impairment	(103,833)	(74,135)	4,737,040	4,559,072	n/a
Less: Provision for individual impairment	-	-	(4,893,832)	(4,893,832)	n/a
	3,366,183	1,157,505	7,825,404	12,349,092	n/a

27.3 Age analysis of hire purchase rentals receivable
Company & Group

As at 31st March 2019	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivable				
- Hire purchase rentals	4,972,689	-	-	4,972,689
- Amounts receivable from hirers	7,928,525	-	-	7,928,525
	12,901,214	-	-	12,901,214
Less: Unearned income	(217,362)	-	-	(217,362)
Net rentals receivable	12,683,852	-	-	12,683,852
Less: Allowance for impairment losses				(334,760)
Total net rentals receivable				12,349,092
As at 31st March 2018	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
- Hire purchase rentals	17,769,296	20,355,426	-	38,124,722
- Amounts receivable from hirers	31,868,069	759,855	-	32,627,925
	49,637,365	21,115,281	-	70,752,647
Less: Unearned income	(978,205)	(2,840,221)	-	(3,818,426)
Net rentals receivables	48,659,160	18,275,060	-	66,934,221
Less: Allowance for impairment losses				(4,545,386)
Total net rentals receivable				62,388,835

Hire purchase receivable includes receivable amounting to Rs. 2,272,387/- that has been assigned under a securitization funding arrangement.

28. FINANCIAL INVESTMENTS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Unquoted equities (note 29.1)	579,250	-	579,250	-
	579,250	-	579,250	-

Notes to the Financial Statements

29. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Government of Sri Lanka treasury bonds	-	380,942,702	-	380,942,702
Unquoted equities (note 29.1)	-	579,250	-	579,250
	-	381,521,952	-	381,521,952

During the financial year 2018/19, Company has reclassified the treasury bonds which were classified under fair value through other comprehensive income category, to fair value through profit or loss category.

Company & Group	2019		2018	
	Cost of Investment Rs.	Fair Value Rs.	Cost of Investment Rs.	Fair Value Rs.
29.1 Unquoted equities				
Comp Trust Equity Fund	200,500	200,500	200,500	200,500
Commercial Fund Management	1,500	1,500	1,500	1,500
Shaw Wallace Ceylon Ltd	11,544	11,544	11,544	11,544
Alliance Agencies Ltd	75,300	75,300	75,300	75,300
Ceylon Japan Industries Ltd	1	1	1	1
Orient Food Processing (Lanka) Ltd	1	1	1	1
Trigem Knitwear Ltd	1	1	1	1
Credit Information Bureau of Sri Lanka	25,400	25,400	25,400	25,400
Finance House Consortium (Pvt) Ltd	200,000	200,000	200,000	200,000
Orient Hotels Ltd	1	1	1	1
Ranwelli Holiday Resorts Ltd	65,001	65,001	65,001	65,001
Nation Lanka Equities (Pvt) Ltd	8,785,740	1	8,785,740	1
Total	9,364,989	579,250	9,364,989	579,250

Directors of the Company assessed that the fair value of the unquoted share investments held by the Company as at 31st March 2019 and concluded that the carrying value as at that date is a reasonable approximation of fair value.

30. OTHER TRADING STOCKS

	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Real estates	21,376,500	52,238,000	21,376,500	52,238,000
Vehicles	374,184,579	88,548,132	374,184,579	88,548,132
Other stock	6,094,747	-	6,094,747	-
	401,655,826	140,786,132	401,655,826	140,786,132

31. OTHER FINANCIAL ASSETS

	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Collaboration debtors	41,239,434	24,462,573	41,239,434	24,462,573
Differed Expenses	221,002,704	171,765,417	221,002,704	171,765,417
Other receivables	143,608,687	127,321,431	184,620,269	153,410,391
	405,850,825	323,549,421	446,862,407	349,638,381

32. OTHER NON FINANCIAL ASSETS

Prepaid expenses	213,948,205	111,082,262	213,948,205	111,529,770
Stationery stock	3,757,166	3,128,438	3,757,157	3,128,438
VAT (payable)/recoverable	-	1,327,783	-	1,327,783
	217,705,371	115,538,483	217,705,362	115,985,991

33. INVESTMENT IN ASSOCIATES

	% Holding	Carrying Value 01.04.2018 Rs.	Share of Profit/(Loss) Rs.	Change of Interest Rs.	Carrying Value 31.03.2019 Rs.
a) Equity Method					
Company					
Macbertan (Pvt) Ltd	23.36%	57,362,904	(8,893,804)	-	48,469,100
		57,362,904	(8,893,804)	-	48,469,100
Group					
Macbertan (Pvt) Ltd	23.36%	76,411,294	(8,893,804)	17,214,060	84,731,550
		76,411,294	(8,893,804)	17,214,060	84,731,550

Alliance Finance Company PLC's direct shareholding in Macbertan (Pvt) Ltd., has changed from 19.51% to 11.80% during the financial year 2018/19 due to the issue of new shares to other investors. In addition, Alliance Finance Company PLC's subsidiary, Alfinco Insurance Brokers (Pvt) Limited held a shareholding of 18.09% in Macbertan (pvt) Ltd. Accordingly, the Company retains a significant control over the associate with an effective control of 23.36% as at 31.03.2019.

Alfinco Insurance (Pvt.) Ltd. invested in equity shares of Macbertan (Pvt) Ltd. which was shown in unquoted equity in year 2017/18 and the above has been reclassified to investment in associate in 2018/19.

Notes to the Financial Statements

	No. of Ordinary Shares	2019 Cost of Investment Rs.	2018 Cost of Investment Rs.
b) Cost Method			
Macbertan (Pvt) Ltd	1,720,000	17,200,000	17,200,000
		17,200,000	17,200,000

	2019 Rs.	2018 Rs.
c) Summary Financial Information of the Investment in Associates		
Total assets	749,459,558	709,600,402
Total liabilities	435,896,044	415,567,396
Net assets	313,563,514	294,033,006
Revenue	771,812,001	891,159,587
Profits /(loss)	(38,069,502)	(3,094,359)

34. INVESTMENT IN SUBSIDIARIES

	Principal Activity	% Holding	Cost of Investment Rs.
Alfinco Insurance Brokers (Pvt) Ltd	Insurance Brokering	63.94%	16,924,038

Alfinco Insurance Brokers (Pvt) Ltd not quoted under Colombo Stock Exchange.

Summarized Financial Information of Subsidiary

As at 31st March	2019 Rs.	2018 Rs.
Alfinco Insurance Brokers (Pvt) Ltd		
Net operating income	91,798,090	84,721,514
Less: operating expenses	(54,007,026)	(60,643,465)
Profit before taxes	37,791,064	24,078,049
Less: Taxes	(10,273,414)	(6,922,819)
Profit after tax	27,517,650	17,155,230
Assets	126,450,612	130,463,401
Liabilities	35,238,581	70,207,168
Equity	91,212,031	60,256,233

35. INVESTMENT PROPERTY

Company & Group	Balance As at 01.04.2018 Restated Rs.	Additions Rs.	Revaluation Rs.	Balance As at 31.03.2019 Rs.
Gross Carrying Amounts				
Land and building	488,090,500	-	60,909,500	549,000,000
	488,090,500	-	60,909,500	549,000,000
	Balance As at 01.04.2017 Restated Rs.	Additions Rs.	Revaluation Rs.	Balance As at 31.03.2018 Restated Rs.
Gross Carrying Amounts				
Land & buliding	412,500,000	55,090,500	20,500,000	488,090,500
	412,500,000	55,090,500	20,500,000	488,090,500

Retrospective restatement

Investment property comprises of lands and building which was erroneously classified under property plant and equipment.

The land situated at No.199/11 Obesekarapura, Rajagiriya has been erroneously classified as property, plant and equipment. This land is held with the objective of capital appreciation. Therefore, this property transferred to investment property with effect from 01st April 2017 to rectify the classification error. Accordingly, the carrying value of the land amounting to Rs. 412,500,000/- has been transferred from property plant and equipment to the investment property as at 01st April 2017.

Further, the carrying value of the building amounting to Rs. 19,148,250 /- situated at No.199/11 Obesekarapura, Rajagiriya has been derecognized as future development of this property will need the existing building to be demolished. As a result Rs.19, 148,250/- has been written off to retained profits as at 1st April 2017.

The land situated at 199/10 Obesekarapura, Rajagiriya (adjacent to the property at 199/11) was purchased for Rs. 55,090,500/- in October 2017 with a view to enhance the market value by expanding the road frontage of the combined property. This property was also erroneously classified under property plant and equipment. Accordingly the carrying value of this property has been transferred to investment property as at 31st March 2018.

The Company policy on subsequent measurement of the investment property is to carry at fair value, accordingly the revaluation has been carried out by an independent qualified valuer on 31st March 2019 and revaluation surplus amounting Rs. 20,500,000/- has been recorded in the statement of profit or loss in the year 2017/18.

The previously identified excess amount on deferred tax liability on land revaluation gain amounting to Rs. 69,210,000/- has been rectified by reversing such amount from deferred tax liability and capital reserve as at 31st March 2018.

Further, the depreciation charge on such property amounting to Rs. 957,413/- which has been erroneously accounted under property plant and equipment has been rectified from the retained earnings in the year 2018.

Notes to the Financial Statements

35.1 Revaluation of Investment Property

The Company revalued its investment properties as at 31st March 2019, adopting an open market comparable basis of valuation by Mr. M.T.H Farook being independent, professional valuer with recent experience in the location category of the property being valued.

Details of investment properties stated at valuation

Location	Date of Valuation	Net book Value at Valuation Rs.	Revaluation Amount Rs.	Revaluation Gain Recognised in P & L Rs.
No.199/11, Rajagiriya Road, Rajagiriya	02.04.2019	433,000,000	480,000,000	47,000,000
No.199/10, Rajagiriya Road, Rajagiriya	02.04.2019	55,090,500	69,000,000	13,909,500
		488,090,500	549,000,000	60,909,500

35.2 Details of Investment Properties as at 31st March 2019

Location	Land extent (perches)	Fair value of investment property Rs.
No.199/11, Rajagiriya Road, Rajagiriya	160	480,000,000
No.199/10, Rajagiriya Road, Rajagiriya	23	69,000,000
		549,000,000

Fair Value

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land value is based on the market prices of each land respectively.	Market value of Land (Price per Perch)	The estimated fair value would increase/ (decrease) when market value per perch was higher (lower)

35.3 Title Restriction on Investment Properties

There were no restriction on the title of land and building categories as investment properties as at 31st March 2019.

36. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.04.2018 Restated Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2019 Rs.
Gross Carrying Amounts				
36.1 Company				
Cost / Valuation				
Freehold Assets				
Land	1,153,760,063	25,769,902	-	1,179,529,965
Buildings	121,510,106	65,676,955	-	187,187,061
Furniture & fittings	69,066,190	8,276,069	(303,643)	77,038,616
Equipment	194,583,711	47,621,138	(4,292,350)	237,912,499
Motor vehicles & accessories	346,778,536	35,374,917	(12,028,215)	370,125,238
Computers	111,853,502	16,245,515	(298,513)	127,800,504
Antiques	25,580	-	-	25,580
	1,997,577,688	198,964,496	(16,922,721)	2,179,619,463
Depreciation				
Freehold Assets				
Land	-	-	-	-
Buildings	10,177,611	7,031,159	-	17,208,770
Furniture & fittings	19,229,810	8,733,588	(95,943)	27,867,455
Equipment	71,984,398	40,802,852	(2,187,026)	110,600,224
Motor vehicles & accessories	145,393,124	32,598,089	(7,393,808)	170,597,405
Computers	68,846,183	38,349,219	(253,210)	106,942,192
Antiques	-	-	-	-
	315,631,127	127,514,906	(9,929,987)	433,216,046
Net book value				
Land	1,153,760,063			1,179,529,965
Buildings	111,332,495			169,978,291
Furniture & fittings	49,836,380			49,171,161
Equipment	122,599,313			127,312,275
Motor vehicles & accessories	201,385,412			199,527,833
Computers	43,007,319			20,858,312
Antiques	25,580			25,580
	1,681,946,562			1,746,403,417

Investment property comprises of lands and building which was erroneously classified under property plant and equipment has been rectified in accordance with LKAS 08-"Accounting Policies, Estimates and Errors". Further details on retrospective adjustment has been disclosed in note no 35.

Notes to the Financial Statements

	Balance As at 01.04.2018 Restated Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2019 Rs.
Gross Carrying Amounts				
36.2 Group				
Cost / Valuation				
Freehold Assets				
Land	1,153,760,063	25,769,902	-	1,179,529,965
Buildings	121,510,106	65,676,955	-	187,187,061
Furniture & fittings	70,055,344	8,276,069	(303,643)	78,027,770
Equipment	196,980,784	47,621,138	(4,292,350)	240,309,572
Motor vehicles & accessories	346,778,536	35,374,917	(12,028,215)	370,125,238
Computers	112,893,632	16,335,515	(298,513)	128,930,634
Antiques	25,580	-	-	25,580
	2,002,004,045	199,054,496	(16,922,721)	2,184,135,820
Depreciation				
Freehold Assets				
Land	-	-	-	-
Buildings	10,177,612	7,031,159	-	17,208,770
Furniture & fittings	20,161,513	8,763,410	(95,943)	28,828,980
Equipment	74,289,183	40,851,387	(2,187,026)	112,953,544
Motor Vehicles & accessories	145,393,124	32,598,088	(7,393,808)	170,597,404
Computers	69,742,253	38,397,869	(253,210)	107,886,912
Antiques	-	-	-	-
	319,763,686	127,641,913	(9,929,987)	437,475,610
Net book value				
Land	1,153,760,063			1,179,529,965
Buildings	111,332,495			169,978,291
Furniture & fittings	49,893,831			49,198,790
Equipment	122,691,601			127,356,028
Motor vehicles & accessories	201,385,412			199,527,834
Computers	43,151,379			21,043,722
Antiques	25,580			25,580
	1,682,240,360			1,746,660,210

Investment property comprises of lands and building which was erroneously classified under property plant and equipment has been rectified in accordance with LKAS 08-"Accounting Policies, Estimates and Errors". Further details on retrospective adjustment has been disclosed in note no 35.

36.3 Revaluation of Fixed Assets

Freehold land and buildings of the Group are revalued by the independent professional valuers once in every three years or more frequently to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The Group revalued its entire class of freehold land and buildings as of 31st March 2017.

The Company revalued its land and buildings, adopting an open market comparable basis of valuation by Ms. W.A.T.I.P. Jayathilake & Company and Ms. K.T. Nihal & Company being independent, professional valuers with recent experience in the location category of the property being valued.

36.3.1 Details of company's land stated at valuation

Location	Date of Valuation	Net book Value at Valuation Rs.	Revaluation Amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.
No.84, Ward Place, Colombo 7	15.02.2017	275,000,000	708,500,000	433,500,000
No.98, Ward Place, Colombo 7	01.04.2017	83,105,564	224,770,000	141,664,436
		358,105,564	933,270,000	575,164,436

36.3.2 Details of company's buildings stated at valuation

Location	Date of Valuation	Net book Value at Valuation Rs.	Revaluation Amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.
No.84, Ward Place, Colombo 7	15.02.2017	18,132,452	8,187,200	(9,945,252)
No.98, Ward Place, Colombo 7	01.04.2017	13,835,963	31,472,700	17,636,737
		31,968,415	39,659,900	7,691,485

36.3.3 Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used:

Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land value is based on the market prices of each land respectively.	Market value of Land (Price per Perch)	The estimated fair value would increase/ (decrease) when market value per perch was higher (lower)

Notes to the Financial Statements

36.3.4 Carrying value at cost

The carrying amount of Company's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31st March 2019	Cost Rs.	Accumulated Depreciation Rs.	Net Book Value Rs.
Freehold lands	91,940,792	-	91,940,792
Freehold buildings	30,806,880	18,756,372	12,050,508
	122,747,672	18,756,372	103,991,300

36.3.5 Carrying value at revaluation

The carrying amount of Company's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation, would be as follows:

As at 31st March 2019	Revalued Amount Rs.	Accumulated Depreciation Rs.	Net Book Value Rs.
Land	933,270,000	-	933,270,000
Building	39,659,900	3,965,990	35,693,910
	972,929,900	3,965,990	968,963,910

36.4 Details of Freehold Land and Buildings as at 31st March 2019

Location	Land extent (Perches)	Cost or Revaluation of Land Rs.	Buildings (Square Feet)	Cost or Revaluation of Building Rs.	Total Value Rs.
No 84 Ward Place Colombo - 7	37.33	708,500,000	6,967	8,187,200	716,687,200
No.98, Ward Place, Colombo - 7	19.41	224,770,000	8,460	31,472,700	256,242,700
No.152, Batapadura Watta Road, Siyambalagoda	28.00	732,470	-	-	732,470
No.720, Kotte Road, Rajagiriya	33.85	130,253,800	-	-	130,253,800
No.722, Kotte Road, Rajagiriya	23.26	89,503,793	16,660	142,285,564	231,789,357
No.29, Kotugoda Road, Seeduwa	80.00	25,769,902	2,712	5,241,598	31,011,500
Freehold Land and Buildings		1,179,529,965		187,187,062	1,366,717,027

36.5 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.198,964,496 /- (2017/18 - Rs. 193,621,051/-) and payment made by cash.

36.6 The cost of the fully depreciated / amortised property, plant and equipment and intangible assets of the Company which are still in use as at the end of the reporting date are as follows:

	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Motor vehicles	53,148,354	23,308,551	53,148,354	26,661,039
Office Equipment	-	-	2,275,574	-
Furniture & Fittings	-	-	2,800,459	-
Computers	84,070,450	-	84,964,631	-
Software- Intangible assets	6,808,933	6,808,933	8,361,933	8,361,933
	144,027,737	30,117,484	151,550,951	35,022,972

36.7 Title restriction on Property Plant and Equipment

There were no restriction on the title of property, plant and equipment as at 31st March 2019.

36.8 Property Plant and Equipment Pledged as Security for Liabilities

Property	Mortgaged with	Value Rs.
No.722, Kotte Road, Rajagiriya	Public Bank	250 Mn

36.9 Measurement of fair values

The fair value measurement for freehold lands have been categorized as a Level 3 fair value based on the input to the valuation technique used.

Notes to the Financial Statements

37. INTANGIBLE ASSETS

	Balance As at 31.03.2018 Rs.	Additions Rs.	Balance As at 31.03.2019 Rs.
Gross Carrying Amounts of Freehold and Leasehold Assets			

37.1 Company

Cost / Valuation

Computer software - Freehold	61,695,537	8,348,480	70,044,017
Computer software - Leasehold	26,251,500	-	26,251,500
	87,947,037	8,348,480	96,295,517

Amortisation

Computer software - Freehold	26,387,395	5,946,702	32,334,097
Computer software - Leasehold	4,812,775	2,625,151	7,437,926
	31,200,170	8,571,853	39,772,023

Net book value

Computer software - Freehold	35,308,142		37,709,920
Computer software - Leasehold	21,438,725		18,813,575
	56,746,867		56,523,495

	Balance As at 31.03.2018 Rs.	Additions Rs.	Balance As at 31.03.2019 Rs.
Gross Carrying Amounts of Freehold and Leasehold Assets			

37.2 Group

Cost / Valuation

Computer software - Freehold	63,248,537	8,348,480	71,597,017
Computer software - Leasehold	26,251,500	-	26,251,500
	89,500,037	8,348,480	97,848,517

Amortisation

Computer software - Freehold	27,940,395	5,946,702	33,887,097
Computer software - Leasehold	4,812,775	2,625,151	7,437,925
	32,753,170	8,571,853	41,325,022

Net book value

Computer software - Freehold	35,308,142		37,709,920
Computer software - Leasehold	21,438,725		18,813,575
	56,746,867		56,523,495

38. DUE TO BANKS

As at 31st March 2019	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Bank overdrafts	147,877,806	232,447,868	147,877,806	244,330,384
Securitised borrowings and other facilities (note 38.1, 38.2 & 38.3)	12,439,674,565	10,800,496,933	12,439,674,565	10,800,496,935
Finance lease (38.4)	1,917,211	9,159,739	1,917,211	9,159,739
	12,589,469,582	11,042,104,540	12,589,469,582	11,053,987,058

Company and Group	As at 31.03.2018 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Rs.	As at 31.03.2019 Rs.	Period	Security
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38.1 Securitised Borrowings

Deutsche Bank Trust - 28	400,988,445	-	18,728,015	387,854,205	31,862,255	48 Months	Lease receivables
Deutsche Bank Trust - 29	27,176,867	-	167,958	27,344,825	-	36 Months	Lease receivables
Deutsche Bank Trust - 30	716,582,396	-	52,124,172	407,095,536	361,611,032	48 Months	Lease receivables
BOC Trust 01	127,285,206	-	4,381,024	131,666,230	-	30 Months	Lease receivables
	1,272,032,914	-	75,401,169	953,960,796	393,473,287		

38.2 Direct Bank Borrowings

Term Loans

BOC	358,972,222	412,300,000	42,345,257	294,643,174	518,974,305	24 Months	Lease receivables
Cargill's Bank PLC	139,120,375	-	16,760,291	63,982,511	91,898,155	60 Months	Lease receivables
Commercial Bank of Ceylon PLC	-	1,050,000,000	6,274,143	606,274,143	450,000,000	36 Months	Lease receivables
DFCC Bank	220,833,333	250,000,000	52,371,137	151,390,750	371,813,720	96 Months	Lease receivables
DFCC Bank - PCI Loan	85,151,448	-	7,580,861	23,090,767	69,641,542	180 Months	Nil
Hatton National Bank	54,050,000	-	3,282,069	53,322,069	4,010,000	48 Months	Lease receivables
Lanka Puthra Development Bank	16,666,667	-	170,811	16,837,478	-	48 Months	Lease receivables
NDB Bank PLC	1,103,094,110	2,500,000,000	163,674,029	2,569,255,639	1,197,512,500	03 Months	Lease receivables
Public Bank	104,198,324	-	12,483,322	46,768,751	69,912,895	60 Months	Land & Building
Public Bank	226,128,446	-	21,521,075	39,506,273	208,143,248	60 Months	Lease receivables
Nations Trust Bank PLC	250,000,000	-	31,858,247	31,858,247	250,000,000	6 Months	Lease receivables
Reverse repo on treasury bills	141,353,580	270,000,000	243,202,306	471,271,514	183,284,372	7 Days	Treasury bonds
Sampath Bank PLC	1,439,499,999	900,000,000	157,225,152	1,058,425,151	1,438,300,000	36 Months	Lease receivables
Seylan Bank PLC	1,084,885,265	-	101,069,372	731,576,618	454,378,019	48 Months	Lease receivables
Union Bank of Colombo PLC	300,000,000	1,700,000,000	27,603,684	1,727,603,684	300,000,000	03 Months	Lease receivables
Union Bank of Colombo PLC	770,833,322	-	63,110,669	613,110,653	220,833,338	60 Months	Group loans receivables
Union Bank of Colombo PLC	-	2,200,000,000	37,718,479	1,637,718,479	600,000,000	12 Months	Lease / HP receivables
Syndication loan	120,304,110	-	4,989,041	125,293,151	-	48 Months	Lease receivables
	6,415,091,201	9,282,300,000	993,239,945	10,261,929,052	6,428,702,094		

Notes to the Financial Statements

Company and Group	As at 31.03.2018 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Rs.	As at 31.03.2019 Rs.	Period	Security
38.3 Foreign Currency Borrowings							
Tridos Investment Management	936,016,069	166,290,000	53,104,524	1,155,410,593	-	36 Months	Group loans receivables
Symbiotic Index	770,813,500	-	81,781,673	81,790,500	770,804,673	36 Months	Nil
Symbiotic - USD	783,543,249	77,000,000	44,978,960	14,471,993	891,050,216	36 Months	Nil
Tridos Investment Management	623,000,000	110,953,920	69,174,156	69,166,603	733,961,473	72 Months	Nil
IFC	-	791,100,000	73,476,655	45,522,682	819,053,973	60 Months	Lease receivables
FMO	-	1,810,000,000	33,292,636	-	1,843,292,636	60 Months	Lease receivables
DWM	-	548,482,550	38,224,481	27,370,818	559,336,213	36 Months	Lease receivables
	3,113,372,818	3,503,826,470	394,033,085	1,393,733,189	5,617,499,184		
	10,800,496,933	12,786,126,470	1,462,674,199	12,609,623,037	12,439,674,565		

38.4 Finance Lease

Company and Group	As at 31.03.2018 Rs.	Repayments Rs.	As at 31.03.2019 Rs.
Finance leases	9,159,739	(7,242,528)	1,917,211
	9,159,739	(7,242,528)	1,917,211
		2019 Rs.	2018 Rs.
Finance Lease			
Gross liability		1,941,671	9,708,355
Less: Finance charges allocated for future periods		(24,460)	(548,616)
Net liability		1,917,211	9,159,739
Repayable with in one year			
Gross liability		1,941,671	7,766,684
Less: Finance charges allocated for future periods		(24,460)	(524,156)
Net liability		1,917,211	7,242,528
Repayable with in one to five years			
Gross liability		-	1,941,671
Less: Finance charges allocated for future periods		-	(24,460)
Net liability		-	1,917,211

39. DUE TO CUSTOMERS

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Fixed deposits	11,954,633,010	12,668,973,745	11,954,633,010	12,668,973,745
Certificates of deposit	-	100,000	-	100,000
Savings deposits	539,049,798	587,877,686	539,049,798	587,877,686
	12,493,682,808	13,256,951,431	12,493,682,808	13,256,951,431

40. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

Unsecured Debentures

Face value	800,000,000	1,480,170,488	800,000,000	1,480,170,488
Accrued interest	19,062,771	165,629,430	19,062,771	165,629,430
	819,062,771	1,645,799,918	819,062,771	1,645,799,918

40.1 Quoted - Debentures

Company and group

- a) The debentures include 12,000,000 Unsecured Redeemable Listed Rated Subordinated Debentures of Rs. 100/- each issued by the Company in September 2013. The Debentures were quoted on the Colombo Stock Exchange. Debenture type C and D of Rs. 480,170,488 were redeemed as at 31st March 2019, redeemed debenture details are given below.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type 'C'	05 Years	3,510,000	351,000,000	Semi annually	Fixed rate of 16.5% per annum
Type 'D'	05 Years	2,772,000	129,170,488	Annually	Zero coupon Debentures with an annually compounding AER of 16.5%
		6,282,000	480,170,488		

- b) The debentures include 10,000,000 Unsecured Redeemable Listed Rated Debentures of Rs. 100/- each issued by the Company in December 2014. Debenture type A of Rs. 200,000,000 was redeemed on 29th December 2018. The Debentures are quoted on the Colombo Stock Exchange. Remaining debenture details are given below.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type 'B'	05 Years	8,000,000	800,000,000	Annually	9.35% per annum
		8,000,000	800,000,000		

Notes to the Financial Statements

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
41. OTHER FINANCIAL LIABILITIES				
Accrued expenses	97,827,572	126,899,043	77,994,219	123,217,073
Trade creditors	549,608,436	215,925,477	549,608,436	215,925,477
Others	134,497,232	113,438,258	153,934,924	134,546,656
	781,933,240	456,262,778	781,537,579	473,689,206
42. OTHER NON FINANCIAL LIABILITIES				
FVAT payable	29,239,871	26,935,251	29,239,871	26,935,251
Other taxes payable	27,291,881	9,987,774	27,291,881	9,987,774
	56,531,752	36,923,025	56,531,752	36,923,025
43. DERIVATIVE FINANCIAL LIABILITIES				
Foreign currency swaps	99,770,779	39,238,389	99,770,779	39,238,389
	99,770,779	39,238,389	99,770,779	39,238,389
44. INCOME TAX LIABILITY				
Receivable from Inland Revenue Department	(75,428,912)	(70,144,304)	(83,158,437)	(75,132,722)
ESC paid	(27,019,662)	(51,083,372)	(27,393,234)	(51,473,132)
Current tax liability	245,322,833	146,231,978	256,492,414	153,242,525
	142,874,259	25,004,302	145,940,743	26,636,671
44.1 Movement of Income Tax Liability				
Balance as at 01st April	25,004,302	108,212,452	26,636,671	111,659,369
Current tax based on profit for the year	245,322,833	146,231,978	256,492,414	153,242,525
Previous year WHT written-off	10,546	52,653	10,546	52,653
Over/under provision in respect of previous years	(5,788,748)	(127,402,223)	(5,788,748)	(127,402,223)
Payment of tax	(121,674,674)	(102,090,558)	(131,410,140)	(110,915,653)
Balance as at 31st March	142,874,259	25,004,302	145,940,743	26,636,671

45 RETIREMENT BENEFIT OBLIGATIONS

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Gratuity Liability				
45.1 Liability Recognised in the Statement of Financial Position				
Balance at 01 April	64,596,330	80,145,738	66,191,109	81,419,780
Amount charged/(reversed) for the year (note - 45.2)	24,011,758	35,138,107	24,360,995	35,458,844
Transfer to gratuity trust fund	(31,843,394)	(27,175,593)	(31,843,394)	(27,175,593)
Payments made during the year	(26,065,445)	(23,511,922)	(26,065,445)	(23,511,922)
Balance at 31 March	30,699,249	64,596,330	32,643,265	66,191,109
45.2 Amount Recognised in Profit or Loss				
Current service cost for the year	25,599,139	24,701,894	25,852,227	24,927,468
Interest cost for the year	28,674,750	28,112,895	28,850,176	28,253,013
Expected return on plan assets	(21,580,704)	(18,506,207)	(21,580,704)	(18,506,207)
	32,693,185	34,308,582	33,121,699	34,674,274
Amount Recognised in Other Comprehensive Income				
Net actuarial gains/ (losses)	(8,681,427)	829,525	(8,760,704)	784,570
Amount Charged for the year	24,011,758	35,138,107	24,360,995	35,458,844
45.3 Changes in the Present Value of Obligation				
Present value obligation as at 01st April	260,784,547	234,364,127	262,379,326	235,638,169
Interest cost	28,674,750	28,112,895	28,674,750	28,112,895
Current service cost	25,599,139	24,701,894	25,948,376	25,022,631
Benefits paid / payable	(26,065,445)	(23,511,922)	(26,065,445)	(23,511,922)
Actuarial (Gain) / Loss	(11,765,313)	(2,882,447)	(11,765,313)	(2,882,447)
Present value obligation as at 31st March	277,227,678	260,784,547	279,171,694	262,379,326
45.4 Movement in the Present Value of Plan Assets				
Value of plan assets as at 01st April	196,188,217	154,218,388	196,188,217	154,218,388
Expected return on the plan assets for the period	21,580,704	18,506,207	21,580,704	18,506,207
Contribution paid to the plan	31,843,394	27,175,595	31,843,394	27,175,595
Actuarial gain/(loss) on plan assets	(3,083,886)	(3,711,973)	(3,083,886)	(3,711,973)
Value of plan assets as at 31st March	246,528,429	196,188,217	246,528,429	196,188,217

Notes to the Financial Statements

As at 31st March	Company		Group	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.

45.5 Assumptions

Discount rate	11%	11%	11%	11%
Salary scale	8.50%	9.00%	8.50%	9.00%
Mortality table	A 67/70	A 67/70	A 67/70	A 67/70
Staff turnover	18%	17%	18%	17%

Retirement age ; Normal retirement age or age on valuation date if greater.

An actuarial valuation of the gratuity was carried out as at 31st March 2019 by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method", recommended by LKAS 19.

46. DEFERRED TAX

As at 31st March	Company		Group	
	2019 Rs.	2018 Restated Rs.	2019 Rs.	2018 Restated Rs.
Deferred tax liabilities				
Balance at 01st April	914,909,474	457,419,634	914,952,510	457,460,593
Recognised in profit & loss	(307,525,869)	198,493,798	(307,493,333)	198,495,875
Recognised in revaluation surplus	-	258,996,042	-	258,996,042
Balance as at 31st March	607,383,605	914,909,474	607,459,177	914,952,510
Deferred tax assets				
Balance at 01st April	647,838,785	511,884,241	648,285,324	512,240,973
Deferred tax on SLFRS 9 transitional adjustments	7,803,726	-	7,803,726	-
Adjusted balance as at 01st April 2018	655,642,511	511,884,241	656,089,050	512,240,973
Recognised in profit & loss	(362,088,465)	135,722,277	(361,990,679)	135,812,084
Recognised in other comprehensive income	(2,430,800)	232,267	(2,430,800)	232,267
Balance as at 31st March	291,123,246	647,838,785	291,667,571	648,285,324
Net deferred tax liabilities/(asset)	316,260,359	267,070,689	315,791,606	266,667,186

As at 31st March	Company		Group	
	2019	2018	2019	2018
		Restated		Restated
	Rs.	Rs.	Rs.	Rs.

46.1 Composition of Deferred Tax Assets and Liabilities

Liabilities

Accelerated depreciation - Own assets	21,800,638	2,290,950	21,876,210	2,333,987
- Leased assets	4,724,133	3,284,503	4,724,133	3,284,503
Lease rentals	321,862,792	650,337,979	321,862,792	650,337,979
Recognised in revaluation surplus	258,996,042	258,996,042	258,996,042	258,996,042
	607,383,605	914,909,474	607,459,177	914,952,510

Assets

Defined benefit obligation	8,595,790	18,319,240	9,140,114	18,765,779
Own assets	-	8,165,013	-	8,165,013
Others	274,723,730	23,395,088	274,723,731	23,395,088
Deferred tax on SLFRS 9 transitional adjustments	7,803,726	-	7,803,726	-
Tax loss carried forward	-	597,959,444	-	597,959,444
	291,123,246	647,838,785	291,667,571	648,285,324

Investment property comprises of lands and building which was erroneously classified under property plant and equipment has been rectified in accordance with LKAS 08-"Accounting Policies, Estimates and Errors". Further details on retrospective adjustment has been disclosed in note no 35.

47. STATED CAPITAL

As at 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.

47.1 Issued and Fully Paid-Ordinary Shares

Ordinary shares	613,980,000	613,980,000	613,980,000	613,980,000
	613,980,000	613,980,000	613,980,000	613,980,000

47.2 Number of Shares

Balance as at 01 April	33,696,000	33,696,000	33,696,000	33,696,000
	33,696,000	33,696,000	33,696,000	33,696,000

47.3 Rights of Shareholders

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

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

Notes to the Financial Statements

48. RETAINED EARNINGS

As at 31st March	Company		Group	
	2019	2018	2019	2018
	Rs.	Restated Rs.	Rs.	Restated Rs.
As at 01st April	1,499,994,909	1,127,932,197	1,518,272,965	1,173,576,454
Impact of adopting SLFRS 9	(20,066,724)	-	(20,066,724)	-
Dividend paid	(75,816,000)	(213,969,600)	(75,816,000)	(213,969,600)
Profit for the year	306,171,556	728,495,569	323,766,338	701,100,624
Adjustment on actuarial gain / (losses) on defined benefit plan	6,250,627	(597,258)	6,301,317	(568,514)
Transfers to statutory reserve fund	(61,235,000)	(141,866,000)	(61,235,000)	(141,866,000)
As at 31st March	1,655,299,368	1,499,994,909	1,691,222,896	1,518,272,965

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.

49. RESERVES

As at 31st March	Company			Group		
	2018 Restated Rs.	Transfers Rs.	2019 Rs.	2018 Restated Rs.	Transfers Rs.	2019 Rs.
Available for sale reserve	5,358,466	(5,358,466)	-	5,358,466	(5,358,466)	-
Capital reserve (note 49.1)	1,018,409,546	-	1,018,409,546	1,018,409,546	-	1,018,409,546
General reserve	388,258,055	-	388,258,055	388,258,055	-	388,258,055
Statutory reserve fund (note 49.2)	773,074,800	61,235,000	834,309,800	773,074,800	61,235,000	834,309,800
	2,185,100,867	55,876,534	2,240,977,401	2,185,100,867	55,876,534	2,240,977,401

49.1 Capital Reserve - Revaluation Reserve

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

The Company treats 50% of the revaluation surplus as supplementary capital in the Total Capital Base in the computation of the Risk Weighted Capital Adequacy Ratio in accordance with the Finance Business Act Direction No.3 of 2018 on Capital adequacy requirements.

Investment property comprises of lands and building which was erroneously classified under property plant and equipment has been rectified in accordance with LKAS 08-"Accounting Policies, Estimates and Errors". Further details on retrospective adjustment has been disclosed in note no 35.

49.2 Statutory Reserve Fund

20% of profits after tax of 2019 is transferred to the Statutory Reserve Fund to fulfill the minimum requirement of the Section 3 (b) of Finance Companies (Capital Funds) Direction No.1 of 2003. This balance in the Statutory Reserve Fund will be used only for the purposes specified in the Finance Business Act, No.42 of 2011.

50. COMPARATIVE FIGURES

The following comparative figures have been reclassified in 2018 financial statements to maintain comparability of financial statements in order to provide better presentation.

Nature	Previous year classified under	Current year classified under	Amount (Rs.)
Company			
NBT on financial services	Other operating expenses	Taxes on financial services	25,866,666
Group			
NBT on financial services	Other operating expenses	Taxes on financial services	28,266,666
Equity Investment	Financial investments - available for sale	Investment in associate	19,627,640

51. SEGMENT REPORT

	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loans	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
51.1 Year ended 31st March 2019										
REVENUE										
External sales	13,772,592,971	38,099,735	1,727,362,883	372,628,650	37,006,705	(29,169,745)	144,197,530	9,555,901	254,162,014	16,326,436,645
Total revenue	13,772,592,971	38,099,735	1,727,362,883	372,628,650	37,006,705	(29,169,745)	144,197,530	9,555,901	254,162,014	16,326,436,645
Total income	4,806,176,442	9,014,348	1,726,832,570	372,628,650	37,006,705	(37,593,331)	144,197,530	11,635,261	254,162,014	7,324,060,190
RESULTS										
Segment results	3,641,831,390	(6,239,725)	872,918,236	315,163,513	24,473,724	(70,988,967)	108,071,931	11,635,261	188,614,901	5,085,480,265
Unallocated company expenses										(1,194,492,996)
Operating profit										3,890,987,269
Interest expenses	(2,086,530,632)	(1,367,512)	(575,979,020)	(145,164,231)	(12,395,091)	(18,258,644)	(205,189,478)	(4,566,766)	(194,582,794)	(3,244,034,169)
Share of profits of associates before tax										(8,893,804)
Income taxes										(304,370,093)
Net profit										333,689,203
OTHER INFORMATION										
Segment assets	18,842,072,665	12,349,092	5,201,284,072	1,310,881,784	111,931,839	164,881,693	1,852,929,930	41,239,434	1,757,148,004	29,294,718,513
Investment in associates										84,731,550
Unallocated company assets										2,822,639,436
Total assets										32,202,089,499
Segment liabilities	16,621,445,714	10,499,447	4,422,236,728	1,114,538,158	95,166,709	140,185,744	1,575,398,436	35,062,599	1,493,962,709	25,508,496,245
Unallocated company liabilities										2,117,602,210
Total liabilities										27,626,098,456

Notes to the Financial Statements

	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loans	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
51.2 Year ended 31st March 2018										
REVENUE										
External sales	11,727,114,616	137,018,890	2,073,864,254	254,261,678	35,098,091	13,223,647	154,005,538	5,266,279	153,380,876	14,553,233,868
Total revenue	11,727,114,616	137,018,890	2,073,864,254	254,261,678	35,098,091	13,223,647	154,005,538	5,266,279	153,380,876	14,553,233,868
Total income	4,211,780,546	29,423,993	2,074,348,680	254,261,678	35,098,091	16,656,221	154,005,538	5,256,544	153,380,876	6,934,212,166
RESULTS										
Segment results	3,166,474,103	32,875,477	1,149,570,102	157,765,319	5,448,038	21,421,639	102,239,978	5,256,544	153,380,876	4,794,432,076
Unallocated company expenses										(785,090,846)
Operating profit										4,009,341,230
Interest expenses	(1,918,884,812)	(6,819,940)	(811,954,194)	(132,399,190)	(17,952,070)	(24,744,757)	(170,997,993)	(2,674,089)	(115,703,752)	(3,202,130,797)
Share of profits of associates before tax										(359,463)
Loss on change of interest in associate										(11,040,075)
Income taxes										(88,524,095)
Net profit										707,286,800
OTHER INFORMATION										
Segment assets	17,553,965,443	62,388,835	7,427,760,007	1,211,188,288	164,225,601	226,365,132	1,564,290,280	24,462,573	1,058,458,356	29,293,104,515
Investment in associates										57,362,904
Unallocated company assets										2,501,115,026
Total assets										31,851,582,444
Segment liabilities	15,056,309,985	50,799,943	6,048,033,818	986,206,640	133,720,259	184,317,206	1,273,719,197	19,918,585	861,846,899	24,614,872,732
Unallocated company liabilities										2,899,496,585
Total liabilities										27,514,369,317

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments. The amounts are based on the values recognised in the Statement of Financial Position.

52.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Company				
As at 31st March 2019				
Financial investments - fair value through profit or loss				
Government of Sri Lanka treasury bills / bonds	-	1,642,876,644	-	1,642,876,644
Quoted equities	164,302,443	-	-	164,302,443
Financial Investments				
- fair value through other comprehensive income				
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	164,302,443	1,642,876,644	579,250	1,807,758,337
As at 31st March 2018				
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	544,527,194	-	544,527,194
Quoted equities	206,737,492	-	-	206,737,492
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	380,942,702	-	380,942,702
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	206,737,492	925,469,896	579,250	1,132,786,639

Notes to the Financial Statements

52.1 Determination of Fair Value and Fair Value Hierarchy

Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Group				
As at 31st March 2019				
Financial investments - fair value through profit or loss				
Government of Sri Lanka treasury bills/bonds	-	1,642,876,644	-	1,642,876,644
Quoted equities	164,302,443	-	-	164,302,443
Financial Investments				
- fair value through other comprehensive income				
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	164,302,443	1,642,876,644	579,250	1,807,758,337
As at 31st March 2018				
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	544,527,194	-	544,527,194
Quoted equities	206,737,492	-	-	206,737,492
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	380,942,702	-	380,942,702
Unquoted equities	-	-	579,250	579,250
Total Financial Assets	206,737,492	925,469,896	579,250	1,132,786,638

52.2 Determination of Fair Value and Fair Value Hierarchy

Set out below is the comparison by classes of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non- financial assets and non- financial liabilities.

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Company				
Financial Assets				
Cash and cash equivalents	281,584,736	281,584,736	510,364,191	510,364,191
Repurchase agreement	210,053,286	210,053,286	638,820,384	638,820,384
Placement with banks & other financial institutions	732,163,843	732,163,843	476,510,425	476,510,425
Loans and advances	6,512,027,536	7,380,980,222	7,877,246,355	6,873,212,718
Lease rentals receivables	18,842,072,665	17,958,902,651	17,553,965,443	13,706,744,098
Hire purchase receivables	12,349,092	12,349,092	62,388,835	62,388,835
Other financial assets	405,850,825	405,850,825	323,549,421	323,549,421
Total Financial Assets	26,996,101,983	26,981,884,655	27,442,845,054	22,591,590,072
Financial Liabilities				
Due to banks	12,589,469,582	12,589,469,582	11,042,104,540	11,042,104,540
Due to customers	12,493,682,808	12,470,005,460	13,256,951,431	13,264,667,695
Debt instruments issued and other borrowed funds	819,062,771	819,062,771	1,645,799,918	1,645,799,918
Financial liabilities	781,933,240	781,933,240	456,262,778	456,262,778
Total Financial Liabilities	26,684,148,401	26,660,471,053	26,401,118,668	26,408,834,931
Group				
Financial Assets				
Cash and cash equivalents	290,719,999	290,719,999	551,552,815	551,552,815
Repurchase agreement	210,053,286	210,053,286	638,820,384	638,820,384
Placement with banks & other financial institutions	732,163,843	732,163,843	476,510,425	476,510,425
Loans and advances	6,512,165,856	7,380,980,222	7,877,373,054	6,873,212,718
Lease rentals receivables	18,842,072,665	17,958,902,651	17,553,965,443	13,706,744,098
Hire purchase receivables	12,349,092	12,349,092	62,388,835	62,388,835
Other financial assets	446,862,407	446,862,407	349,638,381	349,638,381
Total Financial Assets	27,046,387,147	27,032,031,500	27,510,249,337	22,658,867,656
Financial Liabilities				
Due to banks	12,589,469,582	12,589,469,582	11,053,987,058	11,053,987,058
Due to customers	12,493,682,808	12,470,005,460	13,256,951,431	13,264,667,695
Debt instruments issued and other borrowed funds	819,062,771	819,062,771	1,645,799,918	1,645,799,918
Financial liabilities	781,537,579	781,537,579	473,689,206	473,689,206
Total Financial Liabilities	26,683,752,740	26,660,075,392	26,430,427,613	26,438,143,877

Notes to the Financial Statements

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

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

Assets for which fair value approximates carrying value

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

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

Fixed rate financial instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Quoted debt issued the fair value are determined based on quoted market prices.

53. 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.

53.1 Litigations Against the Company

Litigation is a common occurrence in the Finance Industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. No material losses are anticipated as a result of there transactions

54. 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.

55. 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 2019	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31/03/2019 Rs.
Financial Assets						
Cash and cash equivalents	281,584,736	-	-	-	-	281,584,736
Repurchase agreements	210,053,286	-	-	-	-	210,053,286
Placements with banks & financial institutions	399,231,456	332,932,387	-	-	-	732,163,843
Financial assets recognised through profit or loss	987,179,087	570,000,000	-	250,000,000	-	1,807,179,087
Loans and advances	2,807,023,398	2,216,182,789	1,263,611,945	224,547,752	661,652	6,512,027,536
Lease rentals receivable & stock out on hire	2,798,279,057	5,197,347,909	8,693,075,412	2,151,395,090	1,975,197	18,842,072,665
Hire purchase rentals receivable & stock out on hire	11,317,300	1,031,792	-	-	-	12,349,092
Financial assets- fair value through other comprehensive income	-	-	-	-	579,250	579,250
Other financial assets	295,349,473	110,501,352	-	-	-	405,850,825
Total Assets	7,790,017,793	8,427,996,229	9,956,687,357	2,625,942,842	3,216,099	28,803,860,320
Financial Liabilities						
Due to banks	2,298,310,505	3,198,084,942	4,410,483,846	2,594,508,742	88,081,547	12,589,469,582
Due to customers	3,451,672,743	4,783,906,910	3,118,977,000	1,139,126,155	-	12,493,682,808
Debt instruments issued and other borrowed funds	-	819,062,771	-	-	-	819,062,771
Derivative financial liabilities	29,715,146	70,055,633	-	-	-	99,770,779
Other financial liabilities	781,933,240	-	-	-	-	781,933,240
Total Liabilities	6,561,631,634	8,871,110,256	7,529,460,846	3,733,634,897	88,081,547	26,783,919,180
Net Financial Assets/ (Liabilities)	1,228,386,159	(443,114,027)	2,427,226,511	(1,107,692,055)	(84,865,448)	2,019,941,140

Notes to the Financial Statements

55. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTD.

As at 31st March 2018	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31/03/2018 Rs.
Financial Assets						
Cash and cash equivalents	510,364,191	-	-	-	-	510,364,191
Repurchase agreements	638,820,384	-	-	-	-	638,820,384
Placements with banks & financial institutions	259,720,929	216,789,496	-	-	-	476,510,425
Financial investments - Held for trading	532,579,515	218,685,171	-	-	-	751,264,686
Loans and advances	2,809,991,978	2,912,000,370	1,679,766,652	474,268,137	1,219,216	7,877,246,355
Lease rentals receivable & stock out on hire	1,492,452,972	4,947,684,276	8,817,603,946	2,290,376,926	5,847,322	17,553,965,443
Hire purchase rentals receivable & stock out on hire	34,576,811	22,938,105	4,873,918	-	-	62,388,835
Financial investments - Available for sale	-	130,942,702	579,250	50,000,000	200,000,000	381,521,952
Other financial assets	323,549,421	-	-	-	-	323,549,421
Total Assets	6,602,056,201	8,449,040,120	10,502,823,767	2,814,645,064	207,066,538	28,575,631,690
Financial Liabilities						
Due to banks	2,153,476,782	3,265,596,797	3,989,649,024	1,306,744,864	326,637,074	11,042,104,540
Due to customers	4,146,087,120	5,139,106,078	2,965,937,139	1,005,821,093	-	13,256,951,431
Debt instruments issued and other borrowed funds	-	845,799,918	800,000,000	-	-	1,645,799,918
Derivative financial liabilities	-	39,238,389	-	-	-	39,238,389
Other financial liabilities	456,262,779	-	-	-	-	456,262,778
Total Liabilities	6,755,826,681	9,289,741,182	7,755,586,163	2,312,565,957	326,637,074	26,440,357,058
Net Financial Assets/ (Liabilities)	(153,770,480)	(840,701,062)	2,747,237,604	502,079,106	(119,570,536)	2,135,274,632

56. 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,

56.1 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.

	2019	2018
	Rs.	Rs.
56.2 Key Management Personnel Compensation		
KMP's Emoluments (other than directors)		
Short term	71,946,875	77,968,576
Long term	13,851,705	12,065,563
	85,798,580	90,034,139
Remuneration and other expenses of directors		
Short term	51,895,158	62,795,531
Long term & post employment benefits	9,974,815	7,913,798
	61,869,973	70,709,329

56.3 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.

56.4 Deposits and investments from KMPs and their close family members are detailed below.

Company and Group	31.03.2019	31.03.2018
	Rs	Rs
Deposits		
Directors	98,887,982	83,564,102
Other KMP's	13,054,400	12,309,161
	111,942,382	95,873,263
Loans and advances		
Directors	-	-
Other KMP's	11,358,779	10,159,103
	11,358,779	10,159,103

Notes to the Financial Statements

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

Company	Nature of the Relationship	Nature of Transaction / Facility	2019 Rs.	2018 Rs.
Alfinco Insurance Brokers (Pvt) Ltd	Subsidiary	Reimbursement of expenses	42,797,582	47,362,597
		Saving deposits	634,375	596,481
		Insurance referral fees	10,500,519	-
Alliance Management Services (Pvt) Ltd	Other related parties	Fixed deposits	2,456,288	3,122,159
		Secretarial fees	918,940	1,094,313
		Saving deposits	85,366	67,871
Alliance Travel Services Ltd	Other related parties	Fixed deposits	3,788,064	3,088,064
		Saving deposits	155,807	72,598
Alliance Tech Trading (Pvt) Ltd	Other related parties	Fixed deposits	11,955,033	10,964,776
Alliance Ventures (Pvt) Ltd	Other related parties	Fixed deposits	1,055,481	973,678
		Saving deposits	43,416	28,906
Virtusa (Pvt) Ltd	Other related parties	Consultation fee	12,951,291	-
Destination CC Consultants (Pvt) Ltd	Other related parties	Consultation fee	5,200,000	-
		Reimbursements	640,297	-

56.6 Parent and Ultimate Controlling Party

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

57. RISK MANAGEMENT

57.1 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.

57.2 Credit Risk

57.2.1 credit quality by class of financial assets

Credit risk is the risk that the company will incur a loss because its customers or counterparties 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 counterparties 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 counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment assessment

For accounting purposes, the Company uses an expected loss model for the recognition of losses on impaired financial assets. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Triggering events include the following:

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

Notes to the Financial Statements

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.

Company include macroeconomic factors within its assessments. The Company relies on a broad range of forward looking information as economic inputs, such as GDP growth, unemployment rates, interest rates, treasury bill rate, inflation rate etc.

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 180 days past due. Loans past due more than 180 days are not presented in this analysis.

As at 31st March 2019	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Company				
Financial Assets				
Cash and cash equivalents	22	281,584,736	-	281,584,736
Repurchase agreements		210,053,286	-	210,053,286
Placements with banks & financial institutions		732,163,843	-	732,163,843
Financial investments - FVTPL	23	1,807,179,087	-	1,807,179,087
Loans and advances	25	3,693,212,483	2,150,559,867	5,843,772,350
Lease rentals receivable & stock out on hire	26	7,048,598,335	11,124,849,243	18,173,447,578
Hire purchase rentals receivable & stock out on hire	27	174,783	4,348,619	4,523,403
Financial investments - FVOCI	28	579,250	-	579,250
Other financial assets	31	405,850,825	-	405,850,825
Total Financial Assets		14,179,396,628	13,279,757,729	27,459,154,357

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 Rs.
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	
Loans and advances	968,838,552	576,134,507	183,671,290	421,915,518	2,150,559,867
Lease rentals receivable & stock out on hire	3,362,663,108	4,429,564,867	1,472,666,840	1,859,954,428	11,124,849,243
Hire purchase rentals receivable & stock out on hire	893,464	1,927,927	369,722	1,157,506	4,348,619
	4,332,395,124	5,007,627,301	1,656,707,852	2,283,027,452	13,279,757,729

As at 31st March 2019	Notes	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Total Rs.
Group Assets				
Cash and cash equivalents	22	290,719,999	-	290,719,999
Repurchase agreements		210,053,286	-	210,053,286
Placements with banks & financial institutions		732,163,843	-	732,163,843
Financial investments - FVTPL	23	1,807,179,087	-	1,807,179,087
Loans and advances	25	3,693,350,803	2,150,559,867	5,843,910,670
Lease rentals receivable & stock out on hire	26	7,048,598,335	11,124,849,243	18,173,447,578
Hire purchase rentals receivable & stock out on hire	27	174,783	4,348,619	4,523,402
Financial investments - FVOCI	28	579,250	-	579,250
Other financial assets	31	446,862,407	-	446,862,407
Total Financial Assets		14,229,681,793	13,279,757,729	27,509,439,522

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 Rs.
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	
Loans and advances	968,838,552	576,134,507	183,671,290	421,915,518	2,150,559,867
Lease rentals receivable & stock out on hire	3,362,663,108	4,429,564,867	1,472,666,840	1,859,954,428	11,124,849,243
Hire purchase rentals receivable & stock out on hire	893,464	1,927,927	369,722	1,157,506	4,348,619
	4,332,395,124	5,007,627,301	1,656,707,852	2,283,027,452	13,279,757,729

Notes to the Financial Statements

57.2.2 Analysis of Risk Concentration

Industry Analysis

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

Sector wise Breakdown	Cash and Bank Balances Rs.	Financial Assets FVTPL Rs.	Loans and Advances Rs.	Financial Assets FVOCI Rs.	Other Financial Assets Rs.	Total Assets Rs.
Agriculture & fishing	-	-	5,662,775,812	-	-	5,662,775,812
Construction	-	-	1,068,474,297	-	-	1,068,474,297
Food, beverages & tobacco	-	-	370,300,281	-	-	370,300,281
Financial services	290,719,999	-	403,354,799	-	732,163,843	1,426,238,641
Industry	-	-	2,738,969,888	-	-	2,738,969,888
Tourism	-	-	840,722,494	-	-	840,722,494
Government	-	1,642,876,644	-	-	210,053,286	1,852,929,930
Transport	-	-	4,617,616,709	-	-	4,617,616,709
Services	-	-	3,170,372,088	-	446,862,407	3,617,234,495
Consumption	-	-	4,250,555,503	-	-	4,250,555,503
Other	-	164,302,443	2,243,445,743	579,250	-	2,408,327,435
Total	290,719,999	1,807,179,087	25,366,587,613	579,250	1,389,079,536	28,854,145,485

57.2.3 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 Committee.

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

Some other specific control and mitigation measures are outlined below:

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Company will seek additional collateral from the 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.

57.3 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.

Notes to the Financial Statements

57.3.1 Statutory liquid asset ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013, 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 and accrued interest payable at the close of the business on such day, and
 - (b) the face value of certificate of deposits issued by the finance company and accrued interest payable 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 2019, the Company maintained Statutory Liquid Asset ratio at 15.22% (2018 : 14.7%).

57.3.2 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 31 March 2019.

	On Demand	Less than 03 Months	3-12 Months	12-60 Months	Over 60 Months	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	281,584,736	-	-	-	-	281,584,736
Repurchase agreement	210,053,286	-	-	-	-	210,053,286
Placement with banks & other financial institution	-	411,040,880	321,122,963	-	-	732,163,843
Financial investments - FVTPL	-	987,179,087	570,000,000	250,000,000	-	1,807,179,087
Loans and advances - amortised cost	-	2,807,023,397	2,216,182,789	1,488,159,698	661,652	6,512,027,536
Lease rentals receivable & stock out on hire	-	2,798,279,058	5,197,347,909	10,844,470,501	1,975,197	18,842,072,665
Hirepurchase rentals receivable & stock out on hire	-	11,317,300	1,031,792	-	-	12,349,092
Financial investments - FVOCI	-	-	-	-	579,250	579,250
Other financial assets	-	295,349,473	110,501,352	-	-	405,850,825
Total Financial Assets	491,638,022	7,310,189,195	8,416,186,805	12,582,630,199	3,216,099	28,803,860,320
Financial Liabilities						
Due to banks	147,877,806	2,150,432,699	3,198,084,942	7,004,992,588	88,081,547	12,589,469,582
Due to customers	539,049,798	2,912,622,945	4,783,906,910	4,258,103,155	-	12,493,682,808
Debt instruments issued and other borrowed funds	-	-	819,062,771	-	-	819,062,771
Derivative financial liabilities	-	29,715,146	70,055,633	-	-	99,770,779
Other financial liabilities	-	781,933,240	-	-	-	781,933,240
Total Financial Liabilities	686,927,604	5,874,704,030	8,871,110,256	11,263,095,743	88,081,547	26,783,919,180
Total Net Financial Assets/(Liabilities)	(195,289,582)	1,435,485,165	(454,923,451)	1,319,534,456	(84,865,448)	2,019,941,140

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

57.4 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.

57.4.1 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.

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 2019 Rs.	Sensitivity of Profit or Loss 2019 Rs.	Sensitivity of Profit or Loss 2018 Rs.
Long term loans linked to AWPLR	+100/ (-100)	(52,294)/52,294	(35,544)/35,544

Notes to the Financial Statements

57.4.2 Interest rate risk exposure on non trading financial assets & liabilities

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

	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31/03/2019 Rs.
Financial Assets						
Cash and cash equivalents	224,282,484	-	-		57,302,252	281,584,736
Loans and advances	2,807,023,397	2,216,182,789	1,488,159,698	661,652	-	6,512,027,536
Lease rentals receivable & stock out on hire	2,798,279,058	5,197,347,909	10,844,470,501	1,975,197	-	18,842,072,665
Hire purchase rentals receivable & stock out on hire	11,317,300	1,031,792	-	-	-	12,349,092
Financial investments - FVTPL	813,346,593	529,053,370	300,476,681	-	164,302,443	1,807,179,087
Financial investments - FVOCI	-	-	-	-	579,250	579,250
Other financial assets	-	-	-	-	405,850,825	405,850,825
Total Financial Assets	6,654,248,832	7,943,615,860	12,633,106,880	2,636,849	628,034,770	27,861,643,191
Financial Liabilities						
Due to banks	2,298,310,505	3,198,084,942	7,004,992,588	88,081,547	-	12,589,469,582
Due to customers	3,451,672,743	4,783,906,910	4,258,103,155	-	-	12,493,682,808
Debt instruments issued and other borrowed funds	-	819,062,771	-	-	-	819,062,771
Derivative financial liabilities	29,715,146	70,055,633	-	-	-	99,770,779
Other financial liabilities	-	-	-	-	781,933,240	781,933,240
Total Financial Liabilities	5,779,698,394	8,871,110,256	11,263,095,743	88,081,547	781,933,240	26,783,919,180
Interest Sensitivity Gap	874,550,438	(927,494,396)	1,370,011,137	(85,444,698)	(153,898,470)	1,077,724,011

57.4.3 Exposure to foreign currency risk

Foreign Currency Sensitivity

An estimation of the impact of the currency risk with respect of financial instruments with a 5% change in US Dollar exchange rate is given below. In calculation of risk it is assumed that all other variable factors are held constant. The calculation of sensitivity has been performed only on the assets and liabilities denominated in foreign currency of the Company as at 31st March 2019.

The following significant exchange rates were applied during the year

	Average Rate 2019	Reporting date spot rate 2019	2018
USD/ LKR	165.70	175.25	156.15

The Company's exposure to foreign currency risk is as follows;

As at 31st March 2019	Rs.	USD; Rs.	USD
Cash & Cash Equivalents	(5,113,154)	175.25	(29,176)
Borrowings	84,506,206	175.25	482,204
	79,393,052		453,028

Foreign Currency Sensitivity

An estimation of the impact of the currency risk with respect of financial instruments with a 5% change in US Dollar exchange rate is given below. In calculation of risk it is assumed that all other variable factors are held constant. The calculation of sensitivity has been performed only on the assets and liabilities denominated in foreign currency of the Company as at 31st March 2019.

	Effect on profit or loss (Rs.)	Effect on equity (Rs.)
USD depreciated against LKR by 5%	3,969,653	3,969,653
USD appreciated against LKR by 5%	(3,969,653)	(3,969,653)

57.5 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.

57.5.1 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 the Central Bank of Sri Lanka.

Capital Management

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses which asserts the Company's ability to continue operations in to the foreseeable future. The more capital the company has relative to the risks it takes, the more confident the stakeholders are that it will meet its obligations to them. Company's capital management process is steered with the aim of holding sufficient capital to support the Company's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

Notes to the Financial Statements

During the year under review, the Central Bank of Sri Lanka (CBSL) issued a direction to all Licensed Finance Companies (LFCs) a new capital adequacy framework with the intention to foster strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities. The new capital adequacy framework provides for maintenance of capital adequacy ratio on a more risk sensitive focus covering credit risk and operational risk under basic approach available in Basel II accord. Main features of new framework are:

- Introduction of operational risk charge
- Revised definition for retail claims (Residential Mortgages and Gold Loans)
- Amendments to risk weights and credit risk categories
- Introduction of Credit Risk Mitigation techniques

Core Capital: Capital is capital which is permanently and freely available to absorb losses without a finance company being obliged to cease trading. Tier 1' Capital consists of paid up ordinary share capital, free reserves, statutory reserve fund and audited retained earnings. Tier 1' Capital is important because it safeguards both the survival of a finance company and stability of the financial system.

Total Capital: Capital is capital which generally absorbs losses only in the event of a winding up of a finance company, and so provides a lower level of protection for depositors and other creditors. Tier - 2' Capital includes revaluation reserve, general provisions and hybrid capital instruments and approved subordinated term debts.

Credit Risk

Total amount of on balance sheet items, risk weighted CRMs and total amount of credit equivalent of off balance sheet items after applying the specific risk weight assigned is considered as credit risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The primary objective of Company's capital management policy 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.

Measures taken to consider capital adequacy requirements of the Company

1. The Company prepares the Corporate Plan and Budget on a rolling basis covering a period of 5 years which includes the computation of Capital Adequacy ratios (CARs).
2. The Company carefully analyses the CARs against increases in risk-weighted assets underlying the budgeted expansion of business volumes.
3. The Company has set up an internal guideline on minimum CARs and ensures that appropriate measures are employed to improve the CARs are also built into the budget. Budgeting process of the Company encapsulates all future capital requirements and this process invariably captures estimated capital expenditure and the business growth in determining the optimum level of capital to be maintained.
4. The Company has addressed all material risk exposures when formulating strategic plan and has a well-diversified assets portfolio which is neither overly exposed to any counterparty nor to any sector. Ways and means of improving the CARs are being monitored on an ongoing basis.
5. The Company always strives to achieve a reasonable growth in profit and is ever mindful to pay a consistent stream of dividends to the shareholders. Part of the profit generated is retained for future business expansion. Given the size of the Company, capital generated through retained profits over the years could be considered as one of the primary sources of internal capital to the Company.

Capital management objectives

The objectives of the Company's Capital Management efforts include:

- Compliance with the regulatory requirements
- Maintaining internal capital targets which are more stringent than the regulatory requirements
- Optimum capital usage for maximum profitability (which meets investor expectations)
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

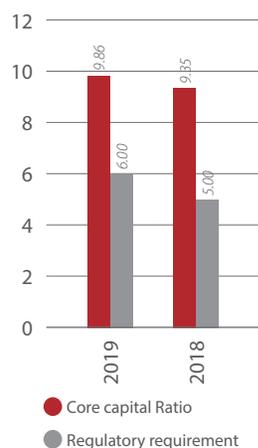
The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 March 2019 and 2018. During those two years, the Company has complied with all of the externally imposed capital requirements to which they are subject.

Capital Adequacy Ratios

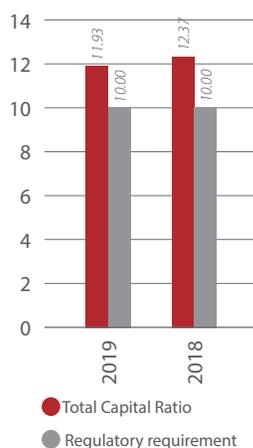
As at 31st March	2019 Rs.000	2018* Rs.000	2018 Rs.000
Core Capital	3,321,105	3,121,021	3,251,340
Total Capital	4,017,745	4,129,546	3,949,678
Total Risk Weighted Amount	33,689,796	33,375,360	28,029,633
Risk Weighted Amount for Credit Risk	28,801,446	28,996,052	28,029,633
Risk Weighted Amount for Operational Risk	4,888,350	4,379,308	-
Core Capital Ratio, %	9.86	9.35	11.60
Regulatory requirement	6.00	5.00	5.00
Total Capital Ratio, %	11.93	12.37	14.09
Regulatory requirement	10.00	10.00	10.00

* Comparative figures recomputed based on the new capital adequacy framework.

Core capital ratio (%)



Total capital ratio (%)



Contribution to National Economy

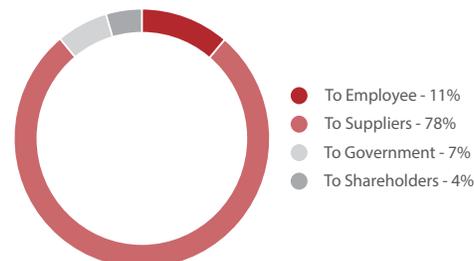
SOURCES AND UTILISATION OF INCOME - COMPANY

For the year ended 31st March	2019 Rs.	%	2018 Rs.	%
Sources of Income				
Loans and Advances	2,095,614,007	30	2,250,881,453	34
Lease, Hire purchases and Consumer Durables	4,534,120,007	64	3,998,850,408	60
Government Securities	125,922,024	2	135,185,796	2
Placements with Banks & Financial Institutions	63,526,721	1	77,130,972	1
Other Investments	13,542,238	0	16,589,251	0
Other Income	196,276,948	3	252,008,722	3
Total Income	7,029,001,945	100	6,730,646,602	100
To Employees				
Personnel Expenses	780,351,399	11	800,789,586	12
To Suppliers				
Interest paid	3,244,034,169	47	3,206,900,561	47
Other expenses	1,224,682,084	17	1,027,208,593	15
Depreciation	136,086,759	2	115,121,215	2
Impairment for loans and other losses	813,494,810	12	512,894,347	8
	5,418,297,822	78	4,862,124,715	72
To Government				
Value added Tax & Other Taxes	221,190,685	3	246,235,917	4
Income Tax	294,096,680	4	81,601,276	1
	515,287,365	7	327,837,193	5
To Shareholders				
Dividends	75,816,000	1	213,969,600	3
Invested in the business	239,249,360	3	525,925,507	8
	315,065,360	4	739,895,107	11
	7,029,001,945	100	6,730,646,603	100

Sources of Income - 2018/19



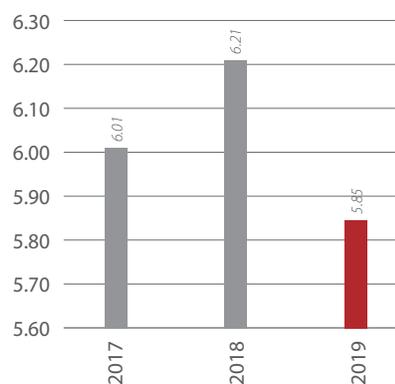
Sources of Income - 2017/18



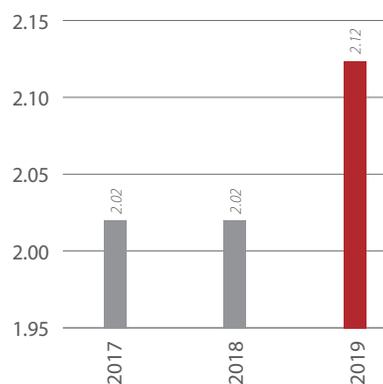
Debenture Information

Debenture Investor Indicators	2017	2018	2019
Debt/equity ratio (times)	6.01	6.21	5.85
Interest cover (times)	2.02	2.02	2.12
Liquid assets ratio (%)	20.19	14.70	17.85
Quick assets ratio (times)	1.06	0.79	1.00

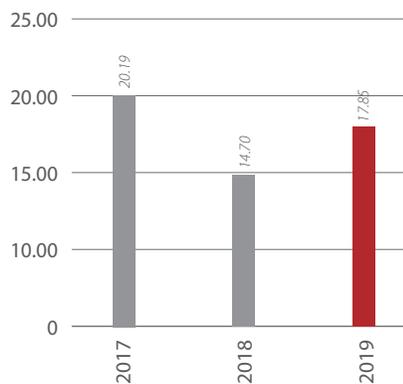
Debt/equity ratio (times)



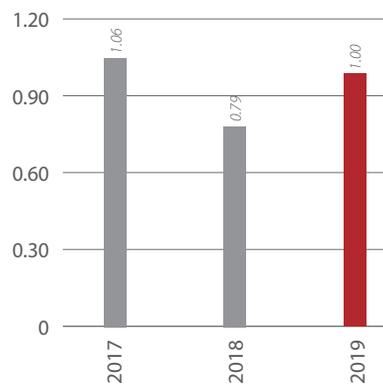
Interest cover (times)



Liquid assets ratio (%)



Quick assets ratio (times)



Debenture Information

MARKET VALUE PER DEBENTURE

Debenture 2013-2018 Market Price (Rs.)	Min	Max	Last Traded
5 Years - 16.5% p.a payable semi annually	N/A	N/A	N/A
5 Years - 16.5% p.a payable @ maturity	N/A	N/A	N/A

Debenture 2014-2019 Market Price (Rs.)	Min	Max	Last Traded
4 Years - 9.00% p.a payable annually	N/A	N/A	N/A
5 Years - 9.35% p.a payable annually	N/A	N/A	N/A

Interest Rate of Comparable Government Securities (%)	31.03.2019
3 Years - Treasury bonds	10.69
4 Years - Treasury bonds	10.97
5 Years - Treasury bonds	11.01

Depositors Information

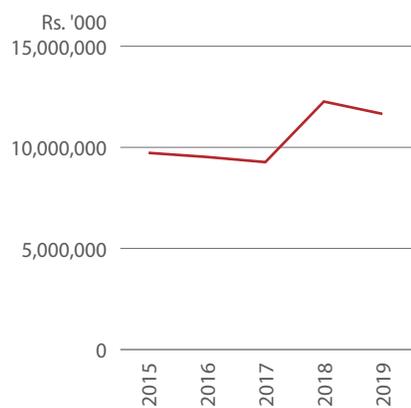
A) ANALYSIS OF DEPOSIT BASE

Value of Deposit Base

For the year ended 31st March

	2015 Rs.'000	2016 Rs.'000	2017 Rs.'000	2018 Rs.'000	2019 Rs.'000
Value of Term Deposits	9,723,254	9,524,730	9,261,908	12,265,153	11,651,665
Value of Certificate of Deposits	84	84	84	84	-
Value of Savings	393,517	677,534	585,658	587,408	539,239
	10,116,855	10,202,348	9,847,650	12,852,645	12,190,988

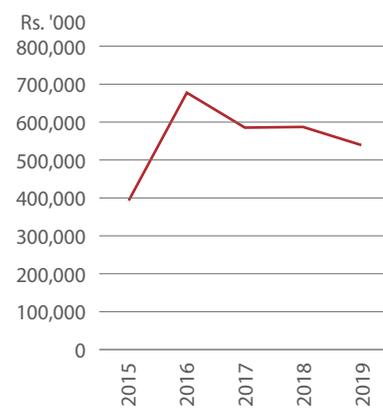
Value of Term Deposits



Value of Certificate of Deposits



Value of Savings

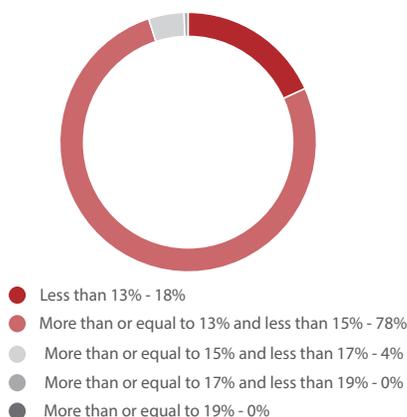


Depositors Information

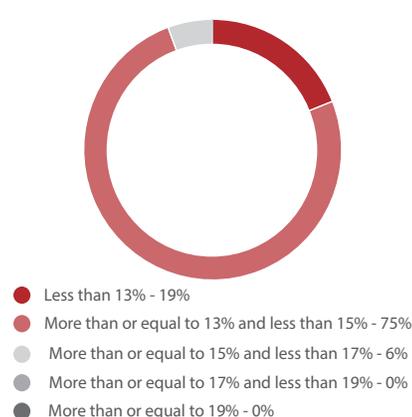
B) RATE OF INTEREST BASIS ON TERM DEPOSITS

	As at 31st March 2019			As at 31st March 2018		
	No. of Deposits	Value Rs.'000	% of Total	No. of Deposits	Value Rs.'000	% of Total
Less than 13%	2,776	2,124,271	18	2,312	2,326,588	19.0
More than or equal to 13% and less than 15%	6,191	8,946,738	78	7,223	9,249,811	75.4
More than or equal to 15% and less than 17%	411	522,414	4	601	682,754	6.0
More than or equal to 17% and less than 19%	16	58,242	0	4	6,000	0
More than or equal to 19%	-	-	0	-	-	0
Total	9,394	11,651,665	100	10,140	12,265,153	100

Deposit Base Rate Wise - 2018/19



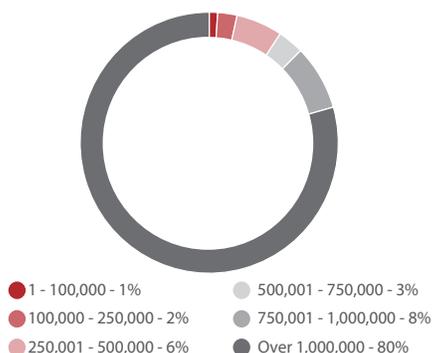
Deposit Base Rate Wise - 2017/18



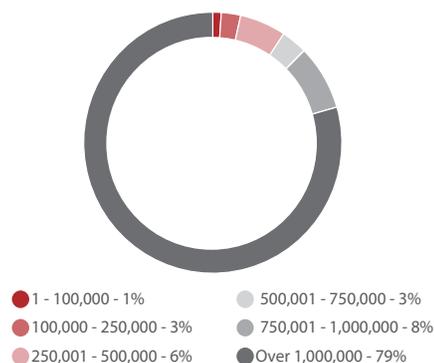
C) CAPITAL RANGE ON TERM DEPOSITS

Capital Range on Term Deposits	As at 31st March 2019			As at 31st March 2018		
	No. of Deposits	Total Deposits	%	No. of Deposits	Total Deposits	%
1 - 100,000	2,211	122,859	1	2,474	136,777	1
100,000 - 250,000	1,561	282,061	2	1,722	309,884	3
250,001 - 500,000	1,669	675,398	6	1,820	737,326	6
500,001 - 750,000	601	378,554	3	639	400,992	3
750,001 - 1,000,000	989	941,377	8	1,055	1,004,003	8
Over 1,000,000	2,363	9,251,417	80	2,430	9,676,171	79
	9,394	11,651,665	100	10,140	12,265,153	100

Capital Range of Term Deposits - 2018/19



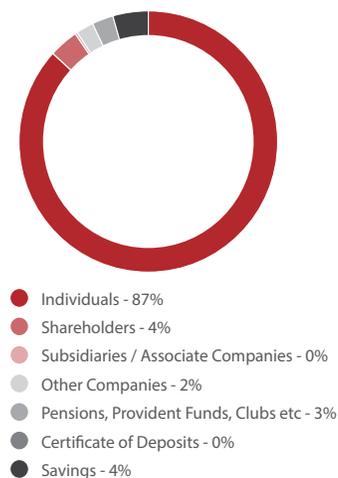
Capital Range of Term Deposits - 2017/18



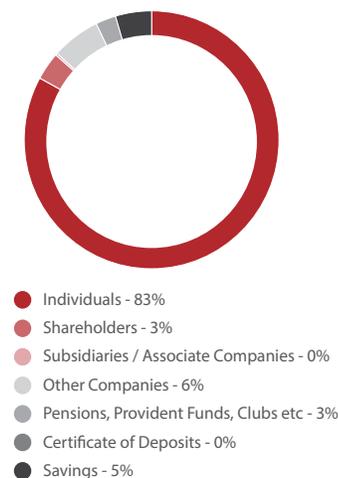
D) DEPOSIT HOLDER CATEGORY ANALYSIS

Deposit Holder Category Analysis	As at 31st March 2019		As at 31st March 2018	
	Rs.'000	%	Rs.'000	%
Individuals	10,578,191	87	10,661,323	83
Shareholders	447,529	4	449,698	3
Subsidiaries / Associate Companies	35,663	0	32,728	0
Other Companies	265,749	2	791,030	6
Pensions, Provident Funds, Clubs etc.	324,533	3	330,374	3
Certificate of Deposits	-	0	84	0
Savings	539,239	4	587,408	5
	12,190,904	100	12,852,645	100

Deposit Analysis 2018/19



Deposit Analysis 2017/18



Ten Year Summary - Company

(In Rupees Million)

For Year Ended 31 March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OPERATING RESULTS										
Income	1,527.78	1,869.41	2,270.91	3,487.97	3,837.89	4,175.93	4,473.44	5,331.34	6,730.65	7,029.00
Profit before Tax	78.68	234.79	492.72	586.18	261.27	277.45	530.31	834.13	810.10	600.27
Income Tax	10.83	50.00	36.98	75.06	(35.22)	74.54	111.12	184.67	81.60	294.10
Profit after Tax	67.85	184.79	455.74	511.11	296.49	202.90	419.19	649.46	728.50	306.17
BALANCE SHEET										
Assets										
Cash, Cash Equivalent &										
Deposits	237.16	467.29	527.37	1,043.08	1,248.20	1,111.75	2,713.93	1,644.84	1,625.70	1,223.80
Receivables	947.59	705.37	1,220.85	1,126.05	1,350.21	1,101.92	595.04	1,306.76	1,435.38	3,279.20
Stocks	3,628.76	5,775.25	9,366.68	13,477.41	12,997.64	14,440.63	19,293.67	22,866.23	25,019.13	24,862.01
Investments	846.01	1,035.80	785.08	770.74	2,010.06	2,122.07	1,795.53	2,081.21	2,018.71	1,020.24
Property, Plant & Equipment	654.63	623.25	754.01	1,074.24	1,120.35	1,133.33	1,446.54	2,122.91	1,681.95	1,746.40
	6,314.14	8,606.97	12,653.99	17,491.52	18,726.47	19,909.69	25,844.70	30,021.95	31,780.87	32,131.66
Liabilities										
Term Deposit	4,176.99	5,001.75	6,732.81	9,001.88	11,201.59	10,344.07	10,464.15	10,087.82	13,256.95	12,493.68
Bank Overdraft/Loans	919.42	2,269.00	4,213.29	6,013.19	4,945.87	6,833.37	12,275.60	15,154.16	13,144.17	14,190.47
Provisions & Other Liabilities	455.10	171.76	240.20	357.37	187.70	282.91	382.89	715.18	1,080.67	937.26
	5,551.51	7,442.51	11,186.30	15,372.44	16,335.16	17,460.35	23,122.64	25,957.15	27,481.79	27,621.41
Shareholders' Funds	762.64	1,164.45	1,467.69	2,119.08	2,391.31	2,449.34	2,722.05	4,064.80	4,299.08	4,510.26
CHANGES IN FINANCIAL POSITION										
Sources of Funds										
Operations	90.71	635.37	717.93	820.61	(904.12)	541.03	876.95	795.93	1,534.11	37.99
Sale of Fixed Assets	57.56	69.87	59.98	36.01	21.44	8.06	47.62	25.23	39.95	6.99
Term Deposits	821.31	830.05	1,731.06	2,269.07	2,199.71	(857.52)	120.08	(376.33)	3,169.13	(763.27)
Bank Overdraft/Loans	(180.26)	715.26	2,168.21	1,812.02	(1,103.21)	1,547.45	5,258.86	2,890.36	(1,571.60)	727.87
Others	(66.04)	(44.93)	(50.95)	(105.27)	(165.36)	(108.48)	(153.38)	(101.67)	(119.67)	(105.93)
	723.28	2,205.61	4,626.22	4,832.44	48.45	1,130.54	6,150.13	3,233.52	3,051.92	(96.35)
Application of Funds										
Capital Expenditure	82.82	84.86	237.85	158.35	137.36	106.74	450.67	70.49	208.09	207.31
Portfolio Disbursements	301.11	2,190.98	4,169.62	4,654.30	20.34	1,071.33	5,952.84	2,848.00	2,179.29	191.25
Deposits	(1.35)	3.72	(110.79)	10.17	66.37	400.92	(73.28)	37.27	(334.01)	(94.58)
Income Tax	32.28	64.63	42.56	1.89	1.14	0.93	19.57	180.12	125.60	147.74
Dividends	5.67	5.67	105.30	109.35	36.45	48.60	126.36	183.00	213.97	75.82
Other	(40.30)	(16.81)	164.93	(130.93)	(199.30)	(479.01)	(351.44)	(191.58)	398.81	(395.11)
Changes in available resources	343.05	(127.43)	16.75	29.31	(13.93)	(18.96)	25.41	106.21	260.17	(228.78)
	723.28	2,205.61	4,626.22	4,832.44	48.45	1,130.54	6,150.13	3,233.52	3,051.92	(96.35)
NO. OF SHARES	1,620,000	1,620,000	2,430,000	2,430,000	2,430,000	2,430,000	2,430,000	33,696,000	33,696,000	33,696,000

(In Rupees Million)

For Year Ended 31 March 2010 2011 2012 2013 2014 2015 2016 2017 2018 **2019**

INDICATORS OF PERFORMANCE

Return on Shareholders Funds

% (After Tax) 9.27 21.68 34.63 28.50 13.15 8.38 16.21 19.14 17.42 **6.95**

Return on Total Assets

% (After Tax) 1.12 2.52 4.29 3.39 1.64 1.05 1.83 2.33 2.36 **0.96**

Earnings per Share Rs. 41.88 76.05 187.55 210.33 122.01 83.50 172.51 19.85 21.62 **9.09**

Market Value per Share (Rs.) 419.00 850.10 630.00 800.10 769.80 770.00 740.00 55.00 65.70 **53.60**

Price Earning Ratio 10.00 11.18 3.36 3.80 6.31 9.22 4.29 2.77 3.04 **5.90**

Rate of Dividend % 35.00 275.00 450.00 400.00 200.00 230.00 530.00 32.38 35.12 **5.49**

Dividend per Share (Rs.) 3.50 27.50 45.00 40.00 20.00 23.00 53.00 5.90 6.40 **1.00**

Gross Dividend 5.67 44.55 109.35 97.20 48.60 55.89 128.79 198.81 215.65 **33.70**

Dividend cover (times) 11.97 2.77 4.17 5.26 6.10 3.63 3.25 3.36 3.38 **9.09**

Dividend payout (%) 8.36 36.16 23.99 19.02 16.39 27.55 30.72 29.73 29.60 **11.01**

Net Assets per share (Rs.) 470.77 581.34 603.99 872.05 984.08 1,007.96 1120.19 120.63 127.58 **133.85**

MARKET VALUE PER SHARE DURING THE YEAR ENDED

Highest Value Recorded

During the Year (Rs.) 485.00 1,100.00 824.90 702.00 820.00 929.00 1,000.00 1,300.00 79.40 **72.50**

Lowest Value Recorded

During the Year (Rs.) 185.00 700.00 516.00 849.00 730.00 810.00 732.00 52.30 53.00 **50.00**

Market Value as at

31st March (Rs.) 419.00 850.10 630.00 800.10 769.80 770.00 740.00 55.00 65.70 **53.60**

FINANCIAL HIGHLIGHTS

Year 2010 2011 2012 2013 2014 2015 2016 2017 2018 **2019**

Assets 6,314 8,607 12,654 17,492 18,726 19,910 25,845 30,022 31,781 **32,132**

Liabilities 5,552 7,443 11,186 15,372 16,335 17,460 23,123 25,957 27,482 **27,621**

Shareholders Funds 763 1,164 1,468 2,119 2,391 2,449 2,722 4,065 4,299 **4,510**

Shareholder Information

20 MAJOR SHAREHOLDERS

Name of Shareholder	31st March 2019		Name of Shareholder	31st March 2018	
	No. of Shares	%		No. of Shares	%
Mr. R. K. E. P. de Silva	8,934,075	26.51	Mr.R.K.E.P. de Silva	8,934,075	26.51
Motor Service Station (Pvt) Ltd.,	4,542,220	13.48	Motor Service Station (Pvt) Ltd.,	4,542,220	13.48
Miss. D.M.E.P. Perera	2,501,443	7.42	Miss D.M.E.P. Perera	2,501,443	7.42
Mr.R.K.E.P. de Silva & Mr.J.E.P.A. de Silva	2,101,216	6.24	Mr.R.K.E.P. de Silva & Mr.J.E.P.A. de Silva	2,101,216	6.24
Mr.D.F.W.S.K. Perera & Mr.D.F.W. Perera	1,381,536	4.10	Mr.D.F.W.S.K. Perera & Mr.D.F.W. Perera	1,381,536	4.10
Orient Hotels Ltd.,	1,358,323	4.03	Orient Hotels Ltd.,	1,358,323	4.03
Mrs.S.J. Amarasinghe	804,718	2.39	Mrs.S.J. Amarasinghe	908,040	2.69
Mrs.S.E. Canekeratne	612,268	1.82	Mrs.S.E. Canekeratne	612,268	1.82
Mr.D.L.S.R. Perera	553,556	1.64	Mr.D.L.S.R. Perera	553,556	1.64
Mrs.S.R.L. Marcelline	492,480	1.46	Mrs.S.R.L. Marcelline	492,480	1.46
Mrs.C.R. de Silva	374,400	1.11	Mrs.C.R. de Silva	374,400	1.11
Elgin Investments Ltd.	311,877	0.93	Elgin Investments Ltd.	324,335	0.96
Mr. D.F.W. Perera	310,560	0.92	Mr. D.F.W. Perera	310,560	0.92
Ms.D.D.P.T. Perera	309,384	0.92	Ms.D.D.P.T. Perera	309,384	0.92
Mrs.P. Weththasinghe	299,975	0.89	Mrs.P. Weththasinghe	299,975	0.89
Mrs.A.S. Wijewardena	259,200	0.77	Mrs.A.S. Wijewardena	259,200	0.77
Mr.Y.H. Abdulhussein	245,161	0.73	Miss R.H. Abdulhussein	253,000	0.75
Ms.D.C.M.A. Perera	236,632	0.70	Mr.Y.H. Abdulhussein	250,458	0.74
Mrs.L.S. Semage	232,560	0.69	Mrs.L.S. Semage	249,016	0.74
Miss R.H. Abdulhussein	232,378	0.69	Ms.D.C.M.A. Perera	236,632	0.70
	26,093,962	77.44		26,252,117	77.91

DISTRIBUTION OF SHAREHOLDING

Holdings	31st March 2019			31st March 2018		
	No. of Holders	Total	%	No. of Holders	Total	%
1 - 1,000	755	183,657	0.55	691	183,067	0.54
1,001 - 10,000	342	1,195,221	3.55	341	1,214,970	3.61
10,001 - 100,000	144	4,232,080	12.56	140	4,229,031	12.55
100,001 - 1,000,000	28	7,266,229	21.56	27	7,250,119	21.52
Over 1,000,000	6	20,818,813	61.78	6	20,818,813	61.78
	1,275	33,696,000	100.00	1205	33,696,000	100.00

The shares in the hands of the public 31.3.2019 were 18,091,251 representing 53.69% of the Issued Share Capital of the Company and as at 31.3.2018 were 18,099,071 representing 53.72% of the Issued Share Capital of the Company.

COMPOSITION OF SHAREHOLDING

	31st March 2019			31st March 2018		
	No. of Holders	No. of Shares	%	No. of Holders	No. of Shares	%
Institution	30	6,783,509	20.13	29	6,813,540	20.22
Individual	1,245	26,912,491	79.87	1,176	26,882,460	79.78
	1,275	33,696,000	100.00	1,205	33,696,000	100.00

FLOAT ADJUSTED MARKET CAPITALIZATION

The float adjusted market capitalization as at 31st March 2019 - Rs.969,698,097/- and the Company falls under the Option 5 Rule 7.13.1(a) of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

Independent Assurance Report on Sustainability



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W: www.bakertilly.lk

To the Board of Directors of Alliance Finance Company PLC on the Integrated Report- 2018/19
Introduction and scope of the engagement

The management of ("the Company") engaged us to provide an independent assurance on the following elements of the Integrated Report-2018/19 ("the Report")

- 01 Reasonable assurance on the information on financial performance as specified on statement of Value Addition of the Report.
- 02 Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines.

BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI G4 'In accordance' - Comprehensive guideline publication, publicly available at GRI's global website at "www.globalreporting.org". Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

MANAGEMENT OF THE COMPANY'S RESPONSIBILITY FOR THE REPORT

The management of the company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 28th May 2019.

We disclaim any assumption of responsibility for any reliance on this report to any person other than the company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures we planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- 01 Interviewing the Company's relevant personnel to understand the process for collection, analysis, aggregation and presentation.
- 02 Reviewing and validation of the information contained in the Report.
- 03 Checking the calculations performed by the company on a sample basis through recalculation.
- 04 Reconciling and agreeing the data on financial performance are properly derived from the company's audited financial statements for the year ended 31 March 2019 and Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

LIMITATIONS AND CONSIDERATIONS

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

CONCLUSION

Based on the procedures performed, as described above, we conclude that:

- 01 The information on financial performance as specified on statement of value addition of the Report are properly derived from the audited financial statements of the Company for the years ending 31 March 2019 and 31 March 2018.
- 02 Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from GRI-G4 'In accordance' Core Sustainability Reporting Guidelines.

Yours faithfully,



Edirisinghe & Co.
Chartered Accountants

Colombo
26-Jun-19

GRI Index

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Organizational Profile	GRI 102-1	Name of the organization	9	
	GRI 102-2	Activities, brands, products, and services	9, 11, 94-96	
	GRI 102-3	Location of headquarters	Inner Back Cover	
	GRI 102-4	Location of operations	9	
	GRI 102-5	Ownership and legal form	9	
	GRI 102-6	Markets served	9	
	GRI 102-7	Scale of the organization	9	
	GRI 102-8	Information on employees and other workers	9	
	GRI 102-41	Collective bargaining agreements	-	The Company does not have any collective bargaining agreements
	GRI 102-9	Supply chain	102	
	GRI 102-10	Significant changes to the organization and its supply chain	6	
	GRI 102-11	Precautionary Principle or approach	108, 168	
	GRI 102-12	External initiatives	7	
	GRI 102-13	Membership of associations	Inner Back Cover	
Strategy and Analysis	GRI 102-14	Statement from senior decision-maker	22-26	
	GRI 102-15	Key impacts, risks, and opportunities	56-58, 166, 168	
Material Aspects and Boundaries	GRI 102-45	Entities included in the consolidated financial statements	6	
	GRI 102-46	Defining report content and topic Boundaries	6	
	GRI 102-47	List of material topics	50, 51	
	GRI 103-1	Explanation of the material topic and its Boundary	51	
	GRI 102-48	Restatements of information	6	
	GRI 102-49	Changes in reporting	6	
Stakeholder Engagement	GRI 102-40	List of stakeholder groups	45	
	GRI 102-42	Identifying and selecting stakeholders	44	
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Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
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Governance	GRI 102-18	Governance structure	118	
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	GRI 102-27	Collective knowledge of highest governance body	118, 122	
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	GRI 102-35	Remuneration policies	144-146, 161	
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	GRI 102-37	Stakeholders' involvement in remuneration	144-146, 161	
Ethics and Integrity	GRI 102-16	Values, principles, standards, and norms of behavior	89, 122	
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GRI Index

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Economic Performance	GRI 201-1	Direct economic value generated and distributed	10	
	GRI 201-2	Financial implications and other risks and opportunities due to climate change	58	
	GRI 201-3	Defined benefit plan obligations and other retirement plans	249 (Note Number 45)	
	GRI 201-4	Financial assistance received from government	-	The company has not received any direct or indirect assistance from the Government.
Materials	GRI 301-1	Materials used by weight or volume	109	
	GRI 301-2	Recycled input materials used	-	The Company has not used any recycled materials during the year under purview.
Energy	GRI 302-1	Energy consumption within the organization	110	
	GRI 302-2	Energy consumption outside of the organization	-	The Company has used energy outside the Company
	GRI 302-3	Energy intensity	110	
	GRI 302-5	Reductions in energy requirements of products and services	-	This is not relevant to the Company since it is a service organization.
	GRI 302-4	Reduction of energy consumption	110	
Water	GRI 303-1	Interactions with water as a shared resource	-	The company does not use water from a shared source.
	GRI 303-2	Management of water discharge-related impacts	-	Considering the nature of the business this is not significantly related to the Company.
	GRI 303-3	Water withdrawal	110	
	GRI 303-4	Water discharge	-	Considering the nature of the business this is not significantly related to the Company.
	GRI 303-5	Water consumption	110	
Biodiversity	GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	-	There are no such operational sites owned by the Company

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
	GRI 304-2	Significant impacts of activities, products, and services on biodiversity	111	
	GRI 304-3	Habitats protected or restored	111	
	GRI 304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	111	
Compliance	GRI 307-1	Non-compliance with environmental laws and regulations	110	
Supplier Environmental Assessment	GRI 308-1	New suppliers that were screened using environmental criteria	103	
	GRI 308-2	Negative environmental impacts in the supply chain and actions taken	-	There were none during the reporting year.
Environmental Grievance Mechanisms	GRI 103-2	The management approach and its components	108-110	
Employment	GRI 401-1	New employee hires and employee turnover	83, 84	
	GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	84	
	GRI 401-3	Parental leave	85	
Training and Education	GRI 404-1	Average hours of training per year per employee	86	
	GRI 404-2	Programs for upgrading employee skills and transition assistance programs	87, 89	
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Diversity and Equal Opportunity	GRI 405-1	Diversity of governance bodies and employees	91, 92	
Equal Remuneration for Women and Men	GRI 405-2	Ratio of basic salary and remuneration of women to men	92	
Supplier Assessment for Labor Practices	GRI 414-1	New suppliers that were screened using social criteria	103	
	GRI 414-2	Negative social impacts in the supply chain and actions taken	-	There were no negative social impacts resulted due to the activities of the company during the year under purview.
Non-discrimination	GRI 406-1	Incidents of discrimination and corrective actions taken	90, 91	
Child Labor	GRI 408-1	Operations and suppliers at significant risk for incidents of child labor	90	

GRI Index

Section title	GRI Standard No.	Disclosure title	Page reference	Remarks
Forced or Compulsory Labor	GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	90	
Supplier Human Rights Assessment	GRI 414-1	New suppliers that were screened using social criteria	103	
	GRI 414-2	Negative social impacts in the supply chain and actions taken	-	There were no negative social impacts in the supply chain identified or reported as resulted during the year under purview.
Local Communities	GRI 413-1	Operations with local community engagement, impact assessments, and development programs	104	
	GRI 413-2	Operations with significant actual and potential negative impacts on local communities	106	
Customer Health and Safety	GRI 416-1	Assessment of the health and safety impacts of product and service categories	100	
	GRI 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	100	
Marketing Communications	GRI 102-2	Activities, brands, products, and services	9, 11, 94-96	
	GRI 417-3	Incidents of non-compliance concerning marketing communications	96	
Customer Privacy	GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	101	
Compliance	GRI 419-1	Non-compliance with laws and regulations in the social and economic area	106	

Abbreviations

AADFI	Association of African Development Finance Institutions	LINN	Lanka Impact Investing Network
ADFIAP	Association of Development Finance Institutions in Asian and the Pacific	NBFI	Non Banking Financial Institutions
AFC	Alliance Finance Company	NPL	Non Performing Loan
AGM	Assistant General Manager	PCB	Polychlorinated biphenyl
BCMS	Business Continuity Management System	RAC	Risk-Acceptance-Criteria
CA	Chartered Accountants	RFS	Regional Financial Services
CBSL	Central Bank of Sri Lanka	SDG	Sustainable Development Goals
CCA	Customer Care Agents	SLICM	Sri Lanka Institute of Credit Management
CCPI	Colombo Consumer Price Index	SSCI	Sustainability Standards and certification Initiative
CITES	Convention on International Trade in Endangered Species	USP	Unique Selling Proposition
CMA	Chartered Management Accountants		
CRM	Customer Relationship Management		
CSE	Colombo Stock Exchange		
CSR	Corporate Social Responsibility		
CXO	Chief Executive Officer		
DF	Development Finance		
DR SITE	Disaster Recovery Site		
EA	Enterprise Asia		
EDS	Entrepreneur Development Services		
EOSD	European Organisation for Sustainable Development		
EPS	Earnings Per Share		
ERP	Enterprise Resource Planning		
ESMS	Environmental and Social Management System		
EVP	Employee Value Proposition		
FHASL	Finance Houses Association of Sri Lanka		
GDP	Gross Domestic Product		
GRI	Global Reporting Initiative		
H/Os	Head Office		
HP	Hire Purchase		
HR	Human Resource		
HRIS	Human Resource Information System		
IFC	International Finance Corporation		
IIRC	International Integrated Reporting council		
IUCN	International Union for Conservation of Nature		
KMP	Key Management Personnel		
KPI	Key Performance Indicator		

Glossary

A

ACCOUNTING POLICIES

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

ACCOUNTING

The profit or loss for a period before deducting tax expense

ACCRUAL BASIS OF ACCOUNTING

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

AMORTISATION (DEPRECIATION)

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

ALLOWANCE FOR IMPAIRMENT

A provision held on the Statement of Financial Position as a result of a raising of a charge against profit for the incurred loss.

C

CARRYING AMOUNT

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

CASH EQUIVALENTS

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

CONTINGENCIES

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

COLLECTIVE IMPAIRMENT

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at a reporting date.

CORPORATE GOVERNANCE

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

COST TO INCOME RATIO

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

CURRENT TAX

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

D

DEALING SECURITIES

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

DEFERRED TAX LIABILITIES

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

DEFINED BENEFIT PLANS

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

DISBURSEMENTS

Another term for investments

DISCRETIONARY PROVISION

This includes provision for bonuses and incentives

DIVIDENDS

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

DIVIDEND COVER

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

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues

E

EARNINGS PER SHARE (EPS)

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

G

GENERAL RESERVES

Reserves set aside for future

GROSS NPA (NPL) RATIO

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

GROSS DIVIDEND

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

I

IMPAIRMENT

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

INDIVIDUAL IMPAIRMENT

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

INVESTMENTS

Value of facilities granted during a specific period

INVESTMENTS SECURITIES

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

L

LIQUIDITY

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

LIQUID ASSETS

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

LIQUID ASSETS RATIO

Liquid assets as a percentage of total deposits

M

MATERIALITY

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

Market Value per Share

Market capitalization divided by the number of ordinary shares in issue

N

NON – BANKING FINANCIAL INSTITUTIONS (NBFI)

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

NON-PERFORMING LOANS (NPL)

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

NET ASSETS VALUE PER SHARE

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

NET NPA RATIO

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

NET INTEREST INCOME

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

NET INTEREST MARGIN

Net interest income divided by total average assets

O

OFF BALANCE SHEET TRANSACTIONS

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

P

PORTFOLIO

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

PRICE EARNING (P/E) RATIO

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

PROVISION FOR LOAN LOSSES

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

R

RETURN ON ASSETS (ROA)

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

RETURN ON SHAREHOLDERS' FUND/ EQUITY (ROE)

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

Glossary

REVALUATION

Restatement of assets and liabilities

RATE OF DIVIDEND

Gross dividend as a percentage of total par value of shares

S

SBU

Strategic Business Unit

Segment Revenue

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

SHAREHOLDERS' FUNDS

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

SOCIAL PERFORMANCE MANAGEMENT SYSTEM (SPMS)

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

SUSTAINABILITY DEVELOPMENT GOALS

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

T

TAXABLE PROFIT/(TAX LOSS)

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

'TIER 1' CAPITAL

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

'TIER 2' CAPITAL

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

V

VALUE ADDED

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

Notice of Meeting

Notice is hereby given that the Sixty Third Annual General Meeting of Alliance Finance Company PLC, will be held on Wednesday 31st, July 2019 at 10.00 a.m., at the Lakshman Kadiragamar Institute for International Relation and Strategic Studies, "The Light House", No.24, Horton Place, Colombo 07. The business to be brought before the Meeting will be: -

1. To receive and consider the Report of the Directors and the Financial Statements for the financial year ended 31st March 2019, with the Report of the Auditors thereon.
2. To declare a Dividend.
3. To re-elect a Director
Mrs. Ramani Nelun Ponnambalam retires under Articles numbered 130 and 131
4. To re-elect a Director
Mr. Ravindra Erle Rambukwelle retires under Articles numbered 135
5. To re-elect a Director
Mrs. Priyanthi de Silva retires under Articles numbered 135
6. To re-appoint Auditors to hold office until the next Annual General Meeting and to fix their remuneration.
7. To authorize the Directors to determine and make donations.
8. To consider any other business of which due notice has been given.

By order of the Board
ALLIANCE FINANCE CO. PLC

Sgd.

Alliance Management Services (Private) Limited
Secretaries

8th July 2019

Note:

- (i) A member is entitled to appoint a proxy to attend and vote in his/her place.
- (ii) A proxy need not be a member of the Company.
- (iii) A member wishing to vote by proxy at the meeting may use the Form of Proxy enclosed and interpolate the words "right to speak".
- (iv) To be valid, the completed Form of Proxy must be lodged at Alliance Management Services (Pvt) Ltd, No.84, Ward Place, Colombo 07, not less than 48 hours before the meeting.
- (v) Shareholders/Proxy holders are requested when attending the Annual General Meeting to bring with them their National Identity Card or any other form of valid identification.
- (vi) Shareholders appointing proxies (other than Directors) to attend the meeting are requested to indicate the number of the National Identity Card of the Proxy holder on the Form of Proxy. Only registered proxy holders will be permitted to attend the Annual General Meeting.

I/We..... of

being a member/members of the above named Company hereby appoint Ramani Nelun Ponnambalam or failing her Romani Kumar Eardley Patrick de Silva or failing him Jalathge Mahinda Gunasekera or failing him Wickramasinghe Pathirana Kusal Jayawardana or failing him Ravindra Erle Rambukwelle or failing him Athula Ranmal Samarasinghe or failing him Lansage Ajith Prasanna Medis or failing him Priyanthi de Silva or failing her
of.....

NIC No.

as my/our proxy to represent me/us and to *vote for me/us on my/our behalf at the 63rd Annual General Meeting of the Company to be held on 31st July, 2019 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"/>
6. Resolution No.6 The Ordinary Resolution No.6 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
7. Resolution No.7 The Ordinary Resolution No.7 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this..... day of 2019

.....
 Signature

Instruction as to completion of Form of Proxy given overleaf.

INSTRUCTIONS AS TO COMPLETION OF THE FORM OF PROXY

1. A proxy holder need not be a member of the Company.
2. The full name and address of the proxy and of the shareholder appointing the proxy should be entered legibly in the Form of Proxy.
3. The completed Form of Proxy should be deposited at the office of the Secretaries, Alliance Management Services (Pvt) Ltd., 84, Ward Place, Colombo 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 in accordance with its Articles of Association.

Note: If you wish your proxy to speak and vote at the Meeting you should interpolate the words "to speak and" in the space indicated with an asterisk and initial such interpolation

Corporate Information **GRI 102-3** **GRI 102-13**

NAME OF THE COMPANY

Alliance Finance Company PLC

STATUTORY STATUS

Quoted Public Limited Liability Company, incorporated under the Companies Ordinance No.51 of 1938 Reregistered under the Companies Act No.7 of 2007

Approved and registered under the

- Finance Business Act No. 42 of 2011
- Finance Leasing Act No. 56 of 2000
- An approved Credit Agency under the Mortgage Act No.6 of 1949
- Trust Receipt Ordinance No.12 of 1947

DATE OF INCORPORATION

18th July 1956

COMPANY REGISTRATION NUMBER

PQ 93

PRINCIPAL ACTIVITIES

Providing finance lease, hire purchase, mortgage loans, gold loans, group loans, acceptance of fixed deposits, savings mobilization, other credit facilities and services.

REGISTERED OFFICE/HEADQUARTERS

Alliance House
No.84, Ward Place, Colombo 07, Sri Lanka.

Tel: (+94) 11 2673673

Fax: (+94) 11 2697205

E-mail: info@alliancefinance.lk

Website: www.alliancefinance.lk

CREDIT RATING

[SL]BBB- with a negative outlook rating, assigned by ICRA Lanka Limited.

BOARD OF DIRECTORS

Mrs. R.N. Ponnambalam
Chairperson
Mr. Romani de Silva
Deputy Chairman & Managing Director
Mr. J.M. Gunasekera
Executive Director - Sustainability
Mr. W.K.P. Jayawardana
Executive Director Finance and Operations
Mr. R.E. Rambukwelle
Executive Director Credit Marketing and Operations
Lt. Col. (Retd) A.R. Samarasinghe-
Independent Non Executive Senior Director
Dr. L.A.P. Medis - Consultant Director
Marketing - Non Executive
Mrs. Priyanthi de Silva - Independent Non Executive Director

ADVISORY COUNCIL

Mr. B. Ponnambalam
Mrs. K.S.K. de Silva
Mr. Abbas Akbarally (Chairman - Akbar Brothers Group of Companies)
Mr. K. Kanag Isvaran LLB (London)
Inn Barrister - (President's Counsel)
Mr. S.P. Morawake (Former Registrar of Companies)

REMUNERATION COMMITTEE

Lt. Col. (Retd) A.R. Samarasinghe –
Chairman
Mrs. Priyanthi de Silva
Mrs. R.N. Ponnambalam

AUDIT COMMITTEE

Mrs. Priyanthi de Silva - Chairperson
Lt. Col. (Retd) A.R. Samarasinghe

RELATED PARTY TRANSACTIONS COMMITTEE

Lt. Col. (Retd) A.R. Samarasinghe –
Chairman
Mrs. Priyanthi de Silva
Mrs. R.N. Ponnambalam

INTEGRATED RISK MANAGEMENT COMMITTEE

Lt. Col. (Retd) A.R. Samarasinghe –
Chairman
Mrs. Priyanthi de Silva

SUBSIDIARIES

Alfinco Insurance Brokers (Pvt) Ltd.

AUDITORS

M/s. Baker Tilly Edirisinghe & Co.
Chartered Accountants
No.45, 2nd Floor, Braybrooke Street,
Colombo 02.

LEGAL CONSULTANTS

Gunawardena & Ranasinghe Associates

SECRETARIES

Alliance Management Services (Pvt) Ltd.
No .84 Ward Place, Colombo 07.

BANKERS

Sampath Bank PLC
Seylan Bank PLC
Public Bank Berhad
People's Bank
Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Bank of Ceylon
Nations Trust Bank PLC
NDB Bank PLC
Cargills Bank
DFCC Bank PLC

CORPORATE MEMBERSHIPS AND ASSOCIATIONS

- The Finance Houses Association of Sri Lanka
- Leasing Association of Sri Lanka
- Credit Information Bureau of Sri Lanka
- Financial Ombudsman -Sri Lanka
- Biodiversity Sri Lanka (Patron Member) {Business and Biodiversity platform}
- Association for Development Finance Institutions in Asia and the Pacific (ADFIAP), The Philippines

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