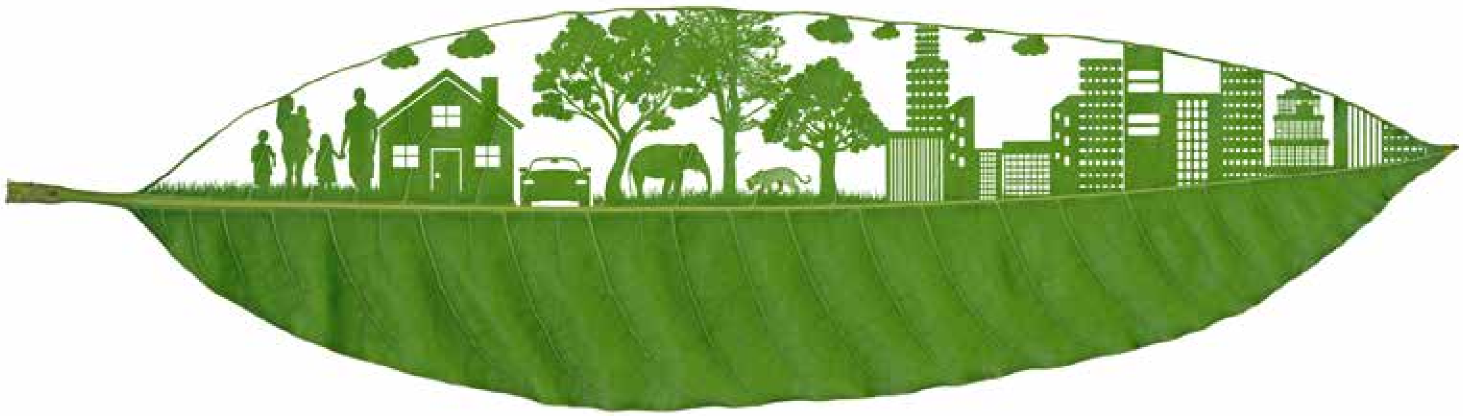


RESTORE
REVITALISE

Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.

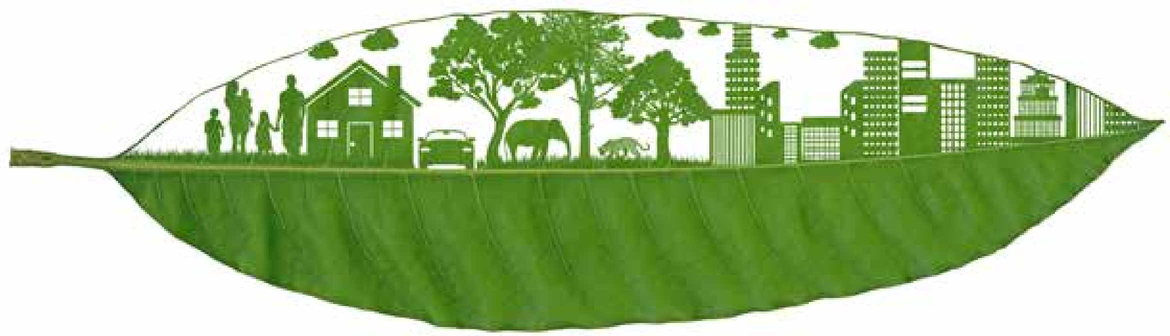
Annual Report 2016/17

PEOPLE • PLANET • PROFIT

Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.



RESTORE
REVITALISE

Our mission for the year as a proud and illustrious entity in the financial services industry, is to become more environmentally conscious; and in healing the planet we take on the actions of restoring and revitalising not just our surroundings but the lives of those who have been a part of our legacy. We understand that our actions have far reaching consequences in the world around us and therefore we take great pains to further our motives as a socially responsible corporate citizen now and into the future.

Contents

Overview

Management Discussion and Analysis

Operating Context and Strategy

Stewardship

Our Performance

Value Creation against our Capitals

Financial Information

Supplementary Information

Statutory Information

About this Report

G4 Integrated

We are committed towards directing our strategy in a way that balances both business and sustainability considerations

WELCOME TO OUR ANNUAL INTEGRATED REPORT

AFC first embraced the principles of Integrated Reporting in 2015, and this year we hope to build on that foundation to provide our stakeholders with a balanced and comprehensive review of our financial, social and environmental performance. We are committed towards directing our strategy in a way that balances both business and sustainability considerations, and adoption of the IR Framework has ensured that our corporate reporting model complements the Group's integrated thinking. Through this Report, we aim to provide a holistic yet concise overview of matters which are most material to our shareholders including emerging risks and opportunities, performance against our strategy and successes and challenges in delivering our strategy.

Scope and boundary

The Report covers the operations of Alliance Finance Company PLC ("AFC") and its subsidiary Alfinco Insurance Brokers (Pvt) Ltd and associates Macbertan (Pvt) Ltd and Alliance Tech Trading (Pvt) Ltd for the period from 1st April 2016 to 31st March 2017. Any material events after this date and up to approval of this report by the Board of Directors on 30th May 2017 have also been included for completeness. The financial information disclosed in this Report represents all four entities (unless otherwise mentioned) while the non-financial information pertains only to the parent entity. We adopt an annual reporting cycle and this Report builds on our previous annual report for the year ending 31st March 2016. The material aspects included in this Report have been selected using a structured and systematic process as detailed on pages 28 to 29 of this Report and objectively represent our key stakeholder interests and emerging trends in the operating landscape. There were no significant changes to the Group's size, structure, shareholding or supply chain during the period under review.

Reporting enhancements

Integrated Reporting is a continuously evolving journey, and every year we seek to improve the meaningfulness and readability of our Report. This year our reporting has focused on,

- Selection of material aspects has been extended beyond the aspects prescribed by GRI to include factors that are specific to our operating environment, business and strategy
- Enhanced the connectivity of information through linking the narrative to our strategy and material issues
- Demonstrate the interdependencies and trade-offs of our capital inputs

Reporting Principles and Assurance

	Integrated Report	Annual Financial Statements	Corporate Governance Risk Management Report	Sustainability Performance
Standards and Principles	• Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)	• Sri Lanka Financial Reporting Standards • Finance Leasing Act No.56 of 2000 • Finance Business Act No.42 of 2011 • Companies Act No. 7 of 2007 • Listing Requirements of the Colombo Stock Exchange	• Central Bank's stipulations applicable to the Registered Finance Leasing establishments • Listing requirements of the CSE • Code of Best Practice on Corporate Governance issued by the ICASL and SEC	• Global Reporting Initiative- G4 standards (Core)
Assurance	Baker Tilly Edirisinghe & Co; Chartered Accountants			

How to read this Report

The content included in this Report has been carefully selected and structured to show how the Group creates, delivers and ensures value creation for its stakeholders.

- The Company aims to provide the reader with an overview of the organisation, our key products and services and our leadership reviews
- Operating context and strategy describes the landscape in which we operate, the matters that could potentially affect our value creation process and our strategic focus areas
- Our performance demonstrates how we performed against our strategic targets for the year, the successes and challenges and how our key business lines contributed towards delivering our strategy
- Value creation against our capital demonstrates how we transformed and added value to our capital inputs during the year, ensuring sustainable value creation to all our stakeholders

Feedback

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

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

OVERVIEW

About Our Company

AFC is one of Sri Lanka's most trusted and respected financial institutions, with an excellent track record of over Six decades. As Sri Lanka's 3rd oldest licensed finance company, AFC has nurtured relationships with four generations of customers, partnering socio economic progress and contributing towards financial inclusion across the island. The Company has successfully carved out a niche position in an intensely competitive market by offering a unique business proposition which is underpinned on stability, trust, innovation and relationship-driven customer service. With an asset and deposit base of Rs. 30 billion and Rs.10.1 billion respectively as at end-March 2017, we operate a network of 89 customer contact points in 24 districts across the island, providing a range of innovative investment and lending solutions. The Company is powered by the dynamism and skills of 1,222 employees, who drive our strategic ambitions and live our corporate values.

Rs.649Mn
Profit After Tax

117,534
Customers

Rs.30Bn
Assets

89
Touchpoints

Rs.10.1Mn
Deposits

1,222
Employees

An excellent track record of over 60 years, providing innovative product solutions and unmatched service to four generations of Sri Lankans.

Nurturing relationships with our diverse stakeholders are at the core of our culture and we strive to make every relationship a lasting one.

At our core, are a set of values which define who we are-people centric, integrity, innovation, dynamism, unity and serving people & conserving nature

Our approach towards business embodies a triple bottom-line thinking, thereby balancing the competing needs of our stakeholders

An industry pioneer in sustainability, the Company is deeply committed towards embedding sustainability considerations in its business decisions and is embodied in its People-Planet-Profit approach towards strategy and value creation. The Company is governed by the Finance Business Act No.42 of 2011, Finance Leasing Act No. 56 of 2000 and is an approved credit agency under the Mortgage Act and the Trust Receipt Ordinance. The Company is listed on the Main Board of the Colombo Stock Exchange with a market capitalisation of Rs. 1.85 billion as at end-March 2017.

Organisational structure

The parent company (AFC) is the most significant contributor to the Group, contributing 98.7% and 98.5% to revenue and profits respectively and accounting for 99.6% of the Group's total assets.

AFC	Licensed Finance establishment offering the following solutions; • **Investment solutions:** savings deposits, fixed deposits • **Financing solutions:** leasing, gold loans, pledge loans, equipment financing, business loans, quick cash, personal loans, SME financing and microfinance
Alfinco Insurance Brokers (64%)	One of the top 10 insurance brokers in the country, Alfinco was formed as a strategic partnership between AFC and Arpico Finance PLC, which was formerly a subsidiary of the Group.
Macbertan (Pvt) Ltd (24.7%)	An associate company, Macbertan is engaged in the manufacture of thermal and impact insulation products with a range of domestic and industrial applications.
Alliance Tech Trading (Pvt) Ltd (40%)	An associate company, Alliance Tech Trading (Pvt) Ltd. engaged in provision office interior and turnkey solutions to corporates.

Vision

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

Mission

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

Since 1956
Alliance Finance Co. PLC
Built on Trust. Powered by Innovation.

Core Values

1. People Centric

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

2. Integrity

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

3. Innovation

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

4. Serve People & Conserve Nature

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

5. Dynamic

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

6. Unity

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

OVERVIEW

Performance Highlights

People

	Unit	2016/17	2015/16	Y-o-y change (%)
HUMAN CAPITAL				
Employees	Number	1,222	1,203	2
Total training hours	Hours	2,674	3,570	-28
Average training hours	Hours	5.0	8.4	-40
SOCIAL AND RELATIONSHIP CAPITAL				
Customers	Number	117,534	133,984	-12
Customer touchpoints	Number	89	87	2
Investment in Entrepreneur Development Service	Rs. Mn	1.2	1.8	-33
Beneficiaries of EDS	No.	2,665	4,477	-40
Investment in community engagement	Rs. Mn	7.5	6.0	27

Planet

	Unit	2016/17	2015/16	Y-o-y change (%)
INTELLECTUAL CAPITAL				
Brand value	Rs.Mn	816	643	27
NATURAL CAPITAL				
Electricity consumption	Kw	374,526	404,723	-7
Water consumption	Litres	12,822	NA	-
Paper recycled	Kg	1,576	5,370	-71

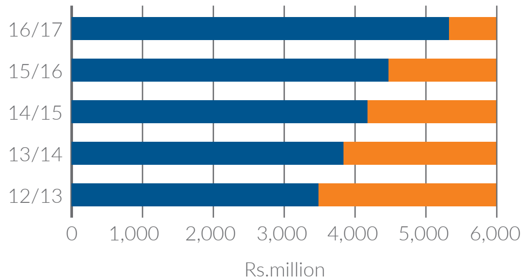
Profit

	Unit	2016/17	2015/16	Y-o-y change (%)
FINANCIAL CAPITAL				
Performance				
Gross income	Rs. Mn	5,377	4,576	18
Net interest income	Rs. Mn	2,515	2,220	13
Operating profit before VAT	Rs. Mn	1,002	604	66
Profit before tax	Rs. Mn	834	530	57
Profit after tax	Rs. Mn	649	419	55
Dividends	Rs. Mn	199	129	54
Financial Position				
Total assets	Rs. Mn	30,022	25,845	16
Gross loans and advances	Rs. Mn	23,807	19,697	21
Total deposits	Rs. Mn	10,088	10,464	-4
Shareholders' funds	Rs. Mn	4065	2,722	49
Operating Ratios				
Return on assets before tax	%	3.0%	2.3%	29
Return on equity after tax	%	19.1%	16.2%	18
Efficiency Ratio	%	62.5%	64.0%	-2
Gross NPL ratio	%	2.11%	2.46%	-14
MANUFACTURED CAPITAL				
Property Plant and Equipment	Rs. Mn	2,123	1,447	47
Capital Expenditures	Rs. Mn	65	424	-85

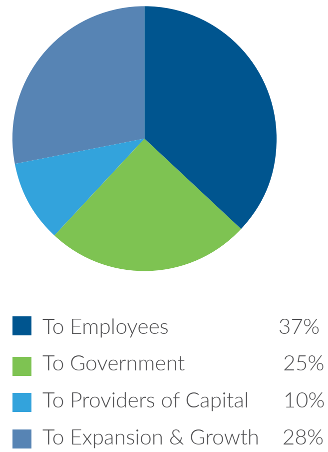
OVERVIEW

Our Track Record of Value Creation

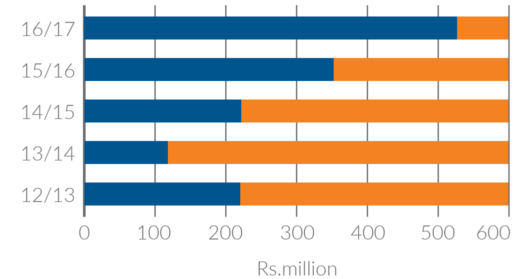
Income



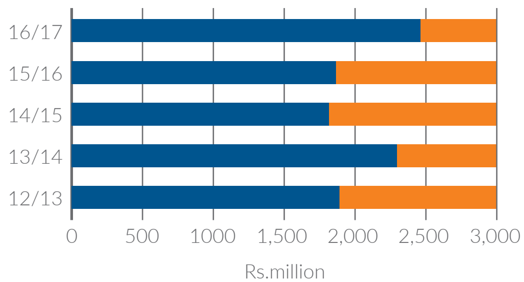
Value Distribution 2016/17



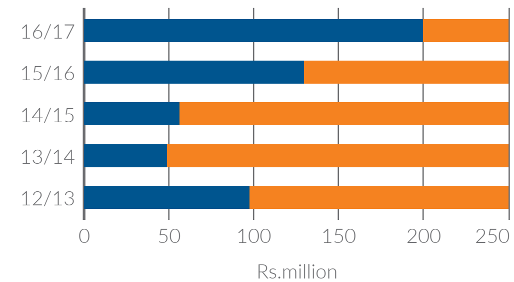
Tax payments to government



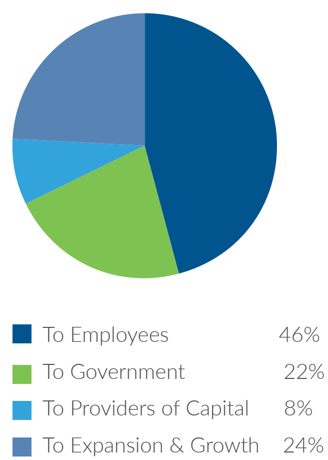
Interest Expense



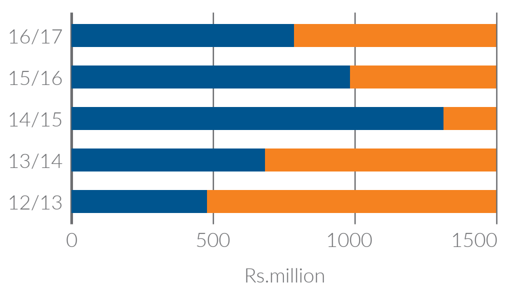
Value created to shareholders



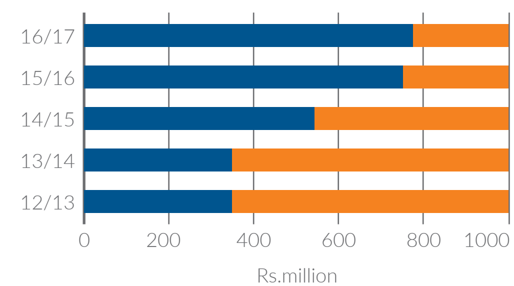
Value Distribution 2015/16



Cost of External Services



Value created to employees



OVERVIEW

Value Added Statement

For the year ended 31st March	2017 Rs.	%	2016 Rs.	%
VALUE ADDED				
Income	5,331,343,714		4,473,444,982	
Interest Expense	(2,462,431,850)		(1,868,434,772)	
Cost of External Services	(783,728,971)		(983,276,557)	
	2,085,182,893		1,621,733,654	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries & other benefits	774,573,157	37.15%	750,965,495	46.31%
To Government				
Taxes	527,537,408	25.30%	353,180,338	21.78%
To Providers of Capital				
Dividend	198,806,400	9.53%	128,790,000	7.94%
To Expansion & Growth				
Depreciation	110,301,757	5.29%	99,934,198	6.15%
Reserves	473,964,171	22.73%	288,863,623	17.81%
	584,265,928	28.02%	388,797,821	23.97%
	2,085,182,893	100.00%	1,621,733,654	100.00%

Our Excellence

Sequence	Awarding body	Awarded for	Awarded/Accolade Received	Category	Year
1	Labour Department of SL	Social Dialog and Work Place Cooperation	Merit Award	Service Sector Large Scale Category	2016
2	Employer Branding Institute	Best Employer with outstanding Employee culture	Certificate of Recognition	Human Resources	2016
3	CMO Asia Awards for Excellence in Branding and Marketing	AFC Motobike Show - 2016	Excellence for " Marketing Campaign of the year 2016	Marketing	2016
	ICASL	Annual Report	Certificate of Compliance	Non-Bank and Financial Sector	2016
5	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2015
6	EA	Asia Responsible Entrepreneurship	Winner	Green Leadership	2014
7	EOSD	Ezy Taxi	Merit Certificate	Best Innovation in Sustainable Financial Products and Services	2013
8	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2013
9	DNV	BCMS	ISO 22301	Not Applicable	2013
10	NCCSL	NBEA	Gold - Joint winner	Non-Bank and Financial Sector	2012
11	NCCSL	NBEA	Silver Performance	Management Practices- Overall	2012
12	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2012
13	BSI	BCMS	BS25999	Not Applicable	2012
14	NCCSL	NBEA	Silver Specialised	Banking and Finance Sector	2011
15	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2011
16	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2010
17	ICASL	Annual Report	Certificate of Recognition	Non-Bank and Financial Sector	2009

BSI - British Standards Institution
EA - Enterprise Asia
DNV - Det Norske Veritas

EOSD - European Organisation for Sustainable Development
ICASL - Institute of Chartered Accountants of Sri Lanka
NCC - National Chamber of Commerce of Sri Lanka

OVERVIEW

Our Journey of Six Decades

1ST DECADE
1956-1966

- AFC was incorporated on the 18th July 1956 at No.43, Campbell Place, Colombo 8 with the motto " Earn before you spend & Others before self"
- The Company's shares quoted in the Colombo Brokers Association

2ND DECADE
1967-1976

- Acquired " Arpico Finance"
- AFC purchases the land and buildings at No.84, Ward place, Colombo 7

3RD DECADE
1977-1986

- Commemorated the Company's Silver Jubilee

4TH DECADE
1987-1996

- AFC moves into "Alliance House"- a new, three storied complex which is today a well-known landmark in the city
- Introduces the concept of Collaboration Finance, customized financial packages for entrepreneurs
- Forms the "Alliance - Excel Collaboration" to import floor & wall tiles and sanitary ware

5TH DECADE
1997-2006

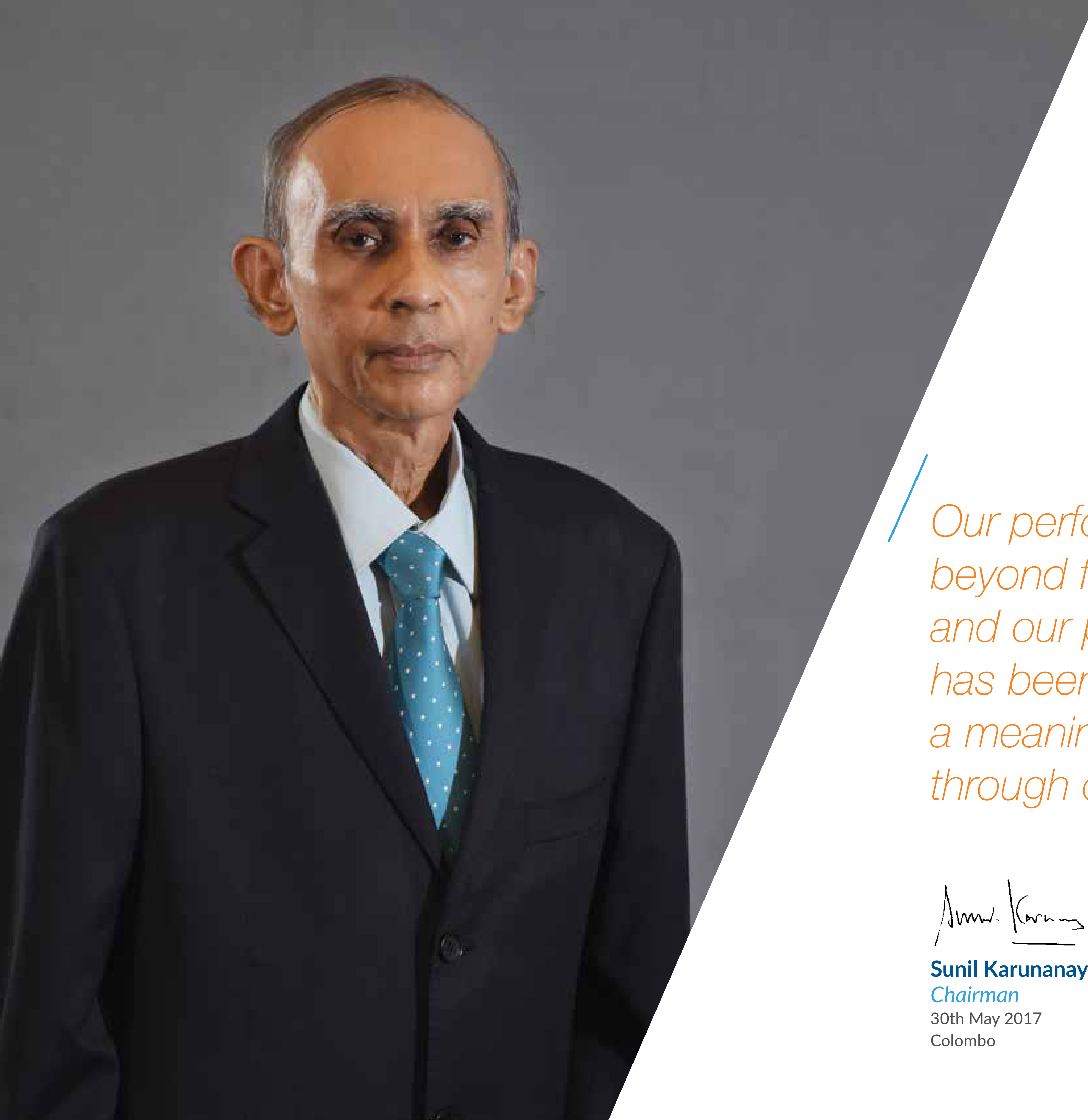
- Incorporates "Alfinco Insurance Brokers"', a joint venture between Alliance Finance & Arpico Finance
- Became the first Financial institution to be awarded the prestigious ISO 9001:1994 status by DNV and the Company to upgrade into ISO 9001: 2000
- Opens the first collection centre in Kurunegala
- Launches quick cash loan plan for depositors
- First Finance Compnay to introduce Savings Accounts
- Celebrated the Golden Anniversary
- Launches a deposit scheme for senior citizens "Pride of Priority"

6TH DECADE
2007-2016

- The Chairman and Joint Managing Director Mr. Pratapkumar de Silva retires from the post of joint MD and continues as Chairman. Mr. Romani de Silva continues as Deputy Chairman and takes on the role of MD
- Alliance Finance becomes the joint winner (with Peoples' Leasing and Finance Company) of the Gold Award at the National Business Excellence Awards 2012
- Wins the overall Silver Award for " The Best Performance Management Practices" at the National Business Excellence Awards 2012
- Introduced the symbolic wave in blue, green and orange to all brand communiques signifying and reminding all its Stakeholders of the Company's commitment to the triple bottom line; PEOPLE, PLANET and PROFIT
- Receives an international accolade for its initiative to develop Sustainable Business products with a Merit Award at the Global Sustainable Finance Conference held in Germany for the AFC Ezy Drive Green taxi initiative
- The branch network is increased to 32 branches with a representation in every province in Sri Lanka
- Launches the Microfinance Strategic Business Unit
- Awarded the Asia Responsible Entrepreneurship Award for the Ezy Drive gas taxi project
- Obtained AFC's inaugural strategic foreign funding line from prestigious Triodos Bank of Netherlands along with the first FCY loan facility from Bangladesh
- AFC joins hands with Associated Motorways to promote two wheelers to prospective AFC customers

YEAR
2017

- Celebrated the 60th year Anniversary of the Company
- Organized the "AFC Motorbike Show 2016" the first ever two wheeler exhibition and stunt show conducted by a finance company in Sri Lanka
- Won the CMO award for the best marketing campaign of the year for the AFC Motorbike Show 2016
- Won the Merit award for Social Dialogue and Workplace Cooperation from the Sri Lanka Department of Labor
- Won the Best Employer Brand Award 2016 awarded by the Employer Branding Institute
- Obtained USD 4 million subordinated debt from the Netherlands based Triodos Bank and a USD 10 million loan from Switzerland based Investment Fund; Symbiotics Organization
- Signed an MOU with Diesel & Motor Engineering PLC to promote land vehicles including tractors to potential AFC customers



Our performance goes beyond financial numbers and our philosophy has been about having a meaningful impact through our business.

Sunil Karunanayake
Chairman
30th May 2017
Colombo

OVERVIEW

Chairman's Review

Dear Shareholders,

It is my pleasant duty to set before you the Annual Report and Accounts for the financial year ended 31st March 2017 and welcome you to the 61st Annual General Meeting of the Company.

Your Company has delivered a strong performance recording Rs. 649 Mn profit after tax for the financial year 2016/17 which is a 55% increase over the previous year. This was supported by strong portfolio growth of 21% driving Net Interest Income and a decline in the non-performing loans ratio from 2.46% to 2.11% which resulted in a significantly reduced impairment charge. The rising cost of funds was a key concern during the year as interest expense increased by 32% due to both increased borrowing and higher interest rates. We have broad based our funding structure by sourcing a credit line from the Triodos Bank in The Netherlands and Symbiotics in Switzerland which marks a milestone as our pioneering foreign credit lines supporting our inclusive growth aspirations. Additionally, we capitalized our reserves with a scrip issue and strengthened our core and risk weighted capital ratios with a rights issue during the year.

It is noteworthy that our performance goes beyond financial numbers. Our philosophy has been about having a meaningful impact through our business. Therefore, I am duty bound to give you an account of how we looked beyond the bottom line and implemented initiatives to drive the socio-economic progress of our key stakeholders taking accountability for our impact on the environment.

Your Company works primarily with small credit business, providing access to finance to people with ambition, skill and commitment who choose to follow their dreams. These micro entrepreneurs and SMEs are the backbone of our economy and we are frequently their first financier in the formal financial sector of the country. Consequently, our leasing portfolio comprises mainly of three wheelers and motor cycles while our loans portfolio caters to the financing requirements of family run businesses. We impact their lives positively and we now wish to use this ability to drive even more meaningful change, providing responsible options through innovative and structured products that improve our world socially, economically and environmentally. Examples of products in the pipeline include the leasing product being structured for low carbon emission-gas kits for three wheelers and hybrid vehicles. Our goal here extends beyond a mere financing role to a more environmentally sustainable solution. Our recently launched "tika tika ge dora" product is another example of how we want to change social behaviour by encouraging the customer to build or invest in a small home at an early stage of life and then extending it or moving up market as the earning capacity grows.

It is also necessary to set our performance in the context of its operating environment. GDP growth moderated to 4.4% as the agriculture sector contracted due to adverse weather conditions. The trade gap widened during the year to 11.2% of GDP as sluggish demand from key export markets resulted in a decline in export revenues while imports increased. Implementation of an increased loan to value ratio early in the year resulted in declining demand for vehicle imports and leases.

The Financial services sector remained buoyant as private sector demand remained strong during 2016, improving profitability despite challenges in managing cost of funds due to rising interest rates. The NBFI sector also recorded a strong growth of 21.7% on its asset base which was supported by lending activities. Growth was funded mainly through borrowings which accounted for 58% of the increase while the remainder was funded through equity, deposits and other liabilities. The NPL ratio declined from 5.7% to 5.3% during the year improving the credit risk profile of the industry. Profit growth in the sector also remained robust with a significant increase witnessed across the industry.

The governance structure of the Company was strengthened with the appointment of a Consultant Director Finance and Operations to provide expert guidance in managing the funding and financing requirements of the Group. We continue to engage the Indian company Microsave on microfinance related development. They have significant experience in the field and are in a position to carry out special internal audits on the product and report to the Board with recommendations in relation to the resolution of issues identified.

In closing, I wish to record my appreciation of the hard work done by the team at Alliance Finance, ably led by the Deputy Chairman and Managing Director Mr. Romani De Silva and count on their fullest support in realizing our lofty ambitions. I thank the Board for their diligence and contributions which proved insightful in guiding a sound strategy for the Group. I thank our shareholders for the trust and confidence placed in me to steer this Group to success.

We have crafted a holistic strategy aligned with the government agenda that seeks to improve access to finance which supports the socioeconomic progress of the country

Romani de Silva
Deputy Chairman/Managing Director

30th May 2017
Colombo

OVERVIEW

Deputy Chairman/Managing Director's Review

Dear Shareholders,

Alliance Finance Company PLC recorded a solid performance enhancing the shareholder value by delivering a profit growth of 55%. We strengthened the Balance Sheet with total asset growth of 16%, whilst the portfolio grew by 21%. It is my pleasure to present our 61st Annual Report for the financial year ending 31st March 2017.

Focused Growth

Portfolio growth moderated to a prudent 21% during the year keeping pace with industry growth as we implemented a more selective growth strategy. Consequently, the total portfolio amounted to Rs. 23.8 Bn reflecting initial efforts to diversify the portfolio. The leasing portfolio grew by 19% as its growth momentum moderated due to tightening fiscal and monetary policy. Loans and advances grew by 33% as we increased our focus on this key area, facilitating diversification of the portfolio. Comprising mainly pledge loans, this product proved popular as it enabled the growth of entrepreneurs and facilitated a higher return due to the short term nature of the product. We decelerated the growth of the group based component of our microfinance portfolio as we focused more on training our staff on best practices and strengthening the recovery process. Consequently, the group based microfinance portfolio declined by 11%. The Gold loan portfolio reflected a growth of 27% with product concentration maintained well below portfolio exposure limits. The hire purchase portfolio continues to decline due to the changes in the tax policies of the country. These movements are reflected in the portfolio composition at the close of the year.

We worked with the Triodos Bank positioned as one of the world's most sustainable banks to obtain a credit line to support micro entrepreneurs in Sri Lanka. We were able to secure a subordinated debt of USD 4 Million from the Triodos Bank and a credit line of USD 10 Million from Symbiotics, Switzerland during the year. This initial breakthrough has also paved the way for us to engage with other such lenders as we seek to broad base our funding sources to support our inclusive growth strategy.

We also grew our footprint to support 89 customer support touchpoints during the year, supporting portfolio growth and increasing brand visibility. This was carefully aligned to strategy to drive focused growth, streamlining the number of gold loan centres and collection centres while expanding those touchpoints that offered a wider service or a highly specialised service.

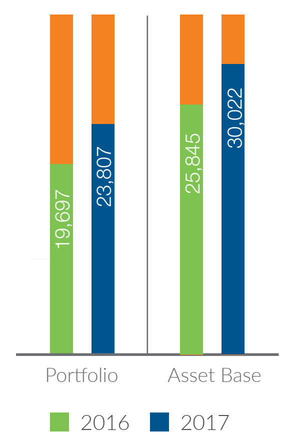
Delivering Performance

Net Interest Income (NII) increased by 13% to Rs.2.5 bn during the year supported by portfolio growth. Tightening monetary policy and market liquidity resulted in a sharp increase in interest rates which had an adverse impact on our cost of funds.

Growing our footprint

	FYE 2016/17	FYE 2015/16
Branches	39	37
Collection / Support Centres	17	13
Gold Loan Centres	12	16
Microfinance Co-ordinating Offices	21	21
Total	89	87

Assets Growth



Shareholders' Fund

OVERVIEW

Deputy Chairman/Managing Director's Review

Interest expenses increased by 32% due to increased interest rates and borrowings exerting pressure on Net Interest Margins (NIM) which declined from 9.7% in the previous year to 9.0% for the reporting year. This trend was observed industrywide as high exposure to leasing, which is a fixed interest rate product with tenures of 3-5 years, did not allow the pass through of increasing interest rates to existing leasing customers. As a result, industry NIM declined from 8.5% to 7.9% in 2016.

Total Operating Income increased by 10% over the previous year to Rs. 2.9 Bn tempered by the decline in Net Commission Income and Net Gains on trading which was offset to a great extent by the increase of 7% in Other Operating Income.

Impairment and bad debt write off charges declined sharply by 55% as a result of the improvement in Non-Performing Loans (NPL) due to the strengthening of recovery processes. Alliance Finance internally adopts a portfolio at risk (PAR) classification of 30 days for microfinance and 90 days for others to give impetus to recoveries prior to the regulatory classification of 180 days. The gross NPL ratio improved from 2.46% to 2.11% during the reporting period comparing well with the industry NPL ratio of 5.3% at the close of the year. Consequently, the impairment charges declined substantially from Rs. 166 mn in the previous year to Rs. 74 mn for 2017. This contributed to the increase of 23% in Net Operating Income which was Rs. 2.8 bn.

Operating expenses increased by 8% as processes were strengthened, resulting in more efficient operations. Value Added Tax on financial services increased due to tightening fiscal policy from 11% to 15% during the year resulting in a 112% increase in VAT payments. The profit of our associate company Macbertan declined by 18% to Rs. 30 Mn during the year under review due to the transfer of the Pidilite product range to a joint venture Company with our principal, the Indian multinational Pidilite Group. In return Macbertan was able to receive a significant stake in the new joint venture Pidilite Lanka Private Limited. This strategic joint venture located in the Polgahawela free trade zone will manufacture a broad range of adhesives for the Sri Lankan Market. The range to be marketed will include the household adhesive brand "Chemifix", the ownership of which will accrue to Pidilite Lanka under a business acquisition agreement with CIC Holdings PLC.

Group taxation increased by 63% due to the increased profitability of the Company. The Group delivered Rs.660 Mn as profit after tax reflecting an increase of 51% over the previous year.

Earnings per share increased during the year from Rs.13 (restated) to Rs. 20 due to the increased profitability.

Focus on Stability

Total Asset growth of 16% from Rs. 25.9 Bn to Rs. 30 Bn was largely driven by portfolio growth. This growth was supported by increased borrowings from banks and equity as we implemented a strategic decision to not compete for higher cost customer deposits given the tightening liquidity in financial markets. Consequently, borrowings increased by 41% from Rs.8.3 Bn to Rs. 11.7 Bn. Deposits inevitably declined marginally by 4% as we maintained our stance to refrain from intense price competition as liquidity was not a major concern for the Company.

As a part of our journey to strengthen the capital structure of the Company, AFC carried out a series of measures consisting of a share split, capitalization of reserves and a rights issue during the year. This helped the Company to increase the number of shares in issue from 2,430,000 to 33,696,000 while increasing the stated capital by Rs. 589.68 Mn to Rs. 613.98 Mn. More information in this regard is given in note number 40 of the Notes to the financial statements.

The Rating Review issued by Fitch Ratings Lanka Ltd., assigned a rating of BB+(lka) with a stable outlook. The core capital ratio improved during the year from 10.2% to 10.4% above the regulatory requirement of 5%. Our total capital ratio declined from 13.5% to 12.1% due to the redeemed subordinated debentures.

Looking Ahead

In keeping with our triple bottom line philosophy we have crafted a holistic strategy aligned with the government agenda that seeks to improve access to finance which supports the socio-economic progress of the country while minimizing the negative impact on climate change. We also strengthened our team to facilitate the successful implementation of our long term strategy. Key positions filled in recent years include the position of a Consultant Director Finance and Operations, an Executive Director for Sustainability and a Chief Risk Officer.

Our future remains committed to small credit as we drive meaningful change in the lives of aspiring entrepreneurs and this philosophy has served us well for over six decades. Expanding our product portfolio is key to growth and we will be adding housing loans as a part of this initiative. Branded as "tika tika ge dora" our housing product supports the life cycle of the customer, allowing them to expand their dreams and homes as they reach progressively higher levels of income. It has the ability to transform the way people invest in housing, enabling them to lock in early in their lives with a starter home which can expand with their families. A specialised centre is being set up for this purpose with all the requisite expertise under one roof for customer convenience.

We continue planning for a range of green products which include the lease of low carbon emission-gas kits for three wheelers and hybrid vehicles. These products should offer customers a more cost effective and environmentally responsible choice.

Your company will continue to source cost effective credit lines that enable us to support expansion while minimizing the cost of funds to make our products more affordable. This also strengthens our connectivity with business partners who share our values and vision of a sustainable future.

Downside risks to performance include the rising cost of funds and inflation which will impact our growth and possible increases in our non-performing loans as consumer purchasing power contracts. However, our sound risk management structures should enable us to manage our performance in a proactive manner.

Appreciations

It is my privilege to lead the Alliance team of 1,222 employees who have powered our performance with passion and hard work to deliver the results set out in this Annual Report. I am deeply appreciative of their team work and support and count on same moving forward. I also wish to thank the Chairman and the Board for their visionary leadership and sage counsel which has propelled us forward and encouraged us to reach greater heights. My grateful thanks to the members of the Advisory Council for their invaluable support and guidance. To our business partners who supported our growth, I convey my sincere appreciation of their efforts and look forward to stronger relationships as we grow together. I also take this opportunity to convey my appreciation to the Governor, Director and Officials of the Central Bank of Sri Lanka who have provided excellent support, constructive criticisms and valuable insights. My sincere thanks to our loyal depositors who have remained with us for four generations. I thank our valued customers for their continued patronage. I thank our loyal shareholders who have supported our growth over the years and invite them to share our journey into a more sustainable future.

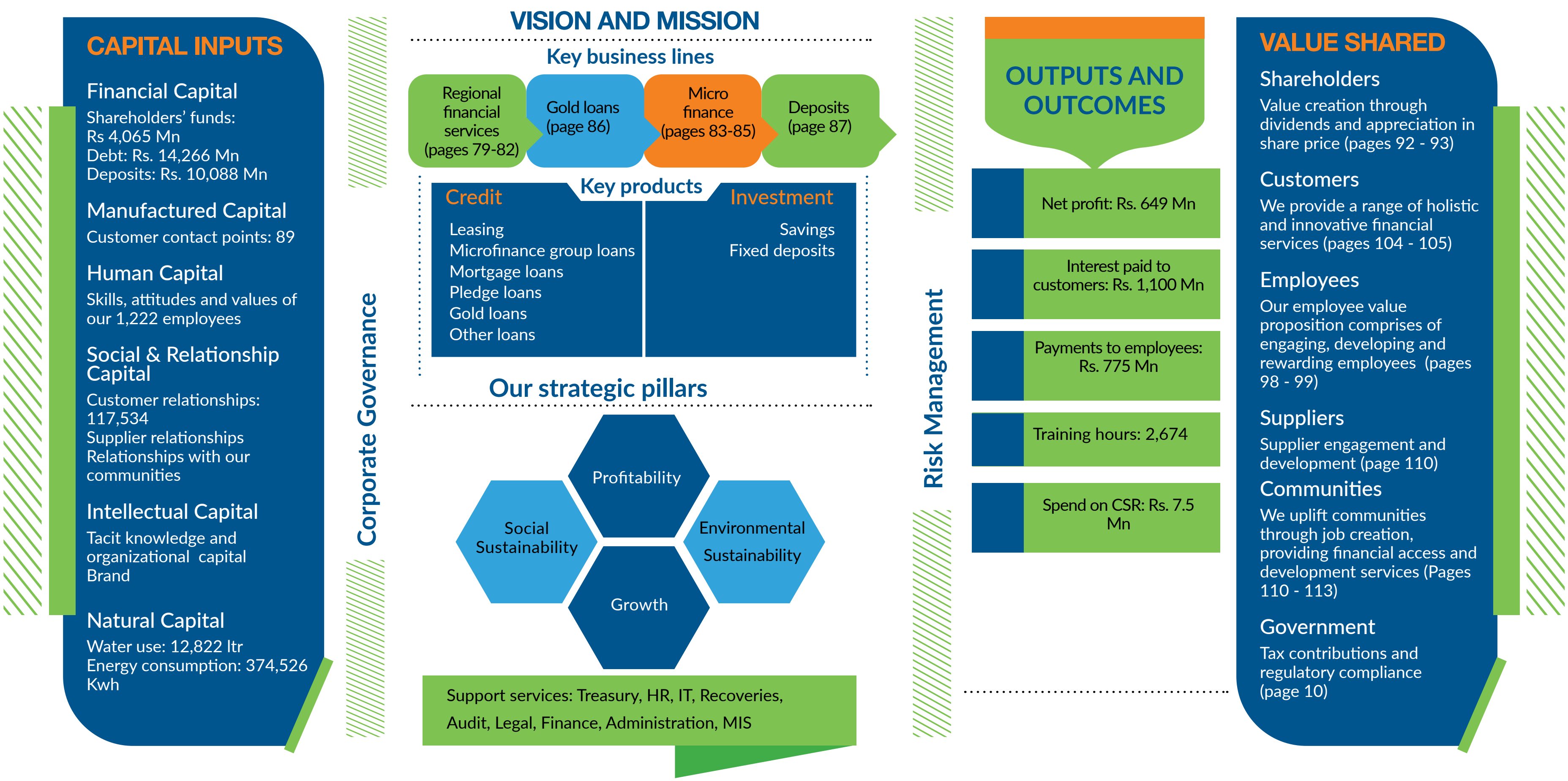
Building for the Next Generation

Our purpose is to nurture our valued stakeholders and build a future for the next generation that is ripe with promise. We are motivated by our strong foundation of trust, powered by innovation and are driven to excellence in every sphere of our activity to ensure a prosperous tomorrow that will enable the next generation to create wealth and exponentially improve their standard of living.

Operating Context and Strategy

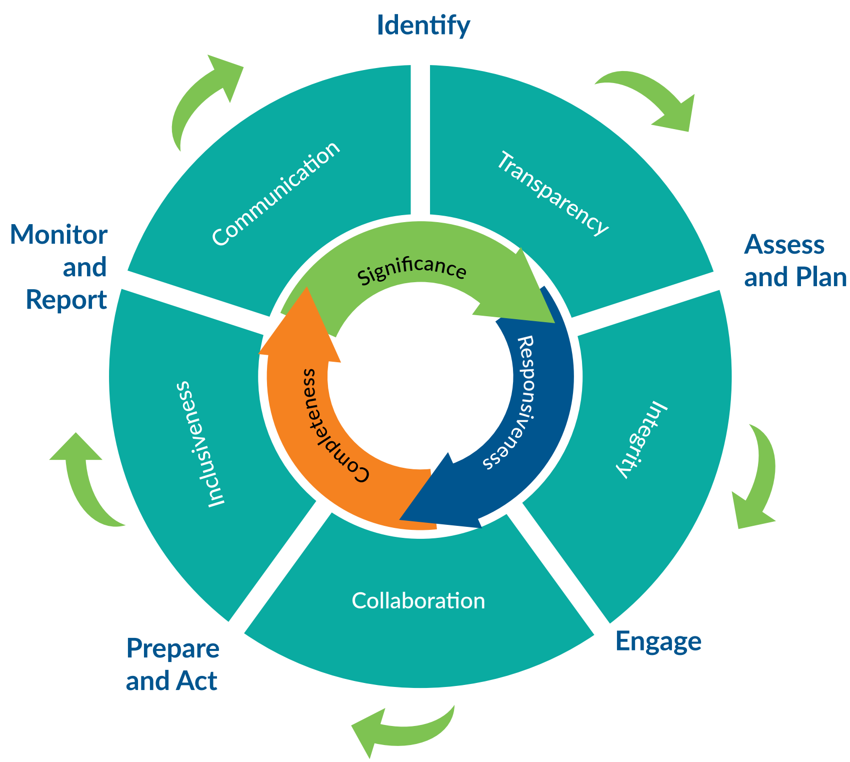
Value Creation Model

Our integrated value creation model strives to deliver value to stakeholders, partnering their socio economic progress while balancing our economic, social and environmental impacts. Our value creation model graphically depicts the types of capital and relationships we depend on, the activities we engage in and the outputs and outcomes of our value creating process.



Stakeholder Engagement

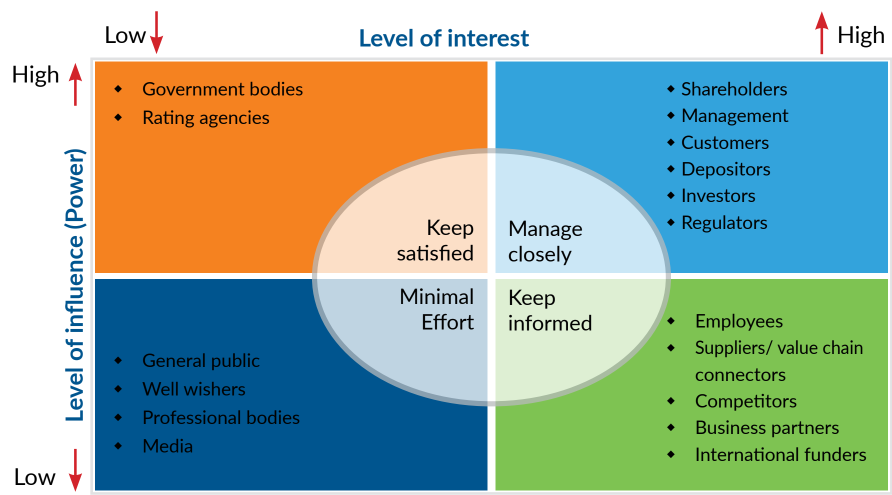
Sustainable value creation is underpinned by our ability to effectively identify and respond to the diverse needs of our stakeholders. In order to do so, we engage proactively with our stakeholders on an ongoing basis and feedback obtained from these engagement methods form a vital input in strategy formulation. Our approach to stakeholder engagement embodies the three key principles of significance, completeness and responsiveness and is graphically illustrated below.



Stakeholder identification

We engage with stakeholders who potentially have the most significant impact on our value creation process and those who are affected most by our activities. This is determined based on the level of interest and influence they have in our business, which is illustrated in the Interest-Power matrix below. The matrix also depicts how each stakeholder category should be managed.

Stakeholder Interest-Power Matrix



AFC's key stakeholder groups, engagement methods and key topics of interest raised during the year are set out in the following pages.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Context and Strategy

Stakeholder	How we engage	Areas of interest/expectations in 2016/17	Stakeholder management approach and response
Shareholders	• AGM and Annual Report (annually) • Interim financial statements (quarterly) • Corporate website (continuous basis) • Announcements to the CSE (continuous basis) • Press releases (continuous basis)	• Sustainable growth • Adequate risk return balance • Corporate governance and risk management frameworks • Corporate reputation and brand • Transparency and credibility of disclosures	We provide our shareholders with timely, relevant and complete information to facilitate effective and informed decision making **Relevance to Strategy:** Growth, Profitability, Social Sustainability, Environmental Sustainability
Customers We serve approximately 117,534 credit and deposit customers across the island	• Customer satisfaction survey (bi-annually/ quarterly) • Customer relationship management function (continuous) • Customer exit surveys in microfinance (annual) • Customer hotline (continuous) • Customer education programmes (continuous) • Online and social media platforms (continuous)	• Value for money • Convenience and accessibility • Innovative product offerings • Security of deposits • Ease of transacting • Quality of service	Our customer value proposition is based on personalised service, innovative products and trust. **Relevance to Strategy:** Growth, Social Sustainability, Environmental Sustainability
Employees Our team comprises 1,222 individuals recruited from across the island	• Stakeholder feedback survey (annual) • Performance appraisal (annual) • Multi-level staff meetings (continuous) • Open door policy (continuous) • Training need assessment (annual) • Social media platforms (continuous) • Work-life balance initiatives (continuous)	• Competitive remuneration • Equal opportunity • Opportunities for skill development and career progression • Work-life balance	We seek to provide ongoing opportunities for skill and career development in a dynamic and challenging work environment **Relevance to Strategy:** Growth, Profitability, Social Sustainability

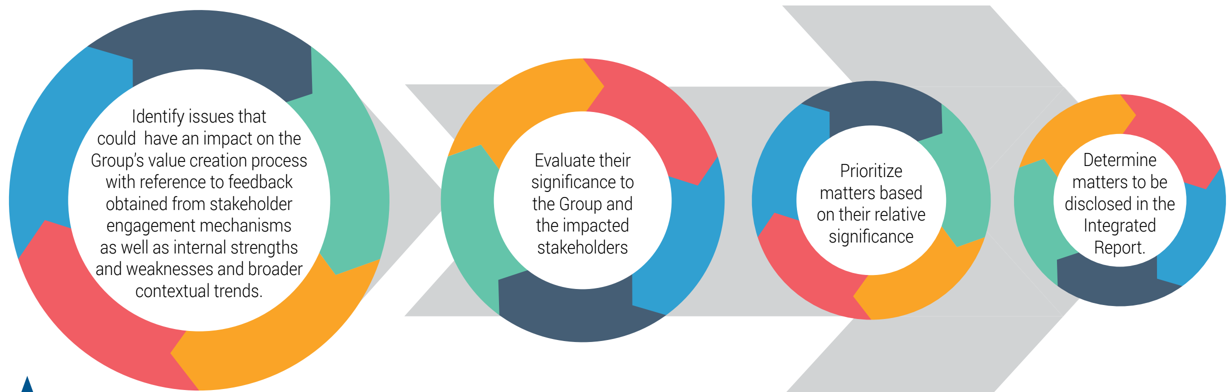
Stakeholder	How we engage	Areas of interest/expectations in 2016/17	Stakeholder management approach and response
Business Partners and Suppliers We have partnered with diverse sets of suppliers who are an integral part of our business	• Direct dialogue (continuous) • Service quality survey (annual) • Stakeholder feedback survey (annual)	• Ease of transactions • Business expansion • Capacity building and financial support • Equitable and on-time payments	We strive to nurture long-term partnerships with our diverse supplier base and propagate sustainable business practices along our supply chain **Relevance to Strategy:** Growth, Profitability Social sustainability
Regulators/ Government Bodies Our main regulators are the Central Bank of Sri Lanka, the SEC and CSE.	• Regulatory reporting (continuous) • CBSL audits (annual) • Special meetings for regulatory clarifications (continuous) • Press releases and CSE disclosures (continuous)	• Good governance and compliance • Sustainable business practices • Ethical business	Growth, Profitability, We engage in a productive and constructive dialogue with our 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	• CSR initiatives (periodic) • Press releases and publications (continuous) • Engagement through branches (continuous)	• Employment generation • Livelihood and community development • Commitment towards preserving the environment	We maintain cordial and mutually respectful relationships with the communities in which we operate. **Relevance to strategy:** Environmental sustainability, Social sustainability

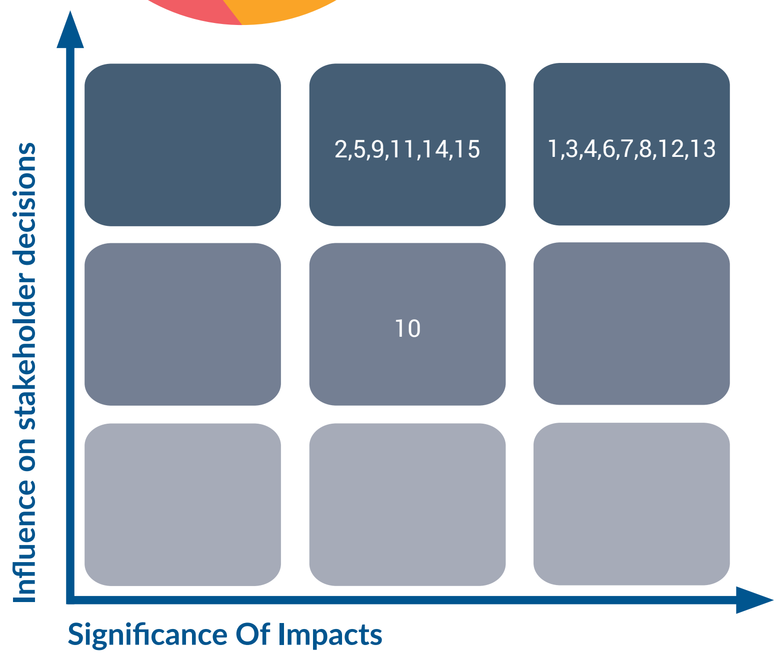
MANAGEMENT DISCUSSION AND ANALYSIS

Operating Context and Strategy

Defining Report Content

In determining the content to be included in this Report, we have conducted a materiality analysis which reflects the issues which could potentially have the most significant impact on our ability to create value. The material aspects listed below reflect the feedback obtained from our stakeholder engagement mechanisms, market dynamics as well as the Group's overarching strategic agenda. The Group conducts the materiality assessment on an annual basis, and this year, we have expanded the scope of our material aspects by looking beyond the aspects prescribed by the GRI framework and including issues that are specific to our industry and strategic agenda. We have also clearly identified how these selected material aspects correspond to the aspects prescribed by GRI and how these issues link to our strategy.





Materiality Matrix

	Material Aspect	Corresponding GRI Aspect	Aspect Boundary	Reference in Report (Pages)
Strategic Priority: Growth				
1	Financial performance	Economic Performance	Internal	88-93
2	New product development	-	Internal	104
3	Employee value proposition	Employment, Training and education, Labour management relations, Equal remuneration for men and women, Labour practices and decent work	Internal	96-103
4	Branch reach	-	Internal	94,96
5	Brand awareness	-	External	81
Strategic Priority: Profitability				
6	Operational efficiency	-	Internal	79-87
7	Employee productivity	-	Internal	9
8	Portfolio quality	-	Internal	91
9	Portfolio diversification	-	Internal	79-80
Strategic Priority: Environmental Sustainability				
10	Minimising our environmental impact	Energy, water, raw materials, waste and effluents, carbon footprint, Compliance (EN)	Internal/external	115-119
11	Environmental screening	Supplier environmental assessment	Internal	110
Strategic Priority: Social Sustainability				
12	Responsible lending practices	Product & Service labelling, Marketing communications, Customer privacy, Compliance-PR	Internal	81,107
13	Customer education	-	External	85,108
14	Supplier relationships	-	External	110
15	Community engagement	Local communities	External	111-113

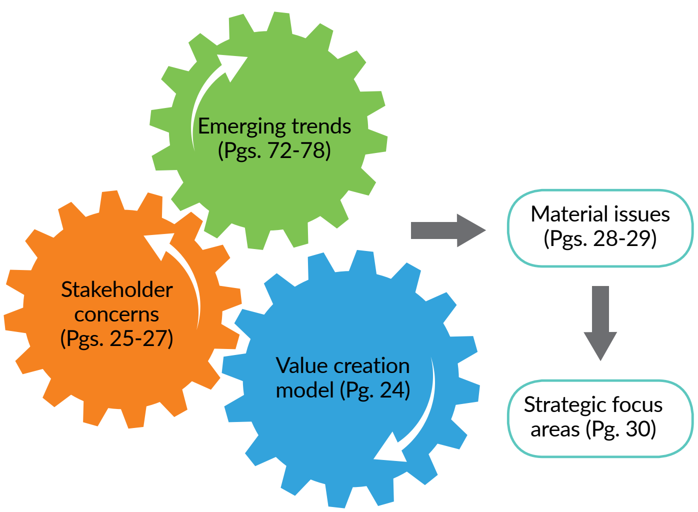
MANAGEMENT DISCUSSION AND ANALYSIS

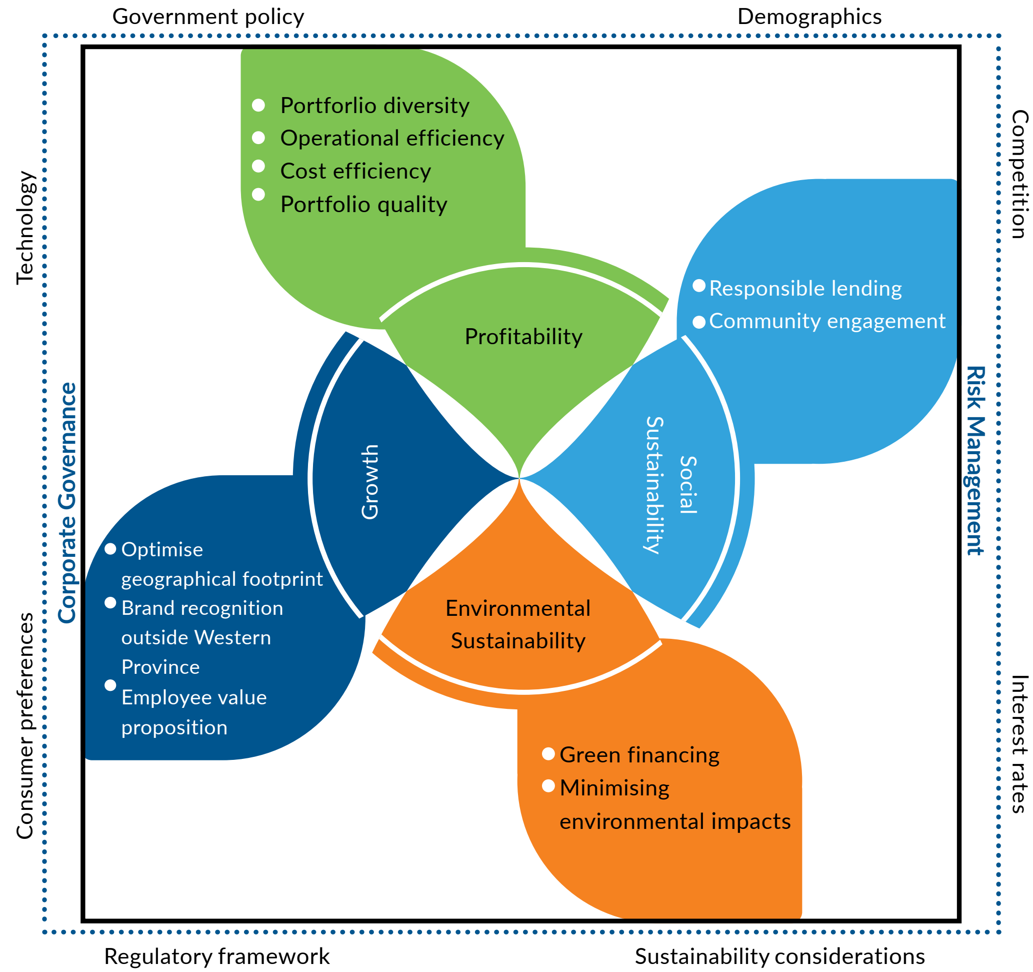
Operating Context and Strategy

Our Strategy

Strategy determination process

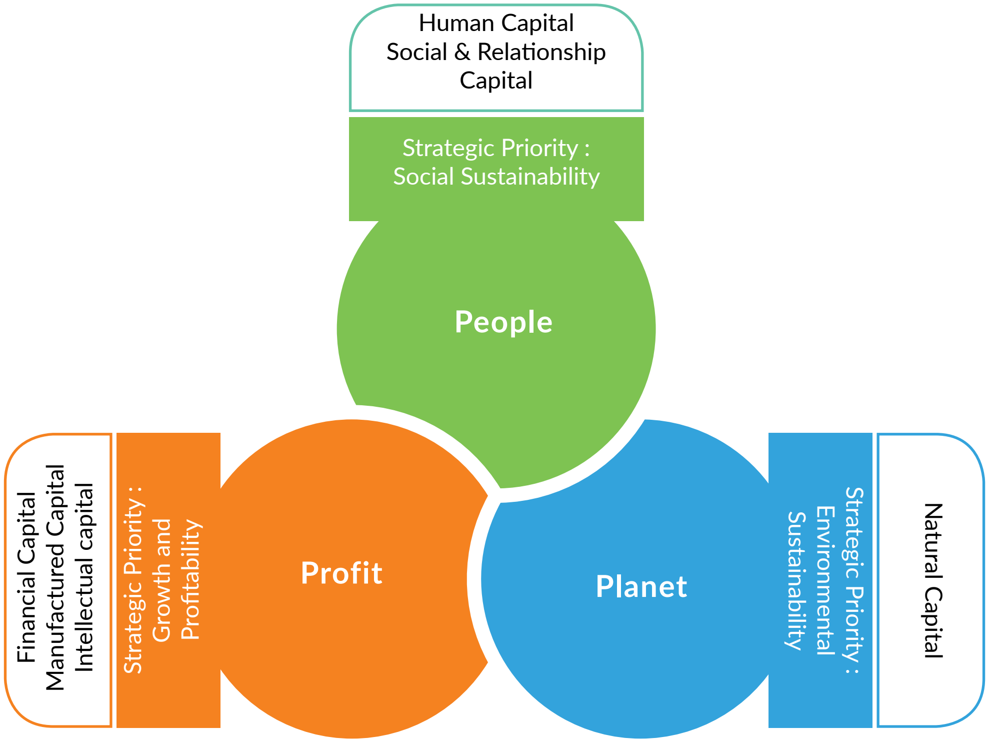
The Group's strategic plan for 2016-2019 builds on the foundation put in place by the Strategic plan for 2012-2015, and was formulated following extensive stakeholder engagement and an evaluation of AFC's unique strengths. Strategy is also informed by emerging opportunities and threats in the operating landscape. The Group's strategic plan clearly identifies four strategic objectives with defined performance indicators and time plans for achievement.





Our Approach to Sustainability

Social and environmental sustainability are two key pillars of the Group's strategic agenda and embodies the Group's commitment towards the triple bottom line approach. In recent years, we have sought to increasingly embed sustainability considerations into our business operations, in order to effectively respond to emerging sustainability dynamics and minimise our social and environmental impacts. As a financial services organisation, we believe our most significant contribution towards environmental and social sustainability is through our lending practices. The planned implementation of an integrated Environmental and Social Sustainability Management System (ESMS) in the next financial year is expected to transform the way we do business, by introducing social and environmental KPIs and driving employee awareness on sustainability considerations.



MANAGEMENT DISCUSSION AND ANALYSIS

Operating Context and Strategy

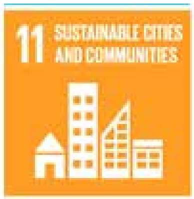
Our Commitment to the Sustainable Development Goals

In September 2015, leaders from 193 states adopted the United Nations Sustainable Development Goals, galvanizing global efforts to end poverty, promote prosperity and protect the environment. Governments, private sector entities and all communities are expected to play a contributory role in the achievement of these goals and as an Organisation we are exploring how we can contribute most effectively ourselves. The infogram below lists out the goals which are of greatest relevance to us and how we are currently contributing towards the achievements of these targets.

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

Through our “tree for a lease” initiative, AFC has planted 15,800 trees to date. We also hope to introduce 300 eco-friendly three wheelers with a gas conversion kit.

We have a high female participation rate of 21% in our team. Through our micro-financing initiative we empower women, contributing to their socio-economic progress



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

We place an ongoing focus on developing the skills of our employees through on the job training and opportunities for external training.

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

4 QUALITY EDUCATION

8 DECENT WORK AND ECONOMIC GROWTH

Relevance to our operations

1 NO POVERTY

10 REDUCED INEQUALITIES

Through our group based microfinance and EDS programmes we contribute towards economic and social empowerment, thereby alleviating poverty through financial inclusion

Spearheading socio-economic progress

Contributing to the economic growth of the nation is of fundamental importance to us. We place special emphasis on enabling financial inclusion and equitable wealth creation outside the Western Province while simultaneously prioritising the building of a truly sustainable Triple Bottom Line business.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STEWARDSHIP

Board of Directors

Mr. Sunil Karunanayake
Chairman

Mr. Romani de Silva
Deputy Chairman/ Managing Director

Mrs. R.N. Ponnambalam
Non-Executive Director

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

Mr. Mahinda Gunasekara
Executive Director - Sustainability

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

Mr. Kusal Jayawardana
Consultant Director Finance and Operations

Mr. Sunil Karunanayake

Chairman

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

Mr. Romani de Silva

Deputy Chairman / Managing Director

A Fellow Member of the Institute of Credit Management, Sri Lanka, Mr. Romani de Silva holds Directorates in many companies. He possesses almost 30 years of experience in the finance Industry. He is the pioneer of Collaboration Financing, a unique financing concept designed to provide finance for entrepreneurs to expand businesses. The creation of this concept resulted in Alliance Finance becoming the first and only finance company in Sri Lanka to be awarded the ISO 9001 Certificate for designing business specific financial solutions. He was also awarded two Bronze Awards for this innovation at Provincial and National Level at the “Sri Lanka Entrepreneur of the Year 2001” contest. He is a Life Member of the Sri Lanka Institute of Directors and the Chamber of Young Lankan Entrepreneurs.

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

Independent Non-Executive Director

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

Mrs. R. N. Ponnambalam

Non-Executive Director

She has held several senior management positions in large private sector entities and has served as a Director of McLarens Holdings Ltd. Mrs. Ponnambalam currently serves as the CEO/ Managing Director of Macbertan (Pvt) Ltd. and as a Non-Executive Director of Hotel Services (Ceylon) PLC & Amaya Leisure PLC. She has served in key roles in international negotiations for securing and development of business opportunities of international repute for expansion and growth of local business enterprises. She is also a holder of Diploma in Directorship from the prestigious Singapore Management University (SMU).

Mr. Mahinda Gunasekera

Executive Director - Sustainability

Mahinda Gunasekera has 30+ years of experience in the fields of Microfinance, SME finance, livelihood development, and agribusiness in Sri Lanka, Afghanistan, Bangladesh and Nepal. In addition he has short term work experience in Tajikistan, Bangladesh, Philippines, Thailand, Japan, and the United States. Over that period he worked for large governmental organizations such as US Agency for International Development and undertook specialist assignments with the World Bank/ IFC, the Asian Development Bank and US based INGOs/ PVOs.

STEWARDSHIP

Board of Directors

He is an expert in the rural finance sector and SME sector development and was a long term MF and SME consultant as well. As a Banking and Finance Expert for ADB, he also has extensive experience in institutional, due-diligence and performance analysis of several dozens of Commercial Banks, Development Banks and MFIs in Asia.

was been a Managing Director/CEO of three MFIs, one in Afghanistan and the other two in Sri Lanka. Mahinda holds an MBA, B. SC, Agriculture and Microfinance training from the University of Colorado, USA.

Dr. L. A. P. Medis

Consultant Marketing Director

Dr. Ajith Medis has served AFC as Board Consultant Marketing prior to be appointed as Consultant Marketing Director in August 2016. He has considerable experience in the field of marketing and sales, which is his forte and has served in many different capacities in the NBFI sector. Currently he is attached to the academia of the University of Kelaniya. Training of staff in marketing is another one of his core strengths.

Dr. Medis holds a doctorate in Strategy from Management and Science University, Malaysia, Bachelor of Commerce (Special) Honours Degree from the University of Kelaniya, Postgraduate Diploma in Marketing from CIM (UK), MBA from the University of Sri Jayewardenepura and is also a Certified Management Accountant of Australia.

Mr. Kusal Jayawardana

Consultant Director Finance and Operations

Kusal brings nearly 20 years of experience in investment banking, corporate finance, credit and operations. He was appointed to the Board of AFC in April 2017 as Consultant Director – Finance and Operations. He was involved and has lead deal teams in introducing a number of innovative capital market products to Sri Lanka and Bangladesh which includes different types of securitization structures, convertible securities and derivatives and executing several landmark capital market transactions. Kusal played a key role in setting up NDB Capital Limited, Bangladesh and Emerald Sri Lanka Fund, the first private equity country fund to be set up in Sri Lanka.

His notable previous engagements include Managing Director/CEO of NDB Capital Limited, Bangladesh and Chief Operating Officer of NDB Capital Holdings Limited. Kusal was a Director of a number of listed and private companies including Resus Energy PLC, Panasian Power PLC, Lanka Communication Services Limited, Prosperous Capital and Credit Limited, Liege Capital Partners (Private) Limited and NDB Capital Limited.

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

Kusal also acts as a lecturer, trainer and consultant in corporate finance and strategy.

STEWARDSHIP

Corporate Management

Mr. E.C.S.R. Muttupulle
Chief Operating Officer

Michael J. Benedict
Chief Risk Officer

Chamindra De Silva
Chief Financial Officer

Andrew Samuel
Head of Microfinance/Chief Continuous Improvement Officer

Aruna Rodrigo
AGM - Credit

Sujith Lakshan Fernando
Deputy Financial Controller – Corporate Planning / Business Support

Chathura Prasanna Sandaruwan
Assistant General Manager - Internal Audit

Champa Nakandala
Assistant General Manager Deposit

STEWARDSHIP

Corporate Management

Sanjaya Seneviratne
Assistant General Manager - Treasury

Roshan Rathnayaka
Assistant General Manager - RFS

Prasanna Shyam Peiris
Assistant General Manager - RFS & Gold Loan

Prabhath Rangajeewa
Head of Gold Loan

Sujan Cooray
Assistant General Manager - RFS - Unit II

Hilary Calistus
Assistant General Manager - Recoveries

STEWARDSHIP

Senior Management

Prasad Sanjeewa
Regional Manager

Viduppriya Priyanga Fernando
Regional Manager

Rohan Silva
Assistant Manager Administration

S.S.Sathiyadaran
IT Consultant

Anton Perera
Consultant Head of Department HR

Ranil Perera
Manager - Branch Operations & Performance

Lolita Perpetual June Papalie
Manager - Deposits

Achala Wanniarachchi
Manager - Legal

STEWARDSHIP

Senior Management

Ganeshalingam Mathieswarann
Manager - MIS

Lakmal Maniksagara
Manager - QM & BCMS

Daminda Malawiarachchi
Manager-Human Resources

Udaya Suranjith
Regional Manager

Saman Palitha Medagoda
Regional Manager

Chamara Asela Priyadarshana
Regional Manager

Isanka Gayan
Regional Manager

Wasantha Kumara Maldeniya
Regional Manager


Sujith Udara
Regional Manager


Lasantha Candappa
Regional Manager


Thanubaalasingam Kumarathas
Regional Manager


Nohan Krishantha
Regional Manager


Mallike Jayathilaka
Regional Manager (Senior Manager)


Asoki Ferdinands
Senior Manager


Chrishanthi Wavita
Senior Manager - Deposit


Dillon Thajudeen
Senior Manager - Marketing & Deposits

STEWARDSHIP

Senior Management

Thamara Sandya Kumari Rathnayaka
Senior Manager Finance

Duminda Neranjan
Acting Senior Operation Manager

Dharshana Sampath de Silva
Acting Senior Operation Manager

Daniel Saththiyendra
Regional Manager

Kapila Bandara
Acting Regional Manager

Manoj Prasanna Siriwardana
Senior Manager - Marketing

Suresh Motha
Head of Risk Team

Buddhika Koduthuwakku
Manager Credit Finance Risk

Selvarathnam Nishanthan
Regional Manager

Tiran Abeysekara
Operational Manager

Bolstering community development

From helping the unemployed find self-employment to facilitating the creation of a sustainable agro-economy through the provision of transport solutions to enabling the social well-being of our people and finally, promoting business practices that respect and enhance the well-being of the earth and the environment, our financial products and services are geared towards helping the community elevate their quality of life.

STEWARDSHIP

Corporate Governance

Sound corporate governance practices are fundamental in ensuring sustainable value creation and as an organization we are committed to upholding the highest standards of integrity, accountability and transparency. In addition to the legal requirements, the Company's corporate governance framework embraces best practices, complies with voluntary frameworks and provides a strong foundation for managing our economic, social and environmental risks. Our corporate governance framework is based on the following internal and external steering instruments;

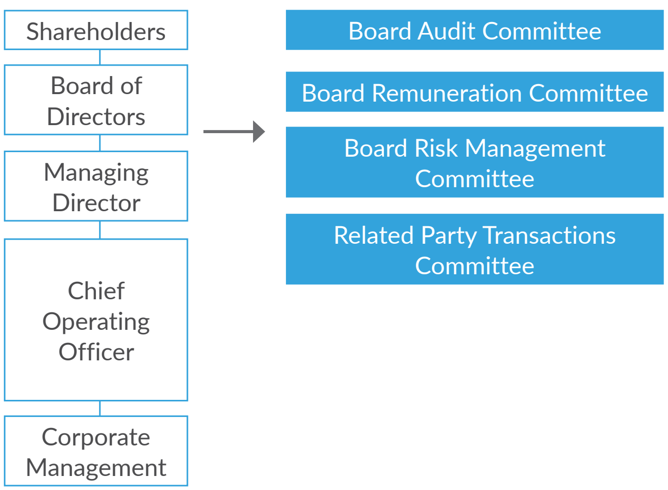
External instruments	Internal standards and principles	Governance mechanisms
Companies Act No. 07 of 2007	Articles of Association	
Finance Business Act No.42 of 2011	Board and Sub-Committees Charter	Stakeholder engagement; Risk management and compliance
Finance Leasing Act No. 56 of 2000	Code of Ethics	
All directions for licensed finance companies issued by the Central Bank of Sri Lanka including the Corporate Governance Direction No. 3 of 2008	Code of Conduct	Talent management; Risk management and compliance
Continuing listing requirements of the Colombo Stock Exchange	Integrated Risk Management Framework	
Mortgage Act No. 6 of 1949	Board approved policy framework	IT governance; Investor relations
G4 Standards for Sustainability Reporting issued by the Global Reporting Initiative		

We are committed to upholding the highest standards of integrity, accountability and transparency.

An Effective Board

The Company's Board comprises of Seven Directors of whom Five operate in a Non-Executive capacity, of the Five Non-Executive Directors two are independent. Full profiles of the Directors are available on pages 37 to 38 of this Report. The Board is diverse in terms of skills, experience and industry exposure thereby leading to constructive debate and discussion on key aspects enhancing the overall effectiveness of the Company. The Board is supported by four sub committees in discharging of its duties, as graphically illustrated below. The composition, responsibilities and activities of the Committees during the year given on page 123 to 130 of this Report.

An Effective Board



Regular Meetings

The Board convenes regularly and met 12 times in 2016/17. A calendar of all meetings is drawn up to ensure maximum participation at meetings and the notices of all Board meetings are given at least seven days prior to the holding of the meeting, thereby ensuring adequate time for Members to prepare. Meeting agendas and Board papers are circulated to all Board Members prior to the meeting. Attendance at Board meetings is given on page 130 of this Annual Report. Directors are supplied with comprehensive and timely information that is required to discharge their duties effectively. Quantitative and qualitative information which includes performance against objectives, stakeholder relationships, progress on achieving strategic objectives and risk indicators are furnished to all Directors prior to Board/Sub-Committee meetings

Chairman and Managing Director

In line with best practice, the role of Chairman and MD has been separated to ensure appropriate balance of power and authority. The Chairman is a Non-Executive Director whilst the MD functions as an Executive Director. There is no financial, business, personal or other relevant material relationship between the Chairman and the MD.

Accountability and Audit

The Board holds apex responsibility in presenting a balanced and accurate assessment of the Company's financial position, performance and prospects. Interim performance reports are circulated to the CSE within 45 days of each quarter end whilst other price sensitive information is disclosed in accordance with the reporting requirements prescribed by the Colombo Stock Exchange and the Central Bank of Sri Lanka. The Company's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. Furthermore, the Company's Annual Report conforms to the G4 guidelines on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. Director's responsibility with regards to financial statements is given on page 128 of this Annual Report.

STEWARDSHIP

Corporate Governance

CSE Rule Ref.	Status of Adherence
7.10 (1)	
Non Executive Directors to be at least 2 or 1/3 of the total number of Directors whichever is higher	Four Non Executive Directors on the Board of the total Board of Directors of six.
7.10 (2)	
Independent Directors to be at least 2 or 1/3 of the total number of Non Executive Directors. Submission of Declaration	Two Directors are Independent of the four Non Executive Directors. The four Non Executive Directors have furnished the required declaration.
7.10(3) a	
Names of Independent Directors	Mr. Sunil Karunanayake Lt. Col. (Retd) A.R. Samarasinghe
7.10(3) b	
	The criteria of independence has been met by both Independent Directors and there are no qualifying statements. None of the Non Executive Directors have served on the Board for over 9 years.
7.10(3) c	
Publish a resume of each Director on the Board.	Refer page 37 and 38
7.10(3) d	
Appointment of new Director	A new Director was appointed on the Board and the necessary approvals were obtained and the required disclosures were made

CSE Rule Ref.	Status of Adherence
7.10 (5)	
Remuneration Committee	
(a) Composition	Four Non Executive Directors of which two are independent. The Chairman is an Independent Non-Executive Director makes recommendations to the Board of proposed remuneration for Executive Directors.
(b) Functions	Makes recommendations to the Board of proposed remuneration for Executive Directors.
(c) Disclosures	Names of the Directors of the Remuneration is set out on page 268. Refer page 224 for aggregate remuneration paid to Directors and Key Management Personnel of the Company.
7.10(6)	
Audit Committee	
(a) Composition	Comprises of two independent Non-Executive Directors. The Chairman of the Committee is a member of ICASL.
(b) Functions	The Committee is assisted by internal and external auditors and secretaries and the functions conforming with the detailed outline given in the CBSL guidelines and CSE guidelines.
(c) Disclosures	Refer page 36 for the names of Directors. The Audit Committee Report appears on page 129.

STEWARDSHIP

Corporate Governance

CBSL Corporate Governance Compliance

Description and paragraph reference	Ref code	Degree of compliance
Responsibilities of the Board - paragraph 2		
Approving business strategy, strategic direction for 3 years, risk policy and management with measurable goals for at least three years and communication thereof	2 (1) a & b	Complied
Identification and management of risk prudently.	2 (1) c	Complied
Approving a process of communication with all stakeholders.	2 (1) d	Complied
Review adequacy and the integrity of internal control systems and MIS	2 (1) e	Complied
Identification and designation of key management personnel	2 (1) f	Complied
Defining areas of authority and key responsibilities for the board and key management	2 (1) g	Complied
Ensuring that key management personnel oversee the affairs appropriately.	2 (1) h	Complied
Assessing effectiveness of governance practices including nomination/ selection of Directors & key management, managing conflict of interests, determining weaknesses and effecting changes	2 (1) i	Complied
Periodically assessing the effectiveness of the governance practices ensuring that there is a succession plan for key management personnel.	2 (1) j	Complied
Meeting regularly with key management personnel to review policies, establish lines of communication and monitor progress.	2 (1) k	Complied
Understanding the regulatory environment	2 (1) l	Complied
Exercising due diligence in hiring and oversight of external auditors.	2 (1) m	Complied
Board shall define and approve the functions of chairman and chief executive officer (Managing Director functions as CEO)	2 (2)	Complied
Procedure to enable the directors to seek independent professional advice upon reasonable request.	2 (3)	Complied
Director shall abstain from voting on any Board Resolution where he is interested	2 (4)	Complied
Board shall have a formal schedule of matters reserved to it and ensure that direction and control is under its authority	2 (5)	Not Applicable
Finance Company being unable to meet its obligations or is about to become insolvent if applicable to make public disclosure	2 (6)	Complied
Board shall include in Annual Report a corporate governance report setting out compliance with this Direction	2 (7)	Complied
Board shall adopt a scheme of Self-assessment to be undertaken by each Director annually and maintain such records.	2 (8)	Complied

Description and paragraph reference	Ref code	Degree of compliance
Meetings of the board - Paragraph 3		
Board shall meet twelve times in a financial year.	3 (1)	Complied
Arrangements for the Directors to add agenda items pertaining to the promotion of business and the management of risks.	3 (2)	Complied. Agenda is circulated in advance permitting time for changes.
At least seven days notice for the regular board meetings and reasonable notice for other meetings.	3 (3)	Complied
A Director shall attend at least 2/3 of the meetings and shall cease to be a Director if he/she has not attended the immediately preceding three consecutive meetings	3 (4)	Complied
Appointment of Company Secretary to handle statutory, regulatory and secretarial services.	3 (5)	Complied
Preparation of the agenda for a board meeting by Company Secretary.	3 (6)	Complied
Directors' access to advice and services of the Company Secretary.	3 (7)	Complied
Maintenance of minutes of board meetings by the Company Secretary and make it available for inspection by any Director.	3 (8)	Complied
Recording of the minutes of board meetings with sufficient detail to gather whether the board acted with due care and prudence in performing its duties	3 (9)	Complied
Composition of the Board- Paragraph 4		
Directors on board shall not be less than 5 and not more than 13	4 (1)	Complied
Period of service of a Director other than an Executive Director shall not exceed nine years.	4 (2)	Complied
Number of Executive Directors shall not exceed one-half of the number of directors on the Board.	4 (3)	Complied. Of the six members on the Board four are Non Executive Directors
The Number of independent Non-Executive Directors of the Board shall be at least one fourth of the total number of Directors.	4 (4)	Complied. Two Directors are Independent Non-Executive.

Corporate Governance

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

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

STEWARDSHIP

Corporate Governance

Description and paragraph reference	Ref code	Degree of compliance
Shall have authority to set the scope for the annual audit and assess the compliance, preparation of the financials in accordance with accounting principles	8 (2) f	Complied
Review the financial statements of the Company and ensure integrity of the annual report and financials prepared focus on major judgmental areas, changes in accounting policies and practices, significant adjustments arising from audit, going concern assumption, compliance with relevant accounting and legal requirements	8 (2) g	Complied
To discuss matters relating to the interim and annual audits	8 (2) h	Complied
Review the Management Letter	8 (2) i	Complied
Internal Audit Function	8 (2) j & o	Complied. Covered in a separate report
To meet with the External Auditors once in 6 months	8 (2) l	Complied
Annual Report to disclose activities of the Audit Committee, Audit Committee meetings and attendance of each individual member.	8 (2) m & p	Complied
The Secretary shall record and keep detailed minutes.	8 (2) n	Complied
Review arrangements for employees to raise concerns in confidence about financial reporting and internal control and ensure fair and independent investigation and appropriate follow up action.	8 (2) q	Complied
Risk Management Committee	8 (3)	
Consists of one Non-Executive Directors, MD and Key management personnel.	8 (3) a	Complied
Assess all risks on a monthly basis using risk indicators and MIS.	8 (3) b	Complied
Review adequacy and effectiveness of all management committees and the management of risks.	8 (3) c	Complied
The actions to mitigate the effects of specific risks if such risks are beyond the internal policy or regulatory limits.	8 (3) d	Complied
Shall meet at least quarterly to assess risk management and BCP.	8 (3) e	Complied
Submit risk assessment report within a week of each meeting for the board's review and specific directions.	8 (3) g	Complied
Establish compliance function with a Compliance Officer to report about compliance with laws, rules, regulations & directions etc.	8 (3) h	Complied
Related party transactions – Paragraph 9		
Board shall avoid any conflict of interest from any transaction with any person and particularly with persons considered as related parties.	9 (2)	Complied
Board shall ensure that the Company does not engage in transactions which would grant a related party "more favourable treatment" than is accorded to other constituents.	9 (4)	Complied

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

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

(Sgd.)
Alliance Management Services (Pvt) Ltd.
Secretaries
30th May, 2017

Uplifting the fisheries sector

We are committed to supporting financial inclusion and spearheading social upliftment across the board. The fisheries sector is one particular industry that we pay special attention to. Among our myriad offerings are leasing, loan and saving solutions tailor-made to elevate the quality of lives of workers in the fisheries' sector and facilitate a stable and promising future for them.

STEWARDSHIP

Risk Management

Sustainable value creation is underpinned by proactive and robust risk management frameworks, and the understanding that our operations are fundamentally about managing risk is rooted in AFC's organisational culture. Increasing dynamics in the industry makes it imperative that we proactively identify, measure and manage evolving risks. This report provides a concise yet holistic understanding of the integrated risk management framework in place within the Company and key aspects of our risk performance during the year.

In keeping this Report concise and relevant to the year under review, we have focused on developments during the year, while the Company's policies, procedures and management approach are discussed in summary form.

Highlights of 2016/17

Culture of responsible lending and an improvement in the Gross NPL ratio to 2.11%	**Compliance to all regulatory requirements**	**Exposure limits on high risk products such as group microfinance and gold loans**	**No significant operational losses during the year**
	Proactive and robust risk management		
Diversified funding portfolio	**Statutory liquid asset ratio of 12.11%**	**Capital adequacy ratio of 12.1%**	**Board approved strategic plan in place**

Risk governance

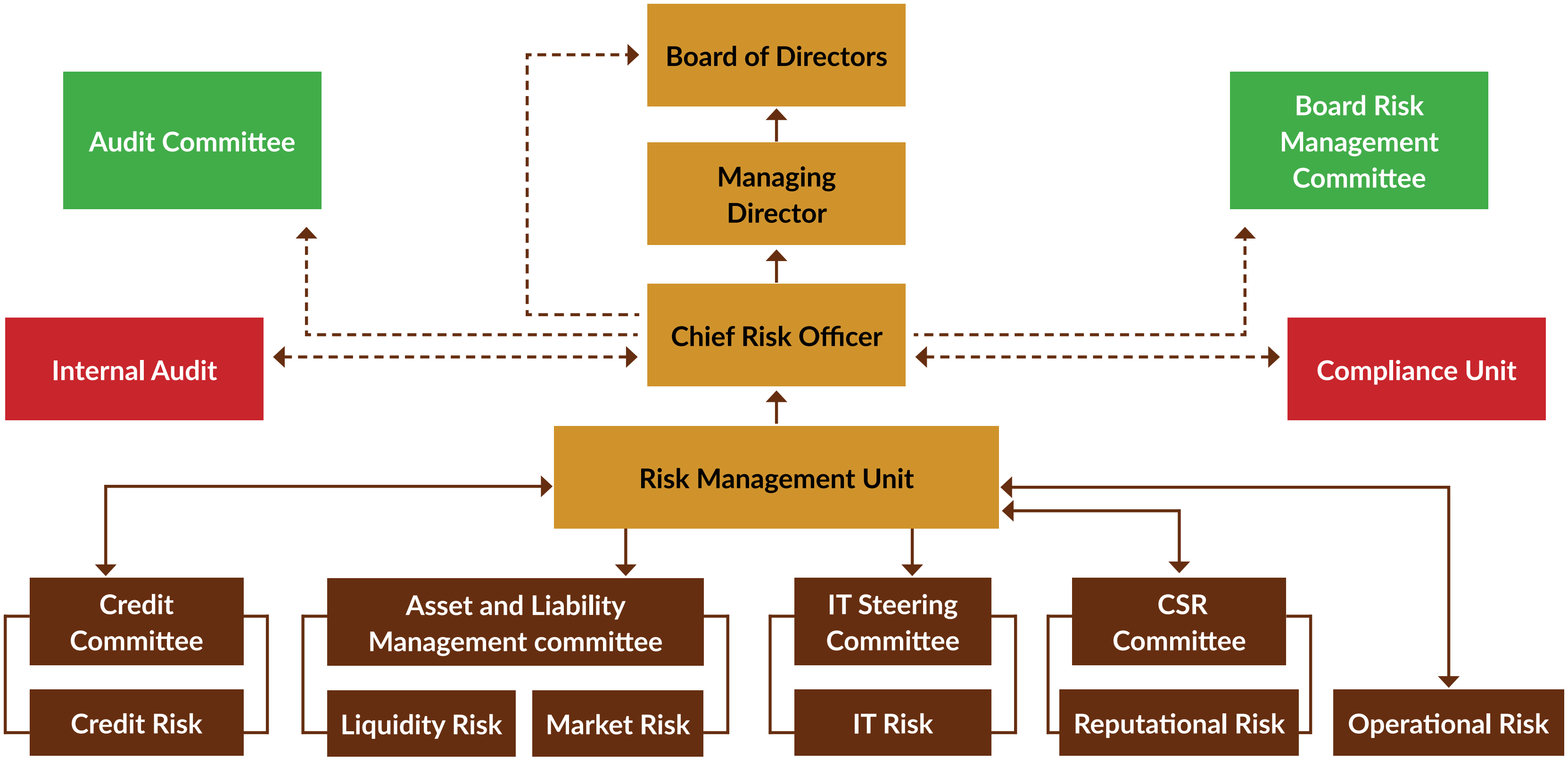
Apex responsibility for ensuring that the Company's risk profile is maintained within pre-determined parameters lies with the Board of Directors. The Board is thus responsible for determining the Company's risk appetite, formulating the relevant policy frameworks, monitoring the Company's risk profile on an ongoing basis and ensuring the adequacy and effectiveness of the risk management processes and procedures in place. The Board is supported by the Board Risk Management Committee (BRMC) in its risk management functions (please refer to the Committee Report on pages 129-130 for details composition and activities of the BRMC)

The Risk Management Committee

The executive responsibility for managing risks lies with a dedicated Risk Management Committee (RMC) which is represented by the CRO, CFO, Chief Continuous Improvement Officer and the Heads of Divisions. The RMC is responsible for reviewing the risk profiles of their respective divisions, engaging employees in brainstorming sessions and formulating actions plans for current and potential risks.

Risk Management Department

Headed by the Chief Risk Offier, the Risk Management Department functions independently from profit and volume targets and is responsible for identifying, analyzing, evaluating, mitigating and monitoring of the Company's overall risk profile. Other responsibilities include, assessing all risks that affect the Company in a timely manner, identifying and analyzing key risk exposures and ensuring that risk mitigation techniques are adequately implemented.


Board of Directors
Managing Director
Audit Committee
Board Risk Management Committee
Chief Risk Officer
Internal Audit
Compliance Unit
Risk Management Unit
Credit Committee
Credit Risk
Asset and Liability Management committee
Liquidity Risk
Market Risk
IT Steering Committee
IT Risk
CSR Committee
Reputational Risk
Operational Risk

Risk Management

Risk management framework and approach

AFC has implemented an Enterprise Risk Management (ERM) framework which underpins the foundation for managing risk and clearly defines the standards, tools and activities required to identify, measure, manage and report all risk exposures. A comprehensive framework of policies ensures the consistency and clarity in the identification, measurement and management of key risks. Clearly defined roles and responsibilities, both at Board and Executive Committee level ensure independence of judgement and judicious empowerment.

The goals and objectives of the ERM are as follows;

- To provide a policy and organisational structure for risk management
- To define risk management roles and responsibilities within AFC and outline procedures to mitigate risks
- To ensure consistent and acceptable management of risks throughout the business
- To define a reporting framework to ensure effective communication
- To constantly adapt to the changing risk management needs of AFC while maintaining control of the overall risk position
- To detail the approved methods for risk assessment
- To implement a system that ensures that risk management information is captured, monitored and reported efficiently

The three lines of defense model

The Company's risk management framework is based on the globally accepted three lines of defense model, which ensures the clear segregation of duties as well as transparency and accountability in risk management.

First line of defense

- The identification, management and reporting of risks at business unit level, ensuring that specific risks are managed at the source as effectively as possible
- Responsibility of the Divisional Heads and Risk Coordinators

Second line of defense

- Centralised oversight of the first line of defense by the RMC

Third line of defense

- Provides independent and objective assurance on the risk exposures, processes and practices in place.
- Responsibility of the Board of Directors, Audit Committee, Internal Audit and External Audit functions

RISK STRUCTURE & LINE OF DEFENSE

	Members	Meeting Frequency	Related Document
Board Risk Committee 3rd Line of Defense	Appropriate Members of Board of Directors	Monthly,Quarterly, Annually	Risk
Risk Management Committee 2nd Line of Defense	Executive Level Members / All Heads of Divisions	Quarterly, Monthly	Risk score Card, Risk Meeting Minutes
Daily Risk Management 1st Line of Defense	Divisional Level Risk Coordinator	Monthly, When Required	Risk Sheet

Risk Management Process

Establish the context → Risk identification → Risk analysis → Evaluate and prioritise risk → Manage and report

Risk context: This comprises setting the risk context against the backdrop of the operating environment, the Company's strategic priorities and the emerging internal and external trends.

Risk identification: Potential risks are identified at business unit level at least on an annual basis through various risk identification methods.

Risk analysis

A range of quantitative and qualitative tools are used to measure the impact of the identified risk exposures. These methods include analytical review, scenario and what-if analysis, stress testing, inquiry and confirmation among others. Risk Analysis is also conducted at Business Unit level and verified by the Risk Management Division.

Evaluate and prioritise risk

All identified risks are analysed for their potential impact and likelihood. Accountability is assigned to the person who is best able to make appropriate decisions depending on the individual's level of competence, authority, responsibility and available resources to manage the risk in question

Manage and report:

Structured risk reporting processes ensure that the Board and the BRMC is kept updated on the Company's risk profile on a continuous basis. Additionally, the Risk Management division also compiles various risk evaluation reports for the decision making process. Further, the compliance report is submitted to the Board on a quarterly basis.

Risk Management

Risk universe

The Company's operations give rise to a range of risk exposures comprising those that can directly be managed by the Company and risks which are typically beyond the Company's control. These risks are monitored to assess the potential impact on capital. The Company's key risk exposures can be categorized as follows;

Risk Universe						
Managed by AFC						
Risk type	Financial risk			Other Risks		
Risk exposure	Credit risk	Liquidity risk Funding risk	Market risk	Strategic risk Reputation risk	Operational risk	Compliance Risk
Monitored by AFC to assess impact						
Risk type	Geopolitical	Macro-economic	Regulatory			

Risk performance in 2016/17

Credit Risk

Credit Risk is defined as the potential losses to earnings and/or capital arising from the inability of customers, clients or market counterparties to fulfil their contractual obligations to AFC. Credit Risk takes the form of default risk and concentration risk and arises primarily from the Company's lending portfolio.

Managing Credit Risk

As the first line of defense, the responsibility for identifying credit risk lies with the respective credit functions. The identified exposures together with the measures in place to manage them are reviewed regularly by the Credit Risk Committee, a hybrid committee comprising an executive director, the AGM - Credit, COO and the CRO. The credit risk management framework is governed by a suite of robust risk policy frameworks, a culture of risk consciousness among ground level employees and stringent and well-defined credit criteria. Meanwhile, limits on disbursements, product-wise and category-wise exposures are defined in line with the Company's overall risk appetite. Monthly reports on the Company's credit risk exposures are provided to the Board through the BRMC.

- Multiple levels of approval authority
- Prudential limits for concentration risk including sectors and products
- Formalised credit criteria
- A culture of responsible lending

Pre-credit sanctioning

- Ongoing portfolio evaluation
- Robust credit review mechanism
- Review of selected significant exposures
- Persistent monitoring of NPLs at multiple levels including branches, regions, sectors and product exposures
- Regular monitoring by Internal Audit
- Periodic reporting

Post-credit monitoring

Developments in 2016/17

- Streamlined collection efforts through simplifying collection targets and ratios
- Strengthened risk evaluation in the gold loan unit by investing in employee training on assessing gold and customer behaviour patterns
- Regular review and update of the credit risk policy framework, credit criteria and exposure limits

Credit Risk Performance in 2016/17

Default risk

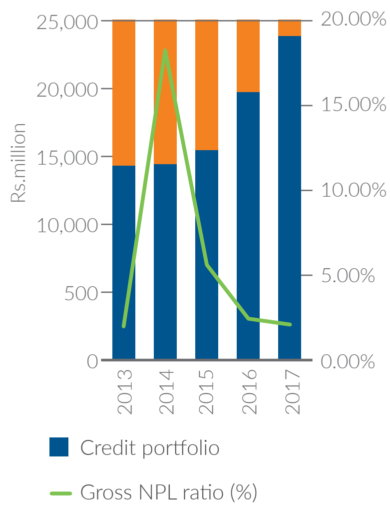
Default risk is the key component of credit risk and comprises of potential losses arising from the default of a borrower or counterparty. AFC's total loans and advances grew by 21% during the year, mainly supported by growth in SME loans, pledge loans, leasing and gold loans while group based microfinance contracted during the year. Impairment charges declined by 55% during the year, reflective of an overall improvement in portfolio quality. Despite a marginal 4% increase in gross NPLs during the year, the Company's gross NPL ratio declined to 2.1% from 2.5% the year before. AFC's gross NPL ratio continued to be significantly better than the industry average, which clocked in at 5.3% as at end-March 2017.

	% of portfolio	Gross NPL ratio (%)- 2016/17	Gross NPL ratio (%)- 2015/16
Leasing	67%	1.8	2.1
Hire purchase	1%	19.4	9.6
Term loans	16%	3.0	2.9
Microfinance - group lending	8%	2.1	3.1
Other loans	7%	1.5	1.9
Gold loans	2%	0.4	0.8

STEWARDSHIP

Risk Management

Loan growth vs gross NPL ratio



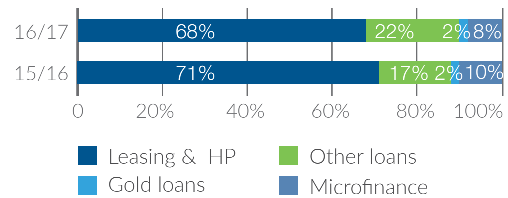
Concentration Risk

Concentration risk arises from high lending exposure to a particular sector, product, region or customer/Company. These risks are managed through pre-defined limits against which actual exposures are monitored on an ongoing basis. The Company's exposure to name concentration (risks arising from large exposures to specific individual borrowers) is low, given the granular nature of its portfolio. For instance, the Company's average loan size is Rs. 202,551/- with its top 20 borrowing customers representing only 3.8% of the Company's credit portfolio.

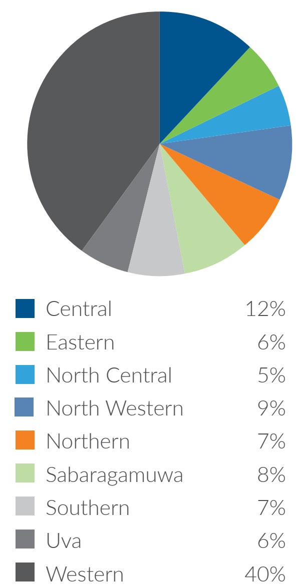
Strategic focus on diversifying its portfolio has enabled the Company to reduce exposure to product/sector concentration risk. Although leasing still contributes the most significant share of the portfolio, during the year leasing exposure reduced to 67% of the portfolio, compared to 68% the year before. Meanwhile, although a lucrative segment, the Company intends to limit its exposure to the relatively high-risk group based microfinance segment to 10% of its total loan portfolio.

The Company's credit portfolio is also regionally well diversified with approximately 60% of credit and advances originating outside the Western Province. The portfolio is also well diversified in terms of sector exposure, with the largest individual sector (industry) accounting for 25% of the total lending portfolio.

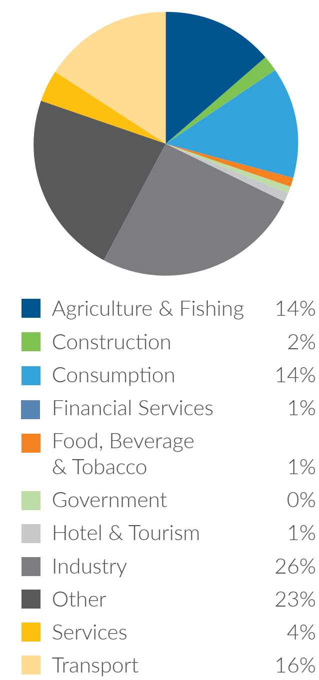
Portfolio composition



Regional breakdown of lending portfolio



Sector wise lending portfolio



MARKET RISK

Market risk is the potential risk of losses in AFC's on-balance sheet and off-balance sheet positions arising from movements in market variables. Market Risk can arise due to adverse movement in interest rates, equity market, commodity market and exchange rates.

Market risk management

Executive responsibility for overseeing the Company's market risk exposures lies with the Asset Liability Management Committee (ALCO) and Treasury. A Board-approved policy framework which details the Company's Risk Management policy provides guidance on the procedures, tools and techniques for identifying, evaluating, monitoring and reporting all aspects related to market risk.

Interest rate risk

The Company is exposed to interest rate risk through its deposit liabilities, lending activities as well as investments. The ALCO regularly monitors the movements in the market interest rates together with the Company's asset liability maturity mismatches and exposures.

Commodity risk

The Company's exposure to commodity risk arises through its gold loan portfolio, which is secured against gold jewellery. A sharp or sustained decline in gold prices could result in increased delinquencies stemming from the gold loan portfolio, as the value of the collateral could fall below the outstanding loan amount. Exposure to this risk is managed through revising loan to value ratios based on monthly gold loan prices and maintaining LTV of not more than 70%. Meanwhile, the Company's risk appetite also defines a limit of 5% on exposure to gold loans.

Equity risk

AFC's exposure to equity risk is minimal as its equity investment portfolio amounted to Rs. 198 million or 0.7% of its total assets as at end-March 2017.

Exchange rate risk

The Company's exposure to exchange rate stems mainly from its foreign funding, in which repayment amounts could vary in line with exchange rate volatilities. The Company hedges these exposures through retaining the foreign funding received in a foreign currency deposit and obtaining local currency borrowings against this balance, thereby eliminated the need for hedging. As at end-March 2017, borrowings from these foreign sources amounted to USD 15 million.

Market risk performance in 2016/17

The Company's interest rate risk exposures were maintained within the pre-defined limits during the year. The net positive gap between the rate sensitive assets and liabilities amounted to 5.4% of rate sensitive assets in the short term (compared to a negative gap of 1.3% in the previous year), reflecting the inherent maturity mismatch of the Company's assets and liabilities.

Rs. Mn	Up to 3 months	3-12 months	1-5 years	Over 5 years
Interest earning assets	5,003	9,273	12,462	387
Interest bearing liabilities	6,354	7,151	10,998	756
Gap	(1,351)	2,122	1,464	(369)

During the year, gold prices increased by 7% and thereby did not have an adverse impact on the Company's gold loan portfolio.

STEWARDSHIP

Risk Management

LIQUIDITY AND FUNDING RISK

Liquidity risk is the potential loss arising from the changes in the Company's ability to sell or dispose assets and settle liabilities in a timely manner.

Managing liquidity risk is crucial to any financial institution given the inherent maturity mismatch between its assets and liabilities. Sudden liquidity crises could result in irreversible reputational damage and affect the continuity of operations. The Company's liquidity risk management framework ensures that the Company maintains adequate funds to meet its contractual obligations on a timely basis. The Treasury is responsible for ensuring that the Company holds sufficient liquid assets to meet its immediate and unforeseen liabilities. Effective management of the liquidity risk is also supported by the following;

- Diversified funding strategy with liquidity sourced from multiple sources
- Maintaining a portfolio of highly liquid assets
- Consistent monitoring of the Company's liquidity position to ensure compliance to internal targets and regulatory requirements

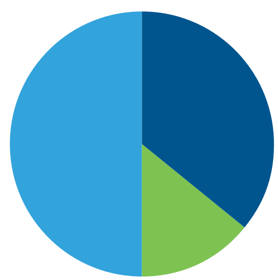
During the year, the Company maintained its liquidity levels well within the stipulated minimum limits.

Meanwhile, the Company also maintains a diverse funding portfolio with deposits accounting for just 45% of total funding. Increasing contributions from foreign funding agencies (in the form of borrowings) have enabled the Company to curtail exposure to liquidity risk arising from potential confidence crises in the industry etc.

Meanwhile, the Company's capitalisation levels are healthy and improved during the year following the receipt of the foreign funding line. Accordingly, AFC's Core capital adequacy ratio improved to 10.4% (2016: 10.2%) while the total capital ratio reduced to 12.1% from 13.5% the year before, due to redeemed subordinated debentures.

Statutory liquid asset ratio: 12.11%
Liquid assets as a % of total assets: 8.99%

Funding Mix
2016/17



Deposits	36%
Shareholders' Funds	14%
Borrowings	50%

OPERATIONAL RISK

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

At AFC, operational risk is managed through,

- Implementation of a comprehensive business continuity plan to minimise interruptions to operations in the event of systems and process failures
- People related risks are managed through maintaining a strong employee value proposition, which has enabled us to attract and retain the industry's top talent. Employee behaviour is governed by a Code of Conduct, comprehensive policy frameworks and clearly defined governance structures
- Robust IT infrastructure

IT Risk is a key component of operational risk and comprises potential losses to earnings, reputation and/or customers arising from system/IT failures.

The Company's exposure to IT risks are managed through,

- Investing in robust IT infrastructure- during the year we upgraded to our system to a blade infrastructure enabling more reliability, efficiency and security of our information. We also operate a fully-fledged disaster recovery site in Rajagiriya.

- Dedicated IT team responsible for ensuring that technology related risks are identified and managed proactively.
- The IT infrastructure is secured by "Techcert" to identify potential security threats to the system

Internal Audit

Operational risk is also managed through a proactive Internal Audit function, which reports directly to the Audit Committee. For RFC, Internal Audit carries out six audits per month ensuring that the internal controls in place are sufficient in managing emerging risks. For microfinance, we have engaged nine regional officers who are responsible for carrying out five audits per week. Given the high risk nature of the group based microfinance business, a sub-Audit Committee is in place for microfinance to ensure that the internal audit recommendations are implemented. Any identified operational breach is directed to the operational management team for follow-up and action.

During the year under review, there were no significant losses arising from operational risks.

Strategic Risk

Strategic risks are the potential losses arising from the possibility of the Company's future business plans and strategies being inadequate.

AFC's strategic risk is managed through,

- Implementation of a Board approved strategic plan which takes cognisance of industry trends, stakeholder needs and the strength and weaknesses of our value creation model
- Continuous monitoring of industry trends including market dynamics, macro-economic changes and competitor behaviour.
- Reviewing performance of the strategic plan against pre-defined performance indicators on a consistent basis
- Conducting variance analysis by comparing budgeted against actual performance and recommending appropriate strategies.
- Reviewing industry trends and competitor behavior

Reputational Risk

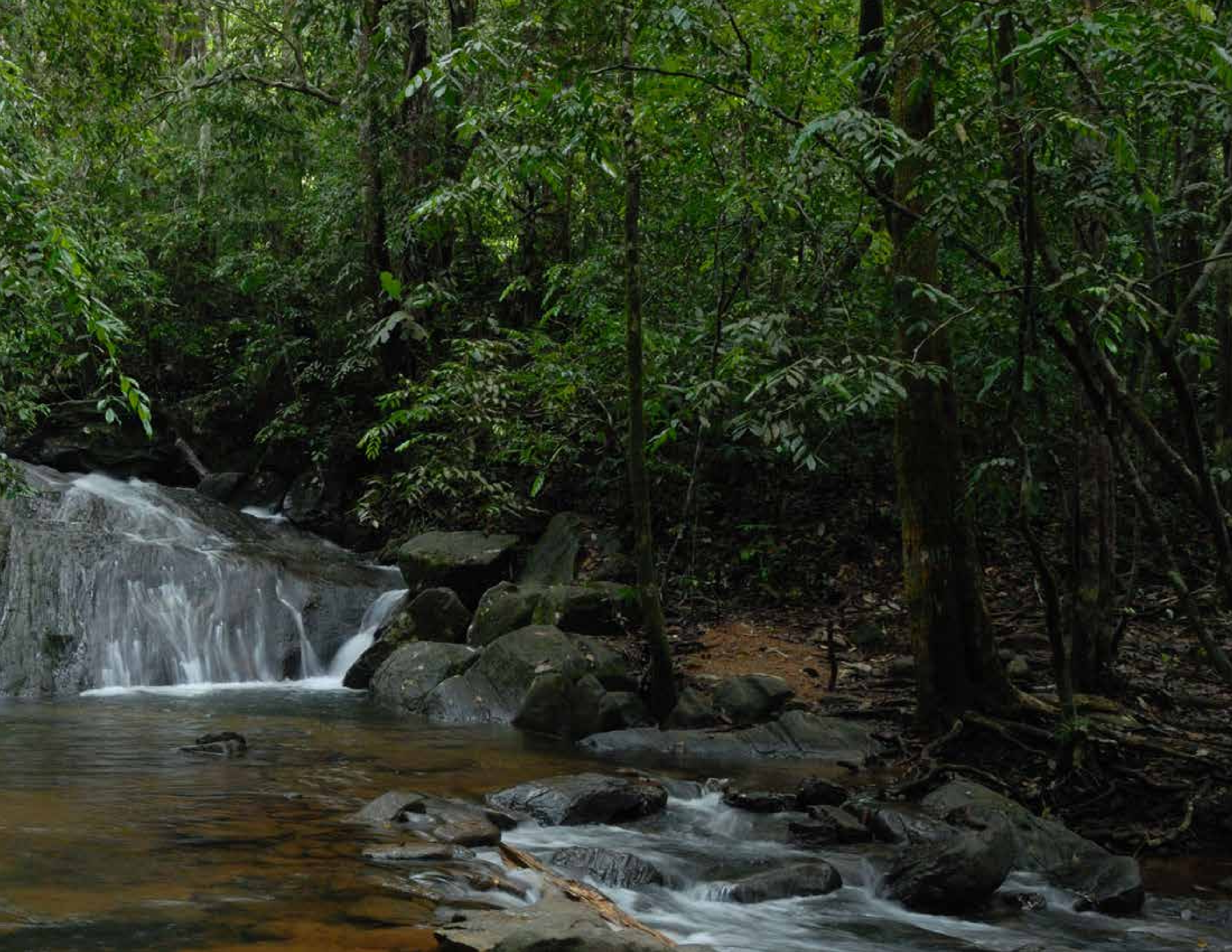
Reputational risks are those that impact the Company's current or prospective earnings capacity and organisational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.

The Company's exposure to reputational risk is managed through,

- Strategic agenda and approach to value creation underpinned by the triple bottom line principles
- Dedicated Director of Sustainability to identify and mitigate any emerging sustainability issues
- Strong brand reputation and established track record
- Application of the IFC exclusion list in lending
- Sound corporate governance and risk management practices

Ushering in an eco-conscious era

Environmental sustainability is a priority of ours that goes beyond simply engaging in activities that efficiently manage the consumption of energy and other non-renewable resources. Whilst enabling financial inclusion and equitable wealth creation outside the Western Province, we are dedicated to building a truly sustainable Triple Bottom Line business.



OUR PERFORMANCE

Economic and Industry Review

The economic and industry review section of this report focuses on understanding the emerging trends, opportunities and threats in our economic and business environments. The Report is structured as follows;

Economic review

- Economic Growth
- Interest rates
- Inflation
- External trade activity

Review of Industry Drivers

- Budget 2017
- Private Sector Credit
- Leasing and Hire purchase
- Microfinance
- SME

Industry Performance

- Profitability
- Asset Growth
- Asset Efficiency
- Loan growth
- Infrastructure
- Liabilities

Economic Growth

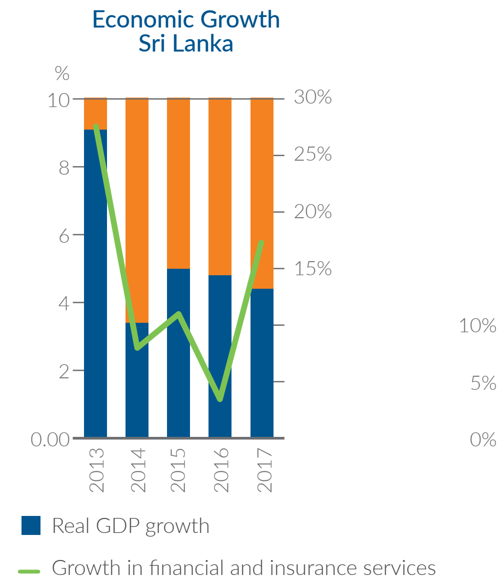
Signs of recovering growth were witnessed across most regions in the backdrop of growing global demand and better investor sentiments. Rebound in Investments, trade and manufacturing activity coupled with an improvement in investor confidence, resulted in improving overall growth prospects, compared to the somewhat subdued growth in 2015. As per the IMF, global growth is expected at 3.5% in 2017 compared to 3.1%1 in 2016. Advanced economies driven by US,UK and Europe are expected to grow at 2.0% in 2017 compared to 1.7% in 2016. Growth in emerging markets are expected to be more fast paced at 4.5% in 2017 compared to 4.1% in 2016. South Asia and commodity exporters such as Russia are expected to be among the high growth areas driving emerging markets despite challenging country-specific factors such as demonetization in India and financial sector risks that were persistent in 2016.

IMF April 2017 issue and World Bank (South Asia Economic focus _ April 2017)

Economic Growth

GDP growth was moderate at 4.4% in 2016 due to declining agricultural output impacted by adverse weather conditions. However, growth in trade, construction, manufacturing and banking services supported the overall growth to be maintained above 4%. Financial services grew at 17% YoY in 2016, higher than any other sectoral growth.


Economic Growth - Global
%
8.00
6.00
4.00
2.00
0.00
2015
2016
2017
2018
Global
Advanced Economies
Emerging and Developing markets
Emerging and developing Asia


Economic Growth
Sri Lanka
%
10
8
6
4
2
0.00
30%
25%
20%
15%
10%
5%
0%
2013
2014
2015
2016
2017
Real GDP growth
Growth in financial and insurance services

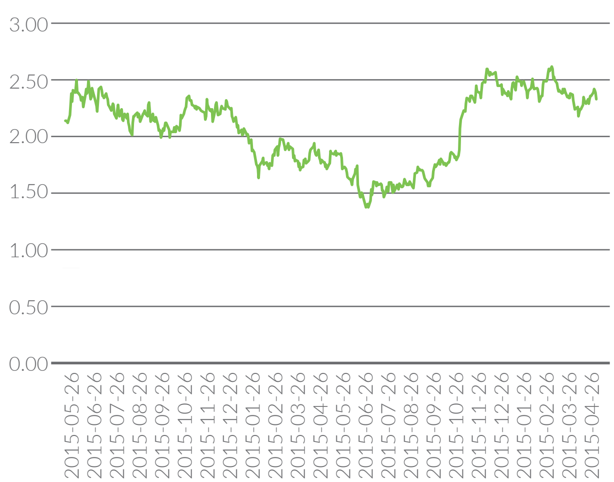
OUR PERFORMANCE

Economic and Industry Review

Interest rates

Interest rates have increased substantially since the US elections in November 2016 due to expected inflationary pressures from higher global demand and a less accommodative US monetary policy. The US Federal Reserve increased interest rates twice in late 2016 and early 2017 and IMF expects two more rate hikes by end 2017 or early 2018. The spillover effects of US rate hikes and other political uncertainties resulted in a rise in interest rates across many key economies such as Europe, UK, Germany and Japan.

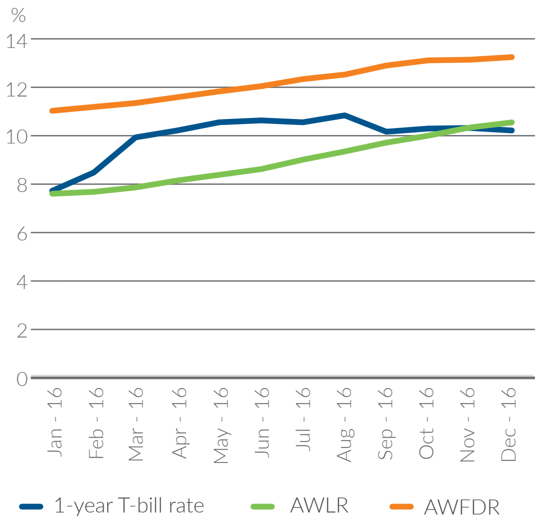
US 10 year treasury bill



Interest rates

A visible change in the interest rate policy of the government was seen in 2016 with two interest rate hikes in 2016 and a hike in March 2017. Monetary policy was tightened with the objective of curtailing inflationary pressures and supporting the balance of payments. Resultantly, both lending and deposit rates in the market increased.

Interest rates



Inflation Global inflation levels have been increasing in 2016 driven by an increase in commodity prices against the backdrop of a rise in global oil prices. Inflationary pressure was more significant in advanced economies than emerging economies.	**Inflation** The higher interest rate scenario, together with an increase in commodity prices and energy costs resulted in inflation gradually picking up towards the latter part of 2016. Severe drought conditions and increasing indirect taxes resulted in an increase in overall inflation levels. Current year on year inflation measured by NCPI stands at 8.6% in March 2017 compared to 2.2% in March 2016.
Trade growth Global Trade in 2016 grew by 2.2% YoY in volume terms, marked to be the slowest pace since 2009. However, increasing demand and investment activity in emerging economies signaled a recovery by the second half of 2016. IMF estimates trade growth to improve to 4% by 2017-18.	**Trade growth** Export growth slowed in 2016 due to declining export volumes of textiles and tea especially to key export regions such as US on lackluster global demand. However, the rupee depreciation against USD, enabled exports to grow in value terms by 5% YoY in 2016. Imports increased at 10% YoY in 2016 driven by growth in intermediate and investment goods despite a decline in imports of consumer goods.

OUR PERFORMANCE

Economic and Industry Review

Review of Industry Drivers

Government Policies impacting Licensed Finance Companies (LFCs)

Interest rates: the Government has set limits on the interest rates offered of deposits by finance companies, which is linked to the 1 year Treasury Bill rates.

Minimum capital requirements: an increase in minimum capital requirements for leasing and finance companies are expected to materialize in 2017 promoting consolidation within the segment.

Policies impacting the leasing sector based on Budget 2017

- Changing Loan to value ratios from current 70% to varying limits by vehicle type. Three Wheelers 25%, Motor Cars and Vans 50% and Commercial Vehicles (Lorries and Heavy Vehicles) 90%. The three wheeler and motor segment was most affected.
- A change in the vehicle valuation method on imports that determine the applicable taxes. The vehicle value will be determined by the Director General of Customs.
- Improving the debt recovery process of licensed finance companies by applying the Debt Recovery (Special) Provisions Act No. 2 of 1990 to all finance companies
- Financial Asset Management Agency (FAMA), to restructure the distressed finance companies

Credit to private sector

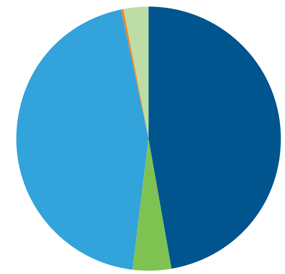
Tightened monetary policies and curtailed import growth impacted private consumption and vehicle imports particularly during the latter half of 2016.The NBFI sector accounts for 17% of total private sector credit and during the year, credit from the sector increased by 17%. Most sector players pursued portfolio diversification during the year, venturing into both microfinance and SME lending.

Leasing and hire purchase

Following a period of significant growth, vehicle registrations and leasing activity slowed in 2016. Vehicle registrations declined by 26% YoY in 2016 due to limits on Loan to Value ratios, increasing interest rates, change in vehicle valuation method and higher import taxes. Three-wheelers and motor cars segments were most affected.

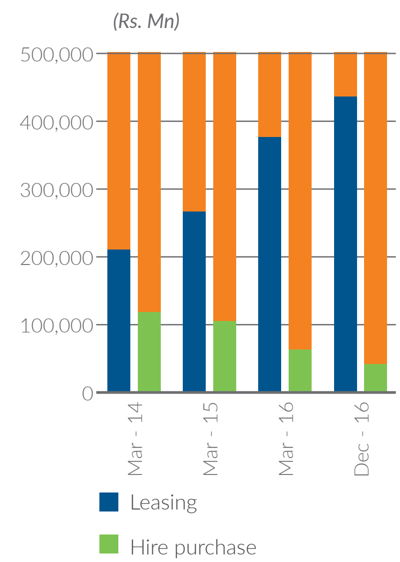
Growth (YoY)	2014	2015	2016
New registrations	32%	56%	(26%)
Three wheelers	-6%	64%	(56%)
Motor cars	37%	172%	(57%)
Motor cycles	61%	36%	(8%)

Composition of Loans LFC Sector



Leasing	47.4%
Hire Purchase	4.6%
Loans	44.9%
Real Estate	0.2%
Pawning Advances	3.0%

Leasing and Hire purchase of LFC



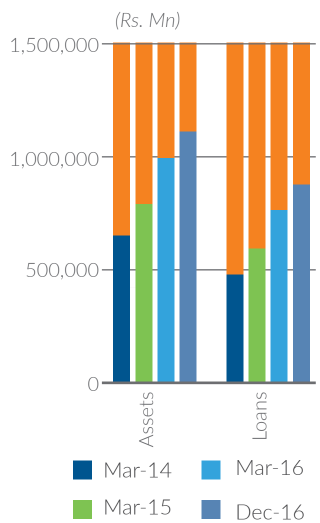
SME and Microfinance

A segment which is poised for strong growth, the SME and Microfinance markets presents numerous opportunities for portfolio diversification. Microfinance is considered a high-risk, high-return product segment and presents multiple opportunities for growth given government impetus towards strengthening regional financial inclusion. Growth in manufacturing and services sectors have resulted in an increasing demand for SME loans with 80% of current establishments being SME in nature. Further support, for SME sector was driven by government initiatives in addition to projects undertaken by World Bank to support SME growth. Loan growth in LFCs increased by 38% YoY in 2016 on the backdrop of higher loan demand by the SME segment in both industrial and service sectors. Despite intensified competition in the SME segment, LFCs have the potential to reach a larger number of entrepreneurs especially in rural areas whilst also leveraging on higher risk appetite in comparison to banks and more responsible lending practices in comparison to the informal sector.

Industry Performance

LFCs are a vital component of the country's financial system, catering to a segment that often falls beyond the risk appetite of the banking sector. LFCs currently account for 7.2% of total financial sector assets with 46 players operating an island-wide network of 1,225 branches.

Assets Growth



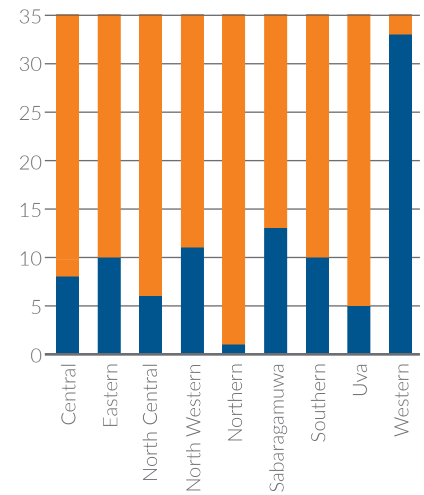
Assets

Assets of LFCs grew by 21.5% YoY in during the 9 months ended Dec 2016 to RS. 1,112 Bn driven by 38% YoY growth in loan portfolios accounting for 79% of LFC assets. Term loans, revolving loans, microfinance, factoring and draft loans contributed to 73% of loan growth. Hire purchase activity remained resilient declining by (42%) YoY by December 2016 due to declining imports of consumer goods. .

Branch network

A growing branch network distributed across many regions increased the reachability of finance companies to small and medium scale entrepreneurs. The sector added 97 new branches during the year to its network, bringing the total count to 1,225 branches as at end-December 2016.

New Branches in 2016



Asset quality

Asset quality improved during the year despite relatively aggressive loan expansion. The growth in Gross NPLs of RS. 5.6Bn in 2016 is insignificant compared to loan growth. Thus, Gross NPL ratios declined to 5.6% over the 9 months ended December 2016 compared to 6% in 9 months ended December 2015. Meanwhile, net NPL ratio also declined to 1.2% from 1.6% the year before. Screening of customers and sound debt collection procedures contributed to the NPL decline in addition to absolute growth in loans.

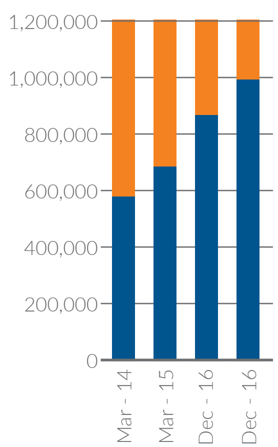
OUR PERFORMANCE

Economic and Industry Review

Liabilities

Liabilities increased by 21% during the first 9 months ended December 2016 with a higher contribution from growth in borrowings than deposits. A gradual shift from reliance on deposits to borrowing was seen over the last two years. Borrowings predominantly from banking and finance sector, increased by 42% YoY over 9 months to December 2016 and accounted for 34% of sector liabilities. Deposits grew at a slower pace by 10% over 9 months to December 2016 and accounted for 47% of LFC funding driven by growth in time deposits.

Sector Liability Growth



Performance

Overall performance of the LFCs remained strong with growth in both interest and non interest income driven by loan growth despite narrowing of net interest margins. Interest income increased by 25% YoY over 9 months to Dec 2015 whilst interest expenses increased at a faster 41%, an industry-wide trend given the rising interest rate scenario. Margins were stressed resulting in net interest margins declining to 7.4% in 9 months to December 2016 compared to 8.32% in 9 months to December 2015. As a result, net interest incomes of RS. 60 Bn, grew at a slower pace of 10% YoY. Non- Interest income accounting for 14% of sector income increased by 25% YoY during the 9 months to 2016 to RS. 20 Bn. The focus on improving cost efficiency, resulted in overall overhead costs declining by 6% YoY over 9 months to December 2016. Resultantly, efficiency ratios (measured as operating costs as % of total income less interest expenses) improved to 58% by Dec 2016. Profit before tax improved to RS. 27Bn in 9M2016 compared to RS. 14 Bn in 9M2015. ROE improved to 20.23% in 9M2016 compared to 15% in 2015/16.

Liquidity and capitalization:

Liquid assets consist primarily of treasury bills and remained comfortably above the statutory minimum. Liquid assets as percentage of total assets declined to 6.95% in 9M2016 compared to 7.69% in 2015/16, as excess liquidity was channelled towards lending activities.

The regulatory capital of the LFCs increased during the year driven by higher retained profits and remained above regulatory capital requirements. Capital adequacy ratios of the SLC/LFC sector increased to 11.4% and 11.7% respectively, from 10.5% and 11.2% the year before.

OUR PERFORMANCE

Delivering Strategy Through Our Business Lines

The Group's strategy is driven through four business units, which are profit centers and work towards the achievement of the common strategic objectives described on page 30. In addition, nine support service functions are in place to ensure the smooth functioning and continuity of operations. The following section provides an overview of the key factors driving performance in the respective business lines during the year, opportunities and challenges in the operating context and outlook over the short to medium term.

Business unit	Business unit
Regional financial services (RFS) As the Group's most significant business line, RFS offers a range of lending products including leasing, pledge loans, term loans, quick cash and equipment financing targeting the retail and SME sectors.	**Group based microfinance** AFC empowers nearly 60,000 impoverished women by providing access to finance through our unique group based microfinance proposition
Gold loans These are short tenured facilities which are secured against gold jewellery, providing easy access to bridging short-term cash shortfalls.	**Deposits** We offer attractive and secure investment opportunities through a range of deposit products including saving and fixed deposits

OUR PERFORMANCE

Delivering Strategy Through Our Business Lines

REGIONAL FINANCIAL SERVICES (RFS)

RFS is the Group's most significant business line, and through this unit we offer a wide array of lending products including leasing, mortgage, pledge and personal loans targeting the retail, SME, micro and corporate sectors. The effective implementation of a timely and proactive strategy enabled the unit to achieve strong performance growth.

Product map

Leasing
• Two-wheelers
• Three-wheelers
• Four-wheelers
• Equipment leasing
• Customised solutions for the corporate sector

Other
• Pledge loans
• Mortgage loans
• Personal loans
• Speed cash
• Microfinance

Operating context

Key developments

The leasing industry witnessed a year of multiple challenges, due to regulatory limitations on the LTV, higher interest rates and revisions to the import tariffs and calculation methodologies. However, demand for other credit products was strong during the year, with growth in products such as term loans, and revolving loans accounting for over 70% of the NBFI sector's credit growth during the year.

Opportunities

Growth potential from the SME sector
Opportunities for portfolio diversification
Credit demand from outstation regions
Leasing facilities for the registered vehicle market

Risks/threats

Challenges in expanding the leasing portfolio
Increased competition in segments
Prevalent high interest rate scenario

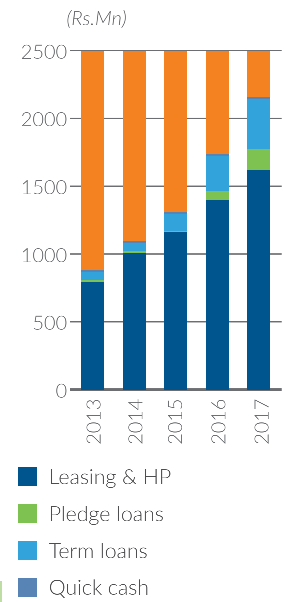
Strategy and Performance

	2016/17	2015/16	% change y-o-y
Portfolio	21,308	17,164	+24%
No. of customers	40,348	39,074	+3%
% of portfolio outside the Western Province	59%	58%	2%
No. of electric and hybrid vehicles	618	475	+30%

A strategy centered on diversification

The year's success can be attributed to the Unit's effective diversification strategy, through which it expanded its focus to other lending products from its traditional focus on leasing. The challenges which prevailed in the leasing industry compelled AFC to widen its exposure to pledge and mortgage loan targeting the SME sector, enabling the Unit to grow its loan portfolio by 24%. Mortgage and pledged loans grew by a respective 69% and 133% during the year, while growth in leasing was relatively subdued at 19%. Efforts made to streamline collections and strengthen recovery systems allowed the business unit to maintain credit quality.

RFS portfolio growth



KEY ACHIEVEMENTS

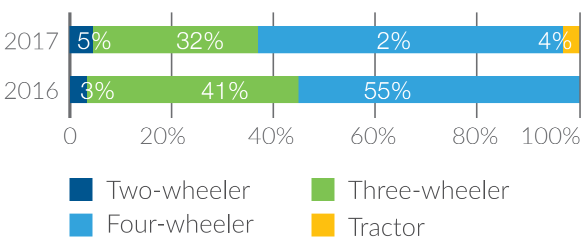
- Highest disbursements in the Group's history
- Portfolio growth of 24%
- Current collection ratio of 82%

Leasing

The Company is an industry pioneer in instalment credit, offering tailor-made lease and hire purchase solutions to both the retail and corporate sectors. Our product proposition includes registered and unregistered two, three and four-wheeler vehicles as well as consumer durables. The leasing/HP portfolio grew by 16% during the year and accounted for 68% of the Group's total lending portfolio.

Units	2016	2017	Y-o-y %
2-wheeler	6,252	6,682	+7
3-wheeler	25,511	23,373	-8
4-wheeler	6,935	9,020	+30
Tractor	457	883	+93

Leasing portfolio composition



Traditionally, the Group's largest leasing exposure has been to the three- and four-wheeler markets. During the year under review however, we pursued aggressive growth in the two-wheeler segment, in which the LTV restrictions are relatively lax. In order to enhance AFC's brand in the two-wheeler segment we organized the 'AFC motorbike show' in May 2016, providing a platform for motor bike enthusiasts to engage with dealers. The event also featured open stunt show competitions, test riding shows, road safety demonstrations and vintage motor bike stalls among others, attracting large number of spectators. The campaign won the Marketing Campaign of the Year -2016 at the CMO Asia Awards for excellence in branding and marketing. In addition, the Group successfully acquired new customers through expanding its dealer network, introducing new incentive schemes for the dealers and building new relationships with franchise partners. We also launched an innovative 3D hoarding initiative for the motor bike segment to promote our convenient one day leasing service. We continue to engage with our customers through regional promotions such as our Riya Pola, which was carried out in 16 locations during the year.

AFC Motorbike Show 2016

Marketing Campaign of the Year -2016 at the CMO Asia Awards

Units	2016	2017	Y-o-y %
Hybrid vehicles	455	578	+27
Electric vehicles	20	40	+100

We also placed emphasis on strengthening our presence in the agricultural equipment segment, particularly in tractors and harvester machines. Accordingly, we entered into a strategic partnership with DIMO to promote the use of Mahindra land vehicles, particularly tractors and harvesters. We hope to pursue further expansion in this segment with the dual objectives of supporting the agricultural sector while achieving further diversification of our portfolio. In furthering our environmental agenda of reducing dependence on fossil fuels, the Group continues to offer specialised leasing facilities for hybrid vehicles and gas three

OUR PERFORMANCE

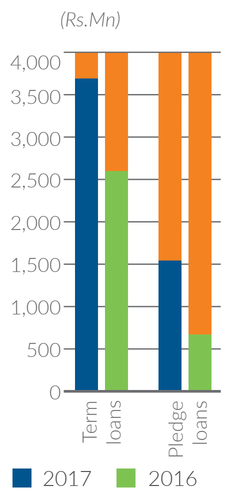
Delivering Strategy Through Our Business Lines

wheelers and as at end-March 2017, had provided facilities for 40 electric vehicles and 578 hybrid vehicles. (Refer to page 81 for further information)

Strategic Partnership with DIMO

Pledge and term loans

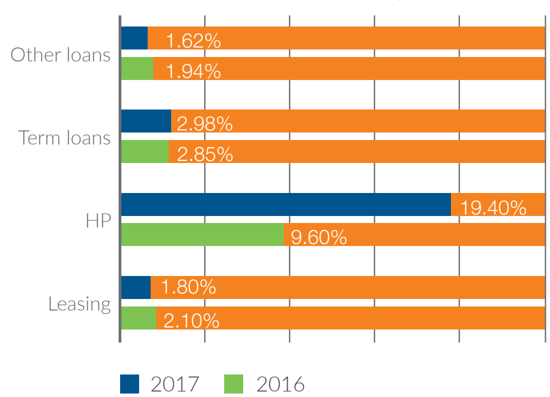
Pledge loan facilities are aimed towards bridging the short-term working capital requirements of SME and corporate customers while term loan comprise primarily of mortgage loans, personal loans and soft collateral business loans. During the year under review, we focused on increasing our exposure to these product lines through customer acquisition as well as entry into new market segments. The pledge loan portfolio grew by 133% to Rs. 1.55 billion during the year as the Company nurtured new relationships with vehicle importers to grant revolving facilities against the value of their vehicle fleets. Meanwhile, term loans grew by 43% supported mainly by the strong growth in mortgage loans. Our mortgage loan portfolio consists primarily of loan mortgages for individuals and SMEs.



Improvements in portfolio quality

During the year, the Unit placed emphasis on enhancing the quality of its portfolio through streamlining the collection and recovery mechanisms. Accordingly, the KPIs and targets for the recovery team were refined and simplified, providing more clarity on our collection goals. Resultantly, the Unit achieved its highest ever collection rate of 82% during the year, while the current gross NPL ratio of leasing, term loans and other loans declined during the year.

Credit Quality



Responsible lending practices

We seek to propagate sustainable business practices among our customers through adopting social and environmental screening criteria when evaluating credit. Key parameters considered include compliance to CEA regulations, policies against child/forced labour and environmental implications of operations. In furthering our triple bottom line approach, we hope to introduce a holistic ESMS framework in the next financial year, which is expected to further strengthen the weightage given to sustainability considerations in our credit appraisals.

Way forward

We will seek further diversification of our portfolio with the dual objectives of enhancing profitability and diversifying risk exposure. To this end, we hope to further widen our product portfolio with the addition of innovative solutions in the coming financial year. We also hope to capitalize on emerging opportunities in the registered vehicle market, which has become increasingly attractive due to the high cost of brand new vehicles; accordingly emphasis will be placed on the registered two-wheeler and three-wheeler segment.

GROUP BASED MICROFINANCE

The Group's venture into Group based microfinance in 2013, fortified its position as an entity truly committed to the triple bottom line principles. Since commencing operations the Unit has empowered and contributed to the socio economic progress of nearly 60,000 impoverished individuals while placing emphasis on client protection, customer education and nurturing a culture of risk consciousness.

In addition to group based microfinance lending unit involved with following products and services.

Product/Service map

Lending	Customer Education
Micro SME loans	**General life skills**
Personal loans	**Livelihood skills**
Micro lesasing	
Plantation loans	

Operating context

Key developments	Opportunities / Risks/threats
The Microfinance Act No.6 of 2016 was enacted during the year, with the objective of regulating microfinance institutions. Accordingly, the CBSL issued rules on licensing criteria, minimum core capital, statutory reserves, minimum liquid asset ratios and assessment of shareholders among others. Lending to the microfinance sector is estimated to have recorded strong growth during the year	Opportunities - Potential for growth in outstation regions - Government policy impetus towards financial inclusion Risks/threats - Increased over burdened customers. - Difficulties in retaining employees due to the entry of new players to the industry - Exploitation of customers by unregulated institutions - Loans utilised for consumption

Strategy and performance

	2016/17	2015/16	% change y-o-y
Outstanding portfolio (Rs. Mn)	1,873	2,064	-9
No. of customers	60,316	66,590	-9
Portfolio outside the Western Province (%)	73	77	-5
Microfinance customer touchpoints	37	37	-
Beneficiaries of EDS	2,665	4,477	-40
No. of field staff	316	245	+22
Clients per field officer	190	271	+2

Key achievements

- Recruitment and development of 250 trainees
- 2,665 Customers educated through EDS Services

OUR PERFORMANCE

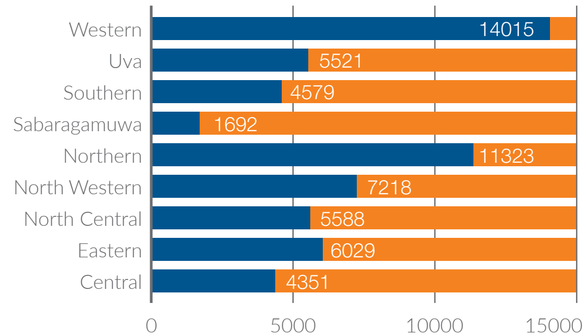
Delivering Strategy Through Our Business Lines

A sustainable operating model

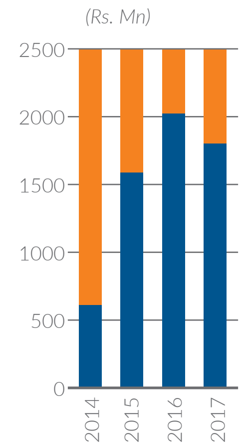
In 2016/17, strategic focus was placed on investing in employee and customer development in order to build a sustainable foundation for strong business growth. Having clearly understood the high-risk dynamics of this market segment, our efforts during the year were focused towards consolidating the portfolio and nurturing a culture of responsible lending among our employees in parallel to improving financial discipline and risk awareness of our customers. Although the portfolio contracted by 9% during the year, we believe AFC is well positioned for sustainable growth in this segment, resulting in long-term value creation for our customers. In maintaining the Group's overall risk profile within the limits defined by its risk appetite, our exposure to this segment will be maintained at around 10% of total loans over the short to medium term.

We disburse group based microfinance facilities through a network of 4,795 village centres serviced by 37 coordinating officers, covering all districts across the island. More than 70% of our customers are from outstation regions. Our facilities are primarily aimed towards supporting the entrepreneurial ventures of women from low-income families, particularly in outstation regions. Considerable emphasis is placed on client protection principles and social performance standards in testament to which we successfully obtained a ß+ international rating from M-CRIL.

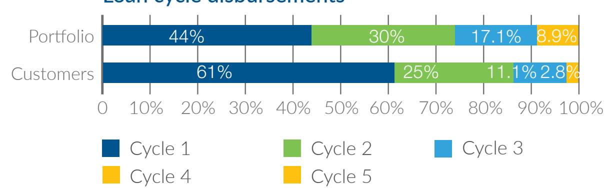
Customer distribution



Outstanding microfinance portfolio



Loan cycle disbursements



Investment in employee development

Following the entry of several new players to the microfinancing space, the competition for industry talent has intensified and during the year retaining our microfinancing employees was a key challenge. In effectively addressing this challenge, we recruited 250 trainees to the unit and invested in training and development targeted towards nurturing a unique lending culture of risk consciousness and client protection. In addition to managing the Unit's risk profile, this approach is expected to be a key source of competitive advantage over the medium term.

Effective portfolio management

Strategic emphasis was also placed on improving portfolio quality, through rigorous monitoring of both the absolute non-performing-loans and the gross NPL ratio. Ongoing engagement with our customers together with a strict focus on recoveries and collections enabled the sector to decline NPL levels.

Developing industry engagement

Although a relatively new entrant to this industry space, AFC initiated proceedings to generate a platform for effective engagement among microfinance lenders. This has facilitated the formulation of a voluntary code of ethics amongst NBFI's which are engaged in microfinance activities and the introduction of best practices to ensure client protection and principle-based lending.

Customer education

Our customer value proposition extends beyond mere financial support to provide long-term value through providing access to a wide array of skill development opportunities. Through our unique Entrepreneurial Development Services (EDS) program, we provide training aimed towards enhancing the general quality of life (such as raising HIV awareness, reproductive health and disease prevention) as well as technical training aimed towards enhancing entrepreneurial skills. These workshops are conducted island-wide, in partnership with the respective branches as well as external specialists and consultants. Each branch engages in a minimum of one such program every quarter, and during the year we conducted 100 such programmes with a total beneficiary base exceeding 2,600. (Please refer to pages 108-109 for further information). In addition, we have also partnered the Good Market and the Women's Chamber of Commerce to provide a platform for our micro entrepreneurs to sell their goods.

No. of beneficiaries : 2,665
No. of training programmes : 100

EDS Program

Way Forward

The solid foundation put in place during the year under review has afforded us a strong platform for growth and in the next financial year we will place strategic emphasis on expanding our reach and acquiring new customers. Despite being a relatively new entrant to this market, we have been successful in partnering foreign funding agencies to obtain funding to grow this business line. We are deeply committed to the Group's sustainability agenda and will continue to add sustainable value to our customers through nurturing financial discipline and developing entrepreneurial skills to promote socio economic empowerment. Ongoing focus will be placed on maintaining the quality of our portfolio in order to effectively manage our risk return dynamics.

OUR PERFORMANCE

Delivering Strategy Through Our Business Lines

GOLD LOANS

During the year, the Group revived its gold loan business line, which had been curtailed since 2014/15 due to the sharp drop in gold prices. Resultantly, the portfolio expanded for the first time since 2012/2013 while losses reduced in comparison to the previous year.

Operating context

Key developments	
Global gold prices increased during the year led by the rise in commodity prices. Resultantly, the pawning segment picked up growth during the year, particularly in the North/Eastern region of the country.	
Opportunities • Growth potential in the North/East	Risks/threats • Risks arising from dud items • Exposure to fluctuations in gold prices • Difficulties in retaining skilled talent

Strategy and performance

	2016/17	2015/16	% change y-o-y
Gold loan portfolio (Rs. Mn)	468	368	+27
No. of customers	7,143	6,988	+2
Portfolio outside the Western province (%)	73.35	65.36	+12

Revival of the Gold Loan Segment

Following the sharp decline in gold prices several years ago, the Group curtailed its exposure to gold loans, closing down several branches and deploying the pawning staff to other business units. In 2016/17 we made a strategic decision to revisit this segment and gradually expand its operations to capitalize on the opportunities presented by the revival in gold prices. Resultantly, AFC recruited a skilled industry practitioner to drive business growth supported by which the Group's gold loan portfolio expanded by 27% to Rs.467.6 million during the year. During the year focus was placed on recruiting employees to the business line and investing in training specific to handling gold loans. With several gold loan centers having been closed in the past, we also focused on optimising the existing locations and leveraging on our branch network to drive portfolio growth. Efforts were also directed towards strengthening risk management and internal audit processes pertaining to gold loans.

Proactive Risk Management

The Group maintains a maximum Loan to Value ratio of 70% in its gold loans segment while densi meters are used to assess the genuity of the article being pawned. Ongoing training programs ensure that employees are upskilled on identifying dud articles as well as gauging customer behaviour, particularly in preventing lending against stolen items. Verifications are conducted by Group internal audit as well as gold inspection officers who visit centers/branches to verify the physical stock of gold. The required physical infrastructure is also in place which comprises alpha safes, access controls as well as key and number verifications. As a secondary measure the full portfolio is insured.

Way Forward

Currently, we offer gold loan facilities through 12 centers and 20 branches and in the next financial year we hope to shift 6 centers to more optimal locations which are likely to draw more crowds. We will also focus on strengthening our team and hope to attract the industry's top talent through offering competitive remuneration. We hope to aggressively grow this portfolio in the coming year. The revival of this business line is anticipated to contribute towards strengthening the bottom line over the short to medium term.

DEPOSITS

Our value proposition in deposits is underpinned on trust, stability and personalised service, characteristics that are strongly associated with the Alliance brand. Our risk consciousness and relatively cautious approach towards business growth have enabled AFC to demonstrate resilience to numerous confidence crises in the industry, further strengthening its deposit proposition as a trusted and secure institution for investment.

	2016/17	2015/16	% y-o-y change
Total deposits (Rs. Mn)	10,088	10,464	-4
Deposit renewal rate (%)	81.4	79.5	2
Deposit customers	149,337	117,106	+27
Average deposit size (Rs.)	65,068	85,205	-24
Average deposit rate (%)	10.7	9.9	8

Strategy and performance

We offer a range of investment solutions to our customers including fixed deposits, savings accounts as well as savings options for specific customer segments including senior citizens, minors and three-wheeler savings. During the year under review, our retail deposit base declined by 4% as we leveraged on relatively low cost funding options which were available to the Company. Overall, our savings and deposit customer base including Microfinance savers, grew by 27% during the year. The fixed deposit renewal rate continues to be healthy at around 80%.

VALUE CREATION AGAINST OUR CAPITALS

Financial Capital

Group Financial Highlights

Rs. 30.2 Billion
Total Assets
16% Growth

Rs. 5.5 Billion
Gross Income
18% Growth

Rs. 7.5 Billion
Loans
33% Growth

Leases
19% Growth
Rs. 15.8 Billion

Profit After Tax
51% Growth
660 Million

Deposits
4% Decline
10.1 Billion

26 Billion
Total Liabilities
12% Growth

Overview

Group performance improved significantly during the year with asset growth of 16% YoY and a profit growth of 51% YoY driven by expansion of the lending portfolio together with an improvement in portfolio quality. This performance was achieved despite a tough operating environment, which saw a regulatory limit on the LTV of vehicle leases, curtailed demand for consumer goods, difficulties in debt recoveries from customers and intensified competition from banks. Loan disbursements were driven by mortgage and pledge loans. During the year, we focused on strategically rebalancing our lending portfolio and building a strong platform for growth driven by sound recovery process. We strategically focused on consolidating our group based microfinance portfolio through investing in customer education and employee training during the year. This would enable us to manage our risk profile in this relatively high-risk, high-return product category. Overall, the Company's Gross NPL ratio improved to 2.11% during the year compared to 2.46% last year and continues to be lower than the industry average while leading to a decline in impairments and bad debt write offs.

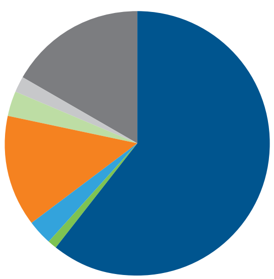
Financial Performance

Gross Income of the Company increased by 18% to Rs.5.4 Bn during the year driven by growth in interest income and other operating income despite a moderation in fee based income and trading gains. Interest income increased by 22% as the lending portfolios expanded. Other non-interest income declined by 8% impacted by lower fee based income and normalization of gains from trading activities. Bad debt recoveries of Rs. 54 Mn resulted in other operating income increasing by 7% during the year.

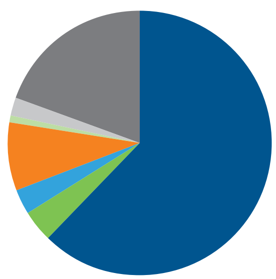
Composition of interest income

Interest income increased by 22% during the year driven by growth in both loan and leasing portfolios, while the hire purchase portfolio contracted. Leases accounted for 59% of interest income, growing by 18% YoY in 2016/17 with an increase in four wheeler vehicles that offset the decline in the three wheeler segment. Interest income from loans recorded a significant growth of 98% during the year upheld by portfolio growth in mortgage, pledge and gold loan segments.

Income Composition 2017

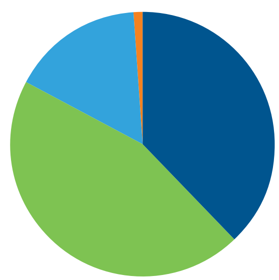


Income Composition 2016



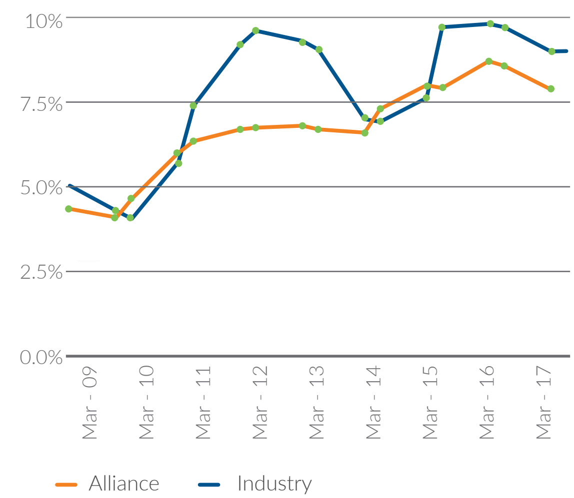
Interest expenses increased by 32% during the year to Rs 2.5 Bn as we obtained increased exposure to foreign funding and bank borrowings, which increased by 41% during the year. Average cost of funds increased to 10.3% in 2016/17 compared to 9.4% in 2015/16 given the rise in market interest rates. Interest expenses from bank borrowings accounted for 38% of the total and surged by 142% YoY. Interest expenses on deposits accounted for 45% of the total and increased by 7% during the year. Expenses on debt instruments declined as several were redeemed during the year.

Interest Expense Composition 2017

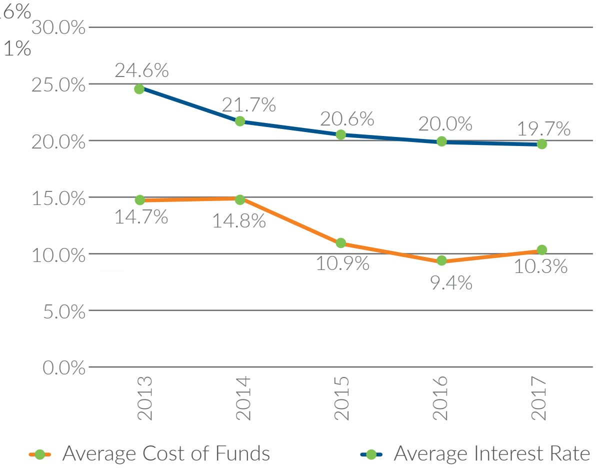


Net interest income of Rs. 2,515 Mn reflected a growth of by 13% during the year, recording a faster growth rate than the overall industry. Interest income driven by portfolio growth sustained the impact of declining net interest margins. NIM declined to 9% during the year compared to 9.7% in 2015/16 as interest spreads narrowed with an increase in the average cost of funds.

Net Interest Income Growth Trend (AFC vs Industry)



Net Interest Income Growth Trend (AFC vs Industry)



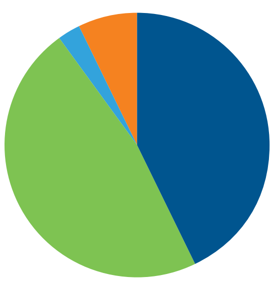
VALUE CREATION AGAINST OUR CAPITALS

Financial Capital

Net operating incomes increased by 23% during the year to Rs. 2,795 Mn compared to Rs. 2,271 Mn in the previous year with a decline in impairment charges and reversal of gold loan auction losses.

Total impairment charges declined by 84% to Rs. 24 Mn due to impairment write backs and decline in bad debt written offs to Rs. 98 Mn compared to Rs. 319 Mn in the previous year. In addition, increasing gold prices enabled a recovery of gold auction losses during the year.

Operating Expenses 2017



Operating expenses increased by 8% during the year. Personnel expenses accounted for 43% of operating expenses and increased by 3% in 2016/17. Administration expenses accounting for 47% of operating expenses increased by 12% during the year primarily driven by the growth in motor vehicle running and maintenance costs. Efficiency ratio improved to 62.5% in 2016/17 compared to 64% in the previous year as the Company focused on cost management initiatives and improving labor productivity.

Profitability

Operating profits before value added tax increased by 66% during the year to Rs. 1,002 Mn driven by growth in interest incomes, a reduction in impairments and reversal of gold auction losses during the period. Value added tax (VAT) increased to Rs. 179 Mn as the government increased VAT for financial services to 15% from 11% in the previous year. Profit before taxation improved by 57% to Rs. 834 Mn despite the VAT increase. Provision for income taxes increased by 66% YoY during the year due to increase in profit before taxes and a change in the product mix. Profit After tax (PAT) increased by 55% during the year to Rs. 649 Mn, the highest level in our history.

Financial Position

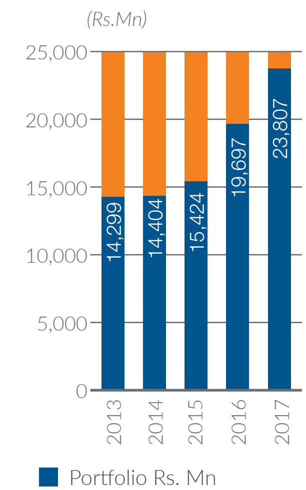
	Rs. Mn	Growth % 2016/17	5 year CAGR %
Total Assets	30,022	16	19
Loans & Advances	7,478	33	33
Lease rentals	15,837	19	20
Hire Purchase	168	-64	-39
Financial Investments	1,740	14	26

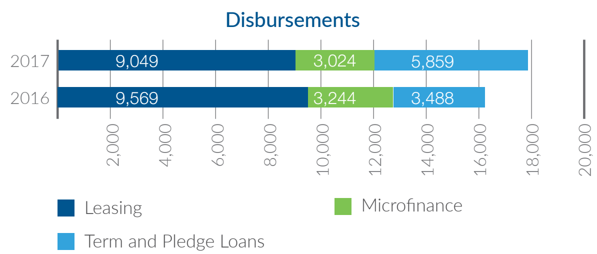
Assets

Total assets of the Company expanded by 16% to Rs. 30 billion during the year, supported by the growth in the lending portfolio. The asset composition remained relatively unchanged in comparison to the previous year, with the lending portfolio accounting for 78% of assets.

The lending portfolio comprising of leases, loans and hire purchase increased by 21% during the year. An increasing number of new customers were seen in the mortgage and pledge loan segments. Loan disbursements increased by 10% YoY to Rs 17,932 Mn.

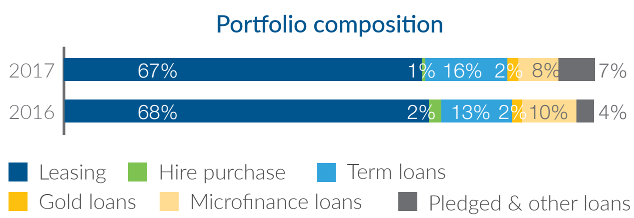
Portfolio Trend





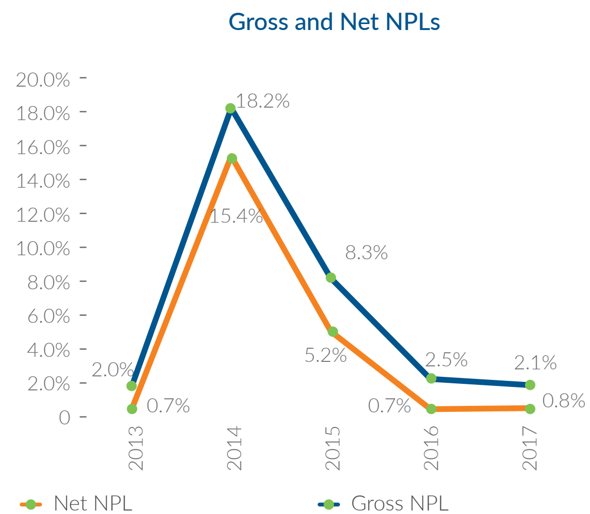
Portfolio composition

Leasing portfolio increased by Rs. 2,554 Mn growing at 19% YoY as leases to the four wheeler assets increased during the year offsetting the 9% decline in the three wheeler category. Three wheelers accounted for 33% of leasing portfolio and were impacted by the regulatory cap on the loan to value (LTV) ratios. Loans and advances increased by 33% during the year driven by the growth in mortgage, pledge and gold loans. With increasing gold prices, we revived the gold loan segment and increased the portfolio by 27% during the year to Rs. 468 Mn. Group based microfinance continues to be a lucrative area of interest where we focused on building a strong foundation with a sound recovery process that will drive our future growth. During the year, group based microfinance portfolio declined by 11% as our focus was on educating customers, developing employees and streamlining the recovery processes.



Asset quality

Non-performing loans (NPLs) increased slightly by 4% to Rs. 502 Mn significantly slower than the portfolio growth of 21% during the year. Accordingly, the gross NPL ratio declined to 2.1% during the year compared to 2.46% last year. Provisions declined by 7% YoY and amounted to Rs. 323 Mn with decreasing provisions in the hire purchase, loans and microfinance segments. The Net NPL ratio increased to 0.8% in 2016/17 compared to 0.7% last year as provisions were reduced. This improvement reflects ongoing efforts to strengthen our credit appraisal and recovery mechanisms, including streamlining our recovery process, appointment and training of recovery officers, providing target oriented incentives to collection officers and reducing the microfinance portfolio due to difficulties in collection. Our focus on reducing NPLs in recent year has enabled us to outperform the industry with gross NPL of 2.1% compared to the industry gross NPL of 5.3%.



Funding

	Rs Mn	Growth % 2016/17	5 year CAGR %
Equity	4,065	49	23
Liabilities	25,957	12	18
Deposits	10,088	-4	8
Borrowings	11,718	41	26
Debt instruments	2,548	-17	52

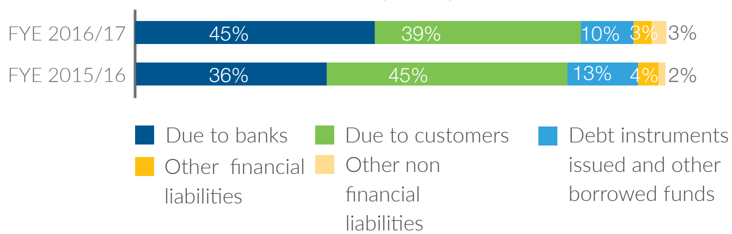
The main sources of funding during the year were new bank borrowings and rights issues that contributed Rs. 3,389 Mn and Rs. 71.3 Mn to our funding base. Debts and Deposits accounted for 86% of funding and increased by 11% YoY in 2016/17 as we obtained foreign currency loans amounting to USD 10 Mn from Symbiotic as a senior debt. Another USD 1 Mn senior debt and USD 4 Mn subordinated debt were received from Tridos Bank of Netherlands. The Company's ability to obtain foreign funding lines is a testament to the stability of its earnings profile and strength of its balance sheet.

VALUE CREATION AGAINST OUR CAPITALS

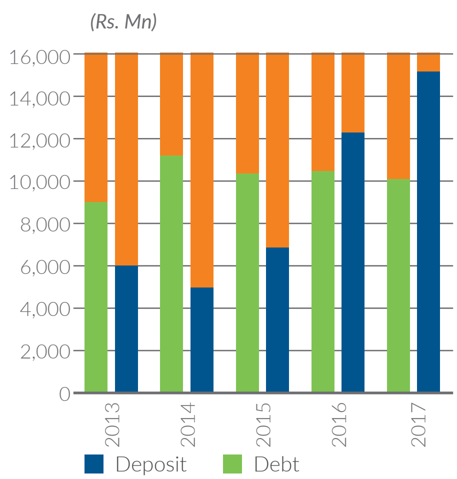
Financial Capital

Deposits accounting for 39% of liabilities declined by 4% YoY as both fixed and savings deposits reduced during the year. The Company did not aggressively pursue deposit growth during the year as it had sufficient access to low cost funding such as foreign and local borrowings. Debt instruments accounted for 10% of liabilities and declined by 17% as a result of some debentures were redeemed during the year.

Liability Composition



Growth in Liabilities



Net assets per share recorded Rs 121 per share due to the share split and rights issue that added 31Mn new shares during the year.

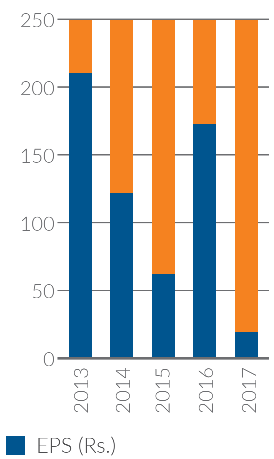
Capital adequacy

The Core capital adequacy ratio increased marginally to 10.4% during the year (10.2% the year before) comfortably above the regulatory minimum. The overall RWCAR decreased to 12.1%, due to the redemptions of debentures.

Investor returns

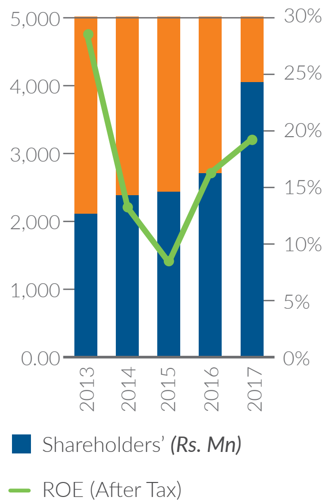
Shareholders' funds increased by 49% YoY to Rs. 4,065 Mn with the rights issue of shares and growth in retained profits. Stated capital increased to Rs. 613 Mn in 2016/17 compared to Rs. 24.3 Mn in 2015/16. The number of shares issued increased during the year to 33 Mn shares compared to 2.4 Mn shares in 2015/16. The share split (21mn new shares), reserve capitalization (8mn new shares) and rights issues (1.3mn new shares) contributed to the increase in shares.

EPS (Rs.)



Investor returns improved during the year driven by growth in profitability. Return on equity (ROE) increased to 19.1% in 2016/17 compared to 16.2% in the previous year mainly driven by the 49% growth in profit after tax.

Shareholders' Funds and Return on Equity



Returns to Our Shareholders

Significant Growth In Profits	✓	Profit after tax reached Rs 649 Mn, the highest in our history
Dividend Per Share	✓	Total dividend per share of Rs. 5.9 that includes Rs. 3.7 interim and Rs. 2.2 proposed. Stock dividend of Rs 64/share from capitalization of reserves.

VALUE CREATION AGAINST OUR CAPITALS

Manufactured Capital

AFC's manufactured capital comprises tangible and intangible infrastructure which includes its branches, gold loan and collection centers and microfinance co-ordinating offices as well as its information systems and other digital infrastructure. The Manufacturing capital plays a vital role in enhancing the customers' experience and we have continued to invest in expanding and enhancing the quality of this capital to maximize customer reach and generate efficiencies.

Physical infrastructure

As the key contact point for customer engagement, we ensure that our physical network enhances customer experience while nurturing brand recognition. RFC, gold, micro loans and deposit product offerings are promoted to customers through the branch network facilitating both credit growth and deposit mobilization. By end-March 2017, we operated a total of 89 contact points across 24 districts in the island. Of the 89 contact points, 62 are located outside the Western province, of which more than 35 are located in rural and impoverished localities, thereby demonstrating our commitment to driving financial inclusion in the regions. During the year under review, strategic emphasis was placed on optimising the current island-wide branch network and we added 2 new fully fledged branches and 4 collection centers to our network while 4 gold loan centers were temporarily discontinued with the objective of shifting them to more prominent locations amalgamated with the fully fledged branches.

Physical network

Fully fledged Branches: 39
Gold loan centers: 12
Microfinance Coordinating Offices: 21
Collection centers and other: 17

Digital infrastructure

The digital revolution in financial services is transforming the way financial entities engagement with their customers. For AFC, driving growth efficiencies and the customer relationship through digital infrastructure is a key area of focus and during the year we invested over Rs. 30 million in upgrading our IT infrastructure to a blade center thereby facilitating integration and virtualization of the full system. This upgrade is also expected to generate process efficiencies, enhance the reliability of information and support more effective decision making through providing access to better and timely information.

Information security

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

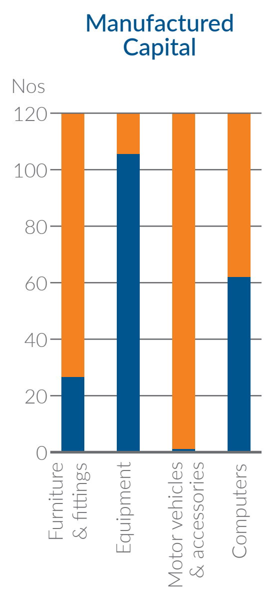
Customer engagement

During the year we also strengthened customer engagement via online platforms through the upgrade of our website and a more active social media presence. Over the medium term, we hope to further enhance our customer value proposition through the launch of online and mobile banking facilities.

In the next financial year, we will focus on the implementation of a new IT - MIS system which will transform our operations through process efficiencies and strengthen our risk management practices. We have already identified the vendor and a customized solution will be developed for the Company's specific requirements.

Value addition to our Manufactured Capital

During the year under review we invested Rs. 65 million in strengthening our Manufactured capital, the breakdown of which is illustrated below.

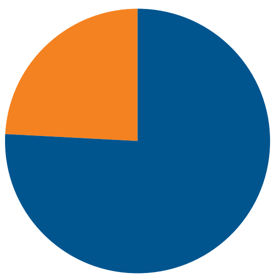


VALUE CREATION AGAINST OUR CAPITALS

Human Capital

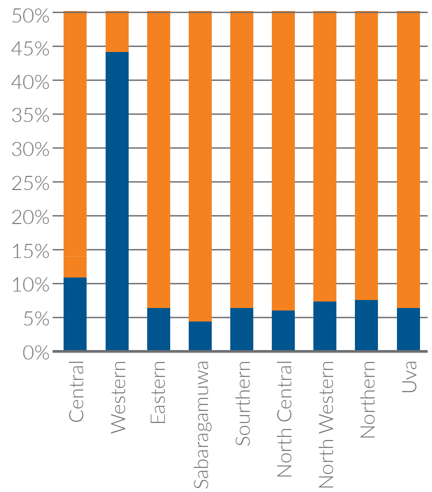
Our engaged and motivated team of 1,222 employees is our most valued capital for the Group and a critical source of competitive advantage. We in turn are committed to providing attractive remuneration and numerous opportunities for skill and career development in a dynamic and rewarding work environment.

Gender

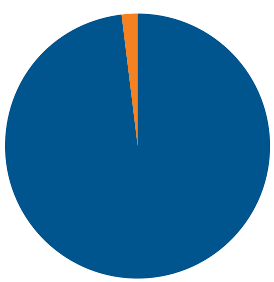


Male	76%
Female	24%

Workforce by Location

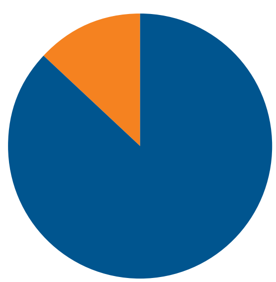


Employment Contract



Permanent	1201
FTC - Fixed Term Contract	21

Employment Category



Operational	87%
Supervisory	13%

Highlights

Our team 1,222	Invested in Training 1.5 Mn	Diverse Workforce	136 employees promoted in 2016/17 compared to 91 in 2015/16
Total value created for employees 774 Mn		**How We Grow and Retain Our Employees**	85% of cadre eligible for annual appraisals
Continuous employee engagement			Zero incidents on human rights, safety and discrimination

Implemented sound HR policies linked to corporate strategy

Our HR policies and approach

Our approach to people management is governed by a comprehensive suite of HR policies, which ensure the fair and equitable treatment of all employees. The policy framework has been formulated to ensure compliance with all relevant regulatory requirements including prohibition of child labor and forced/ compulsory labor. The framework covers numerous aspects of HR including recruitment, remuneration, talent development and performance management among others. During the year, we focused on refining our Human Resource (HR) strategy by;

- Implementing a talent management framework and succession planning with the objective of developing a talent pipeline and nurturing the next generation of leaders within the organization.
- Revamping existing Human resource systems and automating the performance management systems. This is expected to facilitate better analytics thereby enhancing decision making capabilities.

- Strengthening the HR policy framework with revisions to the personnel accident benefit scheme and reimbursement of hospitalization and outdoor medical expenses policy.

Human Resource Governance

The Remuneration Committee functions as a sub-committee of the Board and is responsible to provide guidance and expertise in recruitment and remuneration of executive directors and senior management in addition to reviewing the overall remuneration processors of the organization. Implementation of the HR framework is the responsibility of the HR Department which reports to the MD and to the Remuneration Committee on matters assigned to them by the Board.

AFC governance body included 3 directors, 3 CXOs and 48 managerial employees and was headed by the REM committee.

Our talent pool

We focus on maintaining a right balance of employees diversified by skills, employment type, age, gender and experience to best suit our operational and managerial requirements. By the end of the financial year ended 31 March 2017, our team comprised 1,222 employees, of which 1,201 was represented by the permanent cadre.

Composition of employees

2016/17	% of total	Ratio: M:F
Director	14.3%	6:1
CXO	0.2%	3:0
Assistant General Manager	0.7%	8:1
Senior Manager	1.0%	9:3
Manager	4.6%	52:4
Assistant Manager	9.3%	103:11
Senior Executive	9.7%	101:18
Executive	39.3%	417:65
Junior Executive	31.8%	204:185
Minor	1.1%	10:3
Trainee	2.0%	19:6
Total	**100%**	

Our recruitment policies are designed to hire aspiring young individuals and groom and develop them to senior positions. As such, employees hired below the senior executive levels accounted for 74% of our employee base. Sales executives and credit control officers (Recovery staff) played an important role in our day to day operations.

Employee cadre: Age category

2016/17	Number	% of total
18-20	49	4%
21-30	752	62%
31-40	331	27%
41-50	66	5%
51-60	17	1%
>60	7	1%

We have a relatively young team with 66% of employees below 30 years of age and 93% below 40 years of age. These employees bring dynamism and vibrancy that is essential to thrive in today's operating environment.

Talent attraction

The growth in our business operations entails a steady rise in the number of employees. We recruited 473 new employees in 2016/17, comprising of both field staff and executive level employees. The recruitment of field staff was done in batches of 15-20 people. AFC aims to ensure that employees are hired from the localities in which it operates as it enhances the reachability to customers. As such during the 2016/17, the total cadre comprised of 44% of employees from the Western Province,11% from central province and the remaining distributed among other provinces. In addition, all senior

Human Capital

management was hired from the local community. In line with our recruitment policies, we continued to maintain our position as an equal opportunity employer with no bias towards any gender, ethnic group or religion in both recruitment and retention.

Rewards and recognition

Our rewards policy aims to ensure that we attract and retain the industry's best talent. Performance of all employees are linked to Key Performance Indicators (KPIs) communicated to the employee at the beginning of the review period. A one to one ratio of basic salary by gender was maintained during the year in addition to a salary which is well above the regulatory requirements at the entry level. The following benefits were given to employees.

Above regulatory EPF contributions of 20% by Employer	Festival advances
Performance-based bonuses	Subscriptions for professional associations
Annual increments	Educational expenses reimbursement
Travelling/Fuel allowances	Staff Loans
Mobile allowances as entitled	Maternity leave: 15 employees were on maternity leave in 2016/17 with 11 employees returning to work after maternity leave.
Gratuity	
In-house Medical Insurance scheme	
Personal Accident benefit scheme for employees who travel frequently	

In line with our remuneration policies, we have maintained a fair salary and remuneration ratio of male to female based on the composition of our employee cadre. There were no incidents of discrimination and no grievances filed on human rights during the review period.

Grade	Salary and remuneration Ratio (Male: Female)
CXO/AGM	1:1
Senior Manager	1:1
Manager	1:1
Assistant Manager	1:1
Senior Executive	1:1
Executive	1:1
Junior Executive	1:1

Employee Engagement

Our employee engagement mechanisms ensure that we maintain open, two-way communication with our employees whilst ensuring that employees perform their responsibilities in an efficient and consistent manner.

We engage with employees as follows:

Engagement	Frequency
Management meetings and target evaluation meetings	Monthly
Open door policy	All the time
Performance appraisals	Annually
Corporate Planning	Annually
BCMS and ISO trainings	Periodically
Intranet	Regularly
E-mails and memos	Regularly
Networking events	Periodically
Internal training and development sessions	Periodically
Branch/division level short meetings	Periodically
Individual/ small group feedback sessions	Regularly
Employee satisfaction survey	Annually
Employee exit interviews	As required

Our process of employee engagement ensures that our employees

- Perform at optimum levels
- Continuously develop skills
- Able to deal with challenging tasks and projects
- Evaluate Employee satisfaction
- Develop a sense of team and camaraderie

The following concerns were raised through employee engagement and our responses are listed below;

Our responses

Personal	Organizational
• Employee training program	• Operations manuals
• Career development	• Motivation
• Promotions	• Internal audits
• Performance based awards	• E-mails and circulars
• Sports events and get together	• CSR
• Incentives and performance based increments	

VALUE CREATION AGAINST OUR CAPITALS

Human Capital

Employee networking

Religious ceremonies were conducted at head office and all our branches to celebrate the 60th anniversary of the company. The annual carol service was held in December at head office premises with the participation of all Colombo based staff members and their families. In addition, staff get together and sports events were organized during the year. We engaged employees to our CSR projects with all employees contributing to the flood relief programs by providing immediate dry rations for flood affected people and donating 750 pairs of shoes to the students of Gothatuwa Maha Vidyalala.

New Year Ceremony - 2017

Long Service Awards - 2016

Christmas Carols

AFC sports event

Skill development

We offer numerous opportunities for skill development and our HR policies facilitate a structured training program based on the company expectations and future requirements of management and divisions of our organization. Skill gaps are identified through a comprehensive and systematic training and development program at the start of every year. The plan aims to fulfill employee training needs and create a learning culture that will nurture the necessary skills and knowledge for value creation in the organization.

Induction Process: All new recruits undergo an induction program introducing them to the Company's history, corporate culture, products and services as well as overall operational framework. Given our increasing focus on microfinance, our induction program provided special attention to increasing knowledge and skills in microfinance using a comprehensive 3-month training program in collaboration with the Sri Lanka Institute of Credit Management.

Training and development Highlights

	2016/17	2015/16
No. of staff that participated in training programs	550	423
% of total staff	43%	35%
No. of training programs conducted	39	43
Total Investment for the training programs (LKR mn)	1.5	2.3
Total training hours	2,674	3,570
Average training hours per employee	5.00	8.44

During the period of review, our employees participated in 39 training programs at a cost of LKR 1.5mn. Training hours declined by (25%) during the year to 2,674 hours in total.

Internal/external training

	Internal	External
No. of staff that participated in training programs	445	110
Total no of training hours	2,247	427
Average training hours	30	20

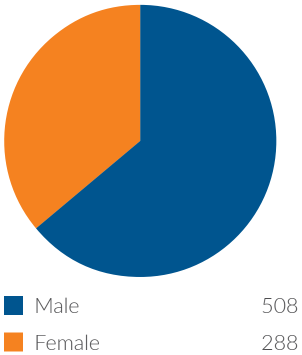
Training programs included both internal and external programs. A higher participation of 445 staff was in internal programs which covered areas such as business operation related trainings, Soft skills development, Business strategy and IT/Software Skill development.

Training programs and training hours

	No of programs	No of participants
Business operations/ Marketing	30	503
Business strategy	1	4
IT/Software	2	7
Business continuity management	1	2
Soft skills development	5	34
Total	39	550

A total of 39 training programs were conducted during the year with greater emphasis on business operations/marketing such as documentation, recovery and feedback management programs. A higher participation was seen in business operations related training programs that accounted for 91% of staff participation during the year. In terms of employee category, the highest number of training hours was for Executives representing 19% of total.

Training Hours by Gender



VALUE CREATION AGAINST OUR CAPITALS

Human Capital

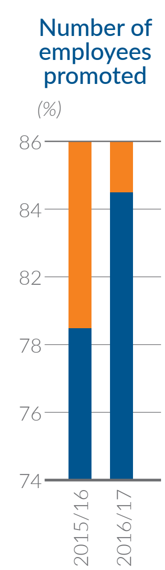
Employment Type

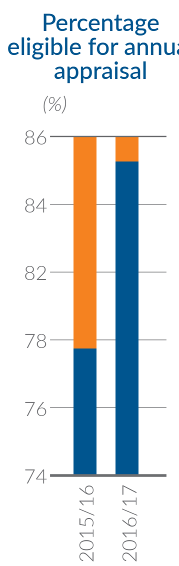
	Training Hrs	Hours per employee per year
Director		
CXO	16	3.2
Assistant General Manager	20	4.0
Senior Manager	12	12.0
Manager	48	3.9
Assistant Manager	411	25.6
Senior Executive	785	87.1
Executive	999	45.4
Junior Executive	383	38.3
Minor		
Trainee		
Grand Total	**2,674**	

Career Development

A total of 1,044 employees, representing 85% of the employee cadre were eligible for annual appraisals in 2016/17. Employee development through promotions significantly increased during the year with 136 employees being promoted to senior positions compared to 71 employees in 2015/16.

Promotions	2015/16	2016/17
New Grade	Count	Count
Senior Manager	1	2
Assistant Manager	6	17
Senior Executive	23	50
Executive	32	53
Manager	9	14
Grand Total	71	136





Employee Turnover

One of the major challenges that confronted AFC during the year under review was the incidence of high staff turnover of the group based microfinance unit as the industry segment is grappling with this problem. Nevertheless, the Company has put in place several employee value creating policies such as off the job and on the job training, attractive reward practices and employee benefits.

As such we implemented the following actions:

1. Increased career progression opportunities with internal employees being given the first priority on vacancies.
2. Staff of well performing branches were provided with opportunities such as foreign visits to gain exposure.
3. Award ceremonies to recognize the best performers
4. Adoption of industry best practices

Health and safety

The health and safety committee includes 14 employees and focuses on occupational health and safety programs. The programs conducted during the year include first aid training and a fire incident management training. There were no workers involved in high incidence or high risk operations in the Company.

Fire Safety Training

VALUE CREATION AGAINST OUR CAPITALS

Social and Relationship Capital

The Group's Social and Relationship capital represents the long-term relationships we have nurtured with our diverse stakeholders, primarily our customers, business partners and the communities we operate in. These relationships are a fundamental element of our value creation process and provide us the social license to operate.

Highlights of 2016/17

Island-wide network of over 117,000 customers	89 customer contact points	100 customer education programmes during the year	**Total investment in CSR Rs 7.5 million**
	Our commitment to our stakeholders and networks		
Supplier evaluation comprising social and environmental criteria	Over 65% of our customers have been with AFC for over 5 years	Active participant in industry forums	60% of our lending portfolio is outside the Western Province

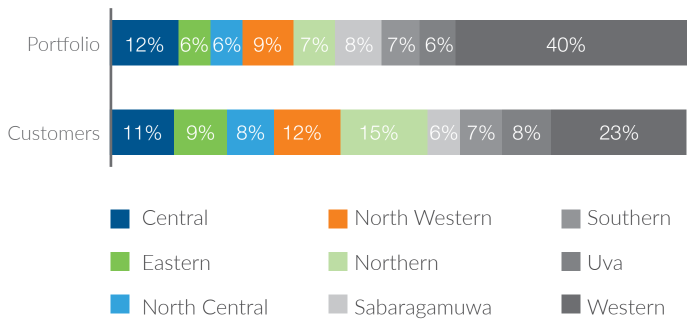
Customer relationships

Customer profile

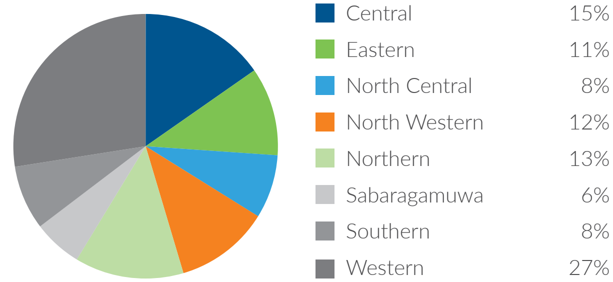
We have developed long-standing relationships with an island-wide network 117,534 customers, comprising individuals, SME and micro enterprises. We serve our customers through a wide array of lending and deposit products which are often customized to satisfy the specific requirements of clients. A unique value proposition characterized by trust, innovation and stability has enabled the Group to nurture engaged and loyal customers with over 65% of our deposit customer base having been with us for at least 5 years. During the year under review, total customers recorded a decline of around 12% mainly due to strategic efforts in consolidating microfinance portfolio as well as write-offs in the RFS portfolio. We maintain a high level of engagement with our customers facilitated through face to face interaction, customer satisfaction surveys, social media platforms and a dedicated customer relationship management function.

	2016/17	2015/16	% Y-o-Y
Deposit customers	9,413	9,804	-4
RFS and other lending customers	48,195	66,455	-10
Microfinance	59,926	57,725	-17
Total	117,534	133,984	-12

Our regional inclusion objectives are reflected in the regional analysis of our lending portfolio, in which 60% of the portfolio originates outside the Western Province. Meanwhile, deposits are still concentrated primarily in the Western province with more than 90% of total deposits originating from Colombo.



Deposit Customers - Regional Breakdown



Value proposition

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

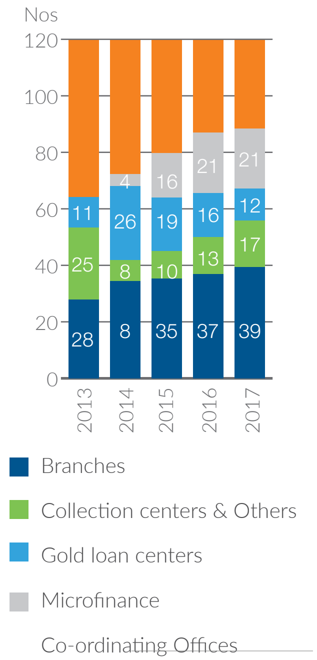
VALUE CREATION AGAINST OUR CAPITALS

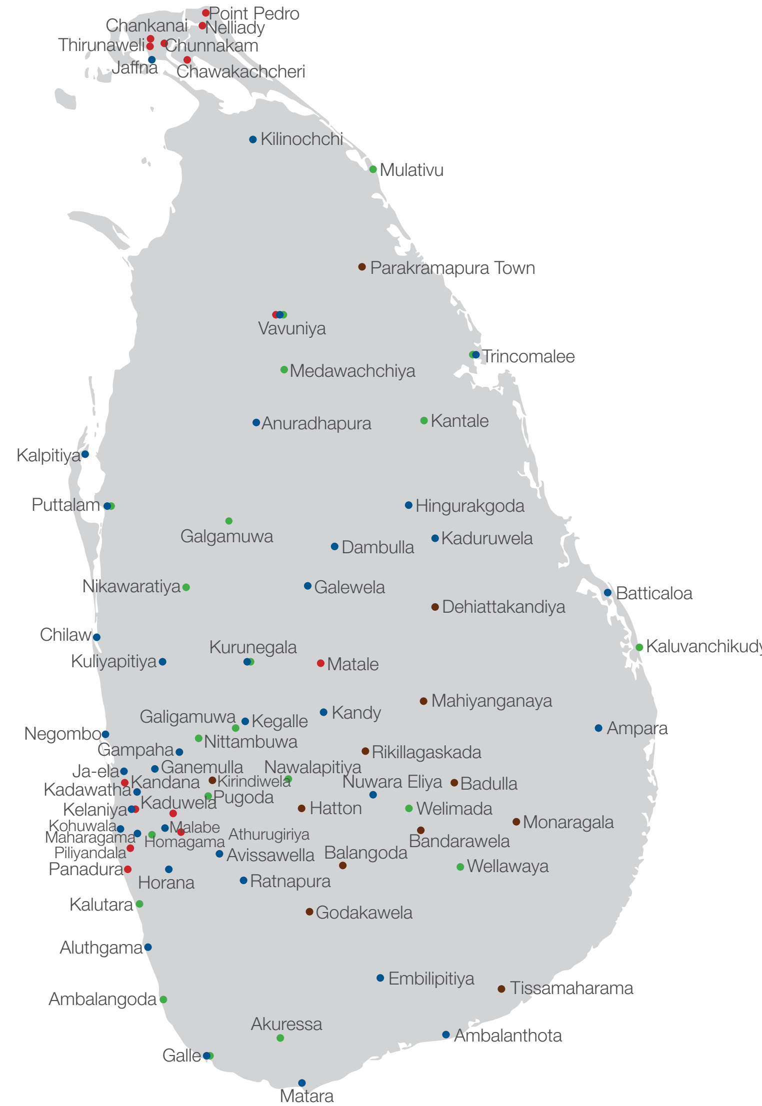
Social and Relationship Capital

Accessibility

We engage with and serve our customers through an island-wide network of 89 contact points, comprising fully fledged branches, collection centers, microfinance coordinating offices and gold loan centers. These contact points are designed and located strategically to optimize the Company's geographical reach to attract relevant customer segments. For instance, gold loan centers are located in areas which draw large crowds, for example city centers or transport hubs. During the year, we further expanded our network and by end-March 2017 operated a total of 89 contact points across the island. Of the 89 contact points, 62 are located outside the Western province, out of which more than 30 are located in rural and impoverished localities, thereby demonstrating our commitment to driving financial inclusion in the regions. Further details of our points of presence are avalible in our website (www.alliancefinance.lk/contact/branches).

Geographical reach





Responsible lending practices

Product & Service Labelling and Marketing communications

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

Client protection

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

Client protection principles

- Appropriate product design and delivery
- Prevention of over indebtedness
- Transparency
- Responsible pricing
- Fair and respectful treatment of clients
- Privacy of client data
- Mechanism for complaints resolution

Protecting customer information

We understand the obligation we have towards preserving the financial and personal information of our customers. During the year, the IT infruastructure was upgraded to a blade center thereby enabling the complete virtualization of the system; this has allowed for stronger and more holistic IT infrastructure. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data during 2016/17.

Customer satisfaction

Ensuring the highest levels of customer service and satisfaction is a key focus in our customer value proposition. We continue to invest in strengthening employees' product knowledge and soft skills with the objective of serving our customers better. Multiple platforms are in place to facilitate the measurement of customer satisfaction. These are,

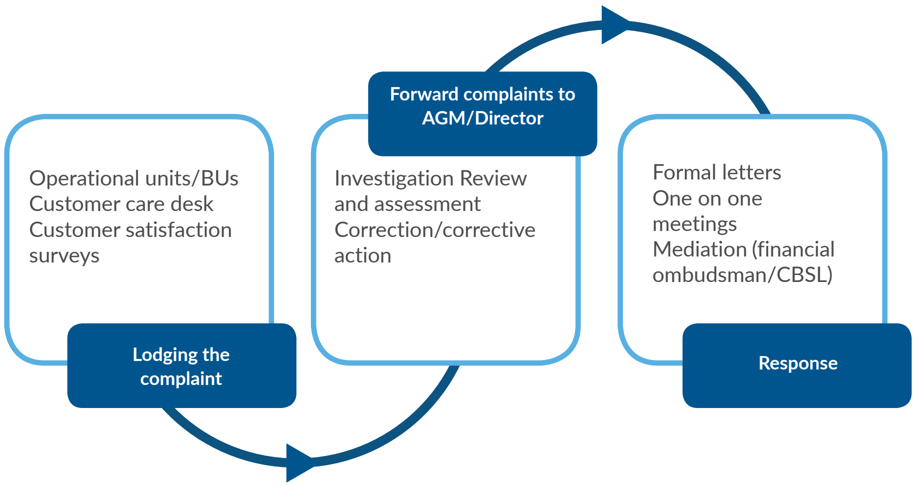
- Structured customer satisfaction surveys are carried out periodically by the RFS, Microfinance and Deposit business lines while microfinance also carries out exit surveys
- Grievances presented to the customer hotline
- Mystery shopper initiative to gauge customer satisfaction in the branches
- Meanwhile structured and formalised systems are in place to manage customer queries and customer grievances as illustrated below;

VALUE CREATION AGAINST OUR CAPITALS

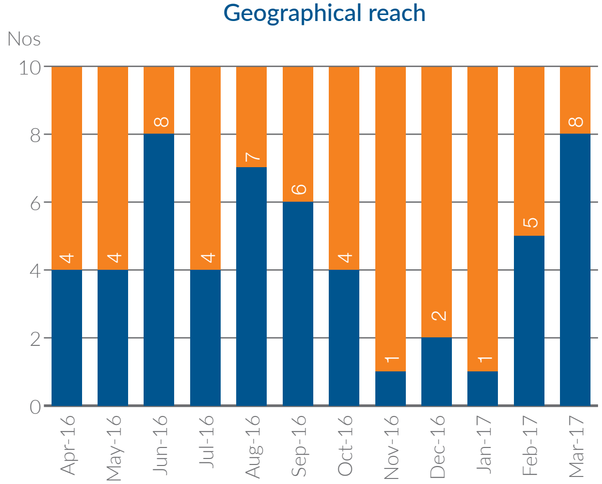
Social and Relationship Capital

Customer grievance handling

During the year under review we received 54 customer grievances, which were resolved during the period.



Geographical reach



Customer education

Our group based microfinance value proposition extends beyond mere financial support to enhancing the socio-economic progress of impoverished families through developing financial literacy, life skills and entrepreneurial skills. Perfectly aligned with the Group's triple bottom line approach, this holistic value proposition has enabled AFC to nurture a strong base of financially disciplined and socially empowered customers. The customer education services are conducted through a structured Entrepreneurial Development Service, which operates within the group based microfinance business line.

Entrepreneurial Development Services

The training programs are conducted as ongoing sessions throughout the island with every branch being required to conduct at least 1 training session per quarter. The sessions are coordinated through the respective branches and engage the services of external consultants and professionals when necessary. During the year under review we invested Rs. 1.2 million in 98 such programs which were carried out across the island with a total beneficiary base of over 2,400.

In addition to the trainings two medical camps were also conducted under the EDS program serving 223 benificiaries.

The training sessions that are conducted are two-fold;

General life skills

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

Entrepreneurial skills

Aimed at introducing and developing knowledge on potential micro enterprises and ventures particularly cottage industries.

During the year we conducted numerous programmes on beauty culture, production of sweets, sewing, manufacturing bags, mushroom cultivation, manufacturing slippers, vegetable farming etc.

Topic of the training program	No. of sessions	Total beneficiaries
Financial Literacy	45	1,015
Apparel & Garment	11	274
Crop cultivation	8	254
Goods manufacturing	6	126
Slippers/Leather products	6	241
Social Empowerment Programs	6	116
Food and beverage production	7	157
Animal Husbandry	4	163
Beauty & Fashion	4	73
Arts and crafts	1	23

Integrated Farming project

In an innovative concept mirroring the Group's triple bottom line approach, we launched a model Integrated Organic Farm in Nuwara Eliya during the year. Conceptualised with the objective of propagating sustainable agricultural practices among our group based microfinance customers, the Farm enables the cultivation of multiple crops thereby generating a source of secondary income to farmers. The Farm features a bio-gas unit which absorbs garden and other wastage to generate clean energy which is in turn used for cooking purposes. With an initial investment of Rs. 0.4 million the Farm is used as an effective platform to engage customers on the use of green energy, minimising wastage and spread awareness on the correct application of chemicals/fertilizers.

Integrated Organic Farming

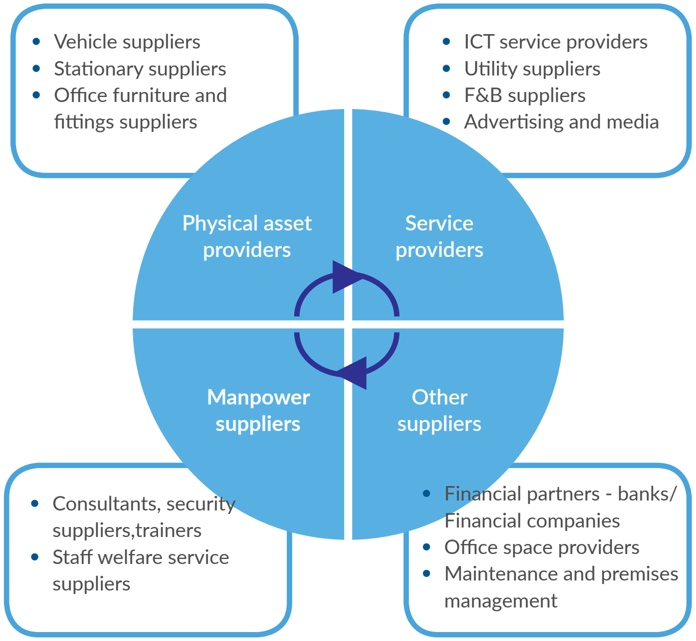
VALUE CREATION AGAINST OUR CAPITALS

Social and Relationship Capital

Business partners/Suppliers

Supplier profile

The Company strives to develop mutually beneficial relationships with an array of suppliers who facilitate our value creation process. Our primary suppliers can be categorised as follows and consist of corporates, SMEs as well as individual and micro level suppliers.



Approach to supplier management

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

Provisions in the supplier consent form

Regulatory compliance

Labour management – child labour/forced compulsory labour, freedom of association, working hours, salary and wages, health and safety Anti-corruption and anti-briber

Environmental protection

During the period under review, we did not engage with any suppliers or business partner which had any allegation of human rights violations, usage of child labour, forced labour or any such unethical practice to the best knowledge of the Company.

Community engagement

We adopt an integrated approach towards CSR with the view of integrating it to our overall business and sustainability strategy. This has enabled AFC to contribute proactively and in a strategic manner to communities rather than on an ad-hoc basis. This approach is formally documented in a structured CSR Strategy which provides direction on the specific community needs the Group wishes to address. The policy also specifies that 3% of the Company's profits should be directed to CSR activities every year; accordingly our total investment in CSR amounted to Rs.7.5 million during the year.

Approach to CSR				
Activities in the normal course of business	Others			
Financial and social empowerment through our EDS service (refer to pages 108-109)	Health	Education	Community development	Others

Health

Blood donation camp in Horana

During the year, our Horana branch successfully carried out a blood donation campaign and medical camp in partnership with DPMC Kaluthara. Over 400 individuals obtained medical screening through this initiative

VALUE CREATION AGAINST OUR CAPITALS

Social and Relationship Capital

Education

- **Ongoing support to the Ratnapura Sethmini CSR Program**

Carried out in partnership with Caritas Ratnapura as an ongoing initiative, we have partnered the Sethmini CSR foundation to support schools with improving access to water supply, sanitation and toilet facilities and the development of library facilities among others.

- **Youth Encounter on Sustainable Marketing**

We partnered the Department of Marketing Management of the University of Kelaniya to assist in the publications of the Department's events and activities through mass media. This enables the Company to share its knowledge in the sphere of marketing with the objective of generating future marketing leaders.

Community development

- **Tree Planting**

We have committed towards planting one million endemic plants in each city with the objective of enhancing bio diversity and contributing towards the overall reduction of emissions. As the second phase of this project we have sponsored notice boards displaying city limits in nearly 24 districts island-wide.

Improving Access to Water Supply

Kelaniya University Sustainable Marketing Tie-Up

Sponsored for Notice Boards Displaying in City Limits

- **Pareigama village development**

AFC partnered the undergraduates of the University of Sri Jayewardenepura, to provide access to drinking water to the students of Pareigama Maha Vidyalaya. Through this program we contributed towards the construction of a sink area in the school premises and provided sports equipment and facilities.

Providing Sports Equipment and Drinking Water Facility

Others

- **Flood relief:** During the extreme flooding conditions in 2016, AFC stepped up to support its own affected employees and the general public affected by flooding. Further, Managing Director and other senior management team members along with AFC staff members contributed to raise a fund to assist flood relief effort to give helping hand to the needy people. We distributed dry food, Medicine, Hygiene products, cloths and baby products joined hands with "Manusath Derana" flood relief programme. In addition to that, we donated shoes and stationary items to the students from flood affected families of Gothatuwa Maha Vidyalaya.

Flood Relief Program

- In the Kurunegala branch, we gifted a plant to all customers who visited the branch on the 1st day of 2017

Industry networks

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

Industry associations in which AFC holds membership

Leasing Association of Sri Lanka
National Chamber of Commerce
Finance Houses Association of Sri Lanka

VALUE CREATION AGAINST OUR CAPITALS

Intellectual Capital

The Company's Intellectual capital is represented by the tacit knowledge, systems and processes within the Organisation as well as the strength of its brands which determine its ability to compete effectively.

Brand

Its excellent track record together with the valuable relationships it has built with its stakeholders over six decades has enabled the Company to nurture strong brand recognition. This has allowed the Company to remain resilient and maintain its market share despite increasing competitive pressures in the industry. In 2016/17, the Alliance brand was ranked among Sri Lanka's top 65 brands with an estimated value of Rs. 816 million (LMD, Brand Rankings).

Organisational capital

AFC's expertise in providing financial services to the Sri Lankan consumer for over 6 decades has enabled the Company to nurture an invaluable base of organisational knowledge. We have continued to invest in refining our systems, processes and standards to facilitate adaptability to changing market conditions and reflect our evolving business and sustainability considerations. Compliance to several international accreditations provide assurance to stakeholders on our processes; AFC was the first Sri Lankan company in the non-banking finance sector to receive the ISO 22301 certification for its business continuity management systems and the only finance company in South Asia to obtain the BCMS 25999 accreditation. We were also the first finance company in the country to obtain the ISO 9001: 2000 Quality Management Certification.

VALUE CREATION AGAINST OUR CAPITALS

Natural Capital

As an industry pioneer in adopting the tripe bottom line approach, we remain passionate about the preservation and enrichment of our natural capital although our direct impacts on the environment are relatively limited.

Our approach to environmental management

As a responsible corporate entity, we are committed towards preserving and enriching our natural environment as we pursue sustainable and responsible growth. Driven by the underlying concept of "Greener and Cleaner environment", we have increasingly focused on four main areas namely electricity, water, paper and fuel consumption. The objectives of our environment management strategy are fourfold namely reducing emissions, efficient use of natural resources such as energy and water, minimizing negative environmental impacts and increasing awareness among employees. In recent years, we have strengthened the mechanisms in place to monitor environmental indicators, thereby allowing the proactive identification of potential areas for improvement. As testament to our commitment, we invested 31% of our CSR spend on environment sustainability initiatives during the year.

	Our Approach	Achievements in 2016/17
Minimising our natural inputs		
Electricity Significance: The energy sector in Sri Lanka contributed to 40% of emissions in 2011.[1]	Replaced CFL bulbs with more energy efficient LED bulbs. Focused on replacing conventional ACs with inverter type energy efficient ACs to reduce costs and minimize environmental impact. We plan to convert all conventional ACs to invertor type. 'AFC Green Pledge', a pledge undertaken by the Company during the previous financial year to reduce energy consumption by 5% in 2016/17.	All new bulbs purchased were LED in addition to an increasing number of branches converting to LED from CFL bulbs. Currently 75% of our ACs are inverter type energy efficient ACs. Electricity consumption declined by (7%) in 2016/17 to 374,526 Kwh, despite an increase in operational activity. AFC pledge for the year 2017/18 focuses on reducing energy consumption by 5% and paper consumption by 10%.
Fuel	We started monitoring fuel consumption across all branches and head office. We owned 09vehicles including hybrid cars used for company transportation purposes.	Fuel consumption from both vehicles and generators amounted to 13,850 Liters. Diesel and petrol amounted to 31% and 69% of fuel consumption.
Water	We started monitoring water consumption during the year.	Nearly 12,822 Liters of water was consumed during the year.
Minimize paper usage	Reduced paper usage with the underlying objective of moving towards a paperless office.	Recycled 1,576 kg of waste paper during the year.

VALUE CREATION AGAINST OUR CAPITALS

Natural Capital

	Our Approach	Achievements in 2016/17
Managing our natural outputs and impacts		
Waste includes waste paper and e-waste	Engaged in paper recycling initiatives.	Recycled 1,576 kg of waste paper during the year.
Minimizing negative impact on environment and climate WASTE	Tree for lease initiative- Under this we plan to plant 100,000 trees over the next five years. Screening of customers for environmental critiera such as compliance with CEA licenses and no social and human right violations.	To date we have planted 15,800 trees in Deduru Oya and Hiniduma supporting the initiative of the Rotary club – 'Pledge to plant a tree for every lease given". We use the IFC exclusion list to ensure that we do not grant any loans that are environmentally or socially harmful. We plan on implementing an Environment and Social Management system (ESMS) that will improve our customer screening process and reduce environment and social risks.
Reducing Carbon Emissions		
Reducing carbon emissions Significance: Sri Lanka aims to reduce GHG emissions by 7% to 2030 with energy being a focal point. [2]	Testing of gas conversion kits developed by Vialle-Netherlands, a renowned emission reduction gas kit manufacturer in Europe. Increasing financing of hybrid vehicles and Electric cars.	The test kit was installed in three wheelers and further testing is scheduled along with planned modification to the kit, compared to three in the previous year. 618 hybrids and electric cars were financed during the year, which is a 30% increase compared to previous year.

A Tree for Lease

	Our Approach	Achievements in 2016/17
Engaging employees in environmental management		
Increasing awareness of employees	Focused on initiatives to increase employee engagement in environment management. Planned investment in ESMS of EUR 36,500 (Rs. 5.1mn).	Under 'AFC Green Pledge' concept, the pledge of the year was circulated to all employees which consisted of energy saving initiatives, electricity usage and monthly reduction rates. ESMS will increase employee commitment as the impact will be measured and monitored.

1. USAID_ https://www.climatelinks.org/resources/greenhouse-gas-emissions-factsheet-sri-lanka
2. US AID_ https://www.climatelinks.org/resources/greenhouse-gas-emissions-factsheet-sri-lanka

Potential impacts of climate change:

Climate Change

The main implication of adverse weather conditions such as floods and landslides is that customers in the Agriculture sector and affected areas may not be able to meet debt obligations on time. In addition, demand from the Agriculture sector, which is susceptible to erratic weather conditions would be impacted. Agriculture loans accounted for 38% of the group based microfinance portfolio during the year. The adverse climate changes that occurred during the year had a direct impact on the NPL of the Agriculture portfolio. Though we have not estimated the financial implications of climate change on our business operations, we have undertaken measures to reduce its impact to the environment and climate.

Managing our inputs

Energy

Electricity and fuel are the main sources of energy used in the day to day operations. Electricity is mainly used to power up office equipment and lighting purposes. Fuel is consumed by company-owned vehicles and generators. We have continued to widen the scope of our energy measurement mechanisms and the energy consumption of the head office was monitored during the year.

	2015/16	2016/17
Units (Kwh)	404,723	374,526
Intensity (Units/employee)	1,212	1,105
Cost (LKR)	10,163,741	9,482,551
Intensity (cost/employees)	30,430	27,972

Focus on reducing electricity consumption from our business operations is an important element of our sustainability goals. AFC's Green pledge aims to reducing energy consumption by 5% during 2016/17 and we are happy to have exceeded our targets during the year. With increasing number of branches

VALUE CREATION AGAINST OUR CAPITALS

Natural Capital

shifting to LED bulbs and increasing awareness among employees on minimizing electricity usage, the consumption of electricity declined by (7%) during the year. In addition to monitoring consumption levels, monthly monitoring reports were shared with employees to enhance awareness and engage employees in our efforts.

Fuel

	2016/17
Units (Litres)	13,850
Intensity (Units/employee)	41
Cost (LKR)	1,617,916
Intensity (cost/employees)	4,773
% of fuel cost from vehicle usage	83%
% of fuel cost from generators	16%

During the year, we monitored the fuel consumption. At the head office Fuel consumption was subdivided between vehicles and generators. Nearly 83% of fuel consumption stemmed from vehicle usage. Client visits, business visits, traveling between branches and training visits were the most frequent trips undertaken.

Water

We have initiated monitoring water consumption at the head office for the first time. At the premises, bottled mineral water is used for drinking purposes and tap water obtained from the municipal council is used for other water requirements. In the next year this monitoring and control process will be expanded to all branches.

	2016/17
Units (Liters)	12,822
Intensity (Units/employee)	38
Cost (LKR)	1,393,438
Intensity (cost/employees) LKR	4,110

Managing our outputs

Waste

Key types of waste generated from our operations are paper waste and e-waste. Paper recycling initiatives enabled us to responsibly dispose 1,576 Kg of paper waste during the year. However, in the long -term we focus on shifting to a 'paperless office' using measures such as encouraging electronic communication, engaging in paper saving initiatives and reducing paper usage. Some of the initiatives we continued to focus on include:

- Encouraging the usage of SMS services instead of mailing in areas such as reminder letters to customers.
- Scanning of customer documents instead of maintaining physical files.
- Usage of printers that enables double sided printing.
- Usage of one color envelopes.
- Reduced unnecessary document copy printing.
- Increasing employee awareness on minimizing paper usage in printing.
- Reducing the paper size of letters and other documents sent to customers

Carbon footprint

The ultimate goal of our environmental management framework is achieving a reduction in our carbon emissions.

To this end, we have focused on,

1. Increase financing for Hybrids and Electric cars accounting for 16% of Four-wheeler leasing portfolio.
2. Introducing new green solutions for three wheelers using the emission reduction solution that was implemented last year. The testkit has been designed in collaboration with Vialle of Netherlands, a renowned emission reduction gas kit manufacturer in Europe. During year, two numbers of three wheelers were sent to The Netherlands for testing.

Compliance

Corporate customers were screened for compliance using IFC exclusion list and ensuring conformity to environmental licensees such as CEA. The ESMS will further improve our customer screening process on implementation.

Products and services

As a financial services provider, we believe the most significant environmental value addition we can make is through ensuring that businesses financed by us are conscious of their environmental impacts. We undertook the following initiatives with the objective of extending our environmental focus to products and services:

- Screening of customers for environmental and social factors using IFC exclusion list
- Introduction of new green solutions to three wheelers with a view of reducing emission levels.
- Initiatives to implement ESMS to improve customer screening process and reduce environment and social risks.
- Increase leasing of hybrid and electric cars. Leasing of hybrid and electric cars increased by 48% during the year and accounted for 16% of the four wheeler leasing portfolio.

Way forward

Environmental management will continue to be an integral part of our sustainability agenda and will be driven by the four main areas of our environmental management strategy. The planned implementation of an integrated and holistic ESMS system will provide a strong platform for employee and customer engagement, propagation of sustainable environment practices and enable the continuous monitoring of environmental indicators. This will enable us to actively pursue our growing urge of responsible growth.

Making sustainability profitable

Our Triple Bottom Line approach to enterprise is not simply about us staying abreast of global trends in business. We truly believe that the sustainability of an entity's profits ultimately depend on the sustainability of the community and the environment that it is a part of. This is our motivation behind our uncompromising dedication to reducing income disparities that exist between the Western province and the rural hinterlands of the country.

Financial Information

Annual Report of the Directors

The Board of Directors of Alliance Finance Company PLC is pleased to present the Annual Report of the Directors together with the Audited Statement of Accounts of the Company for the financial year ended 31st March 2017.

Board of Directors Structure

As at the Balance Sheet date the Board is comprised of four Non Executive Directors and two Executive Directors. The offices held by the Executive are Managing Director and Executive Director Sustainability. Subsequent to the Balance Sheet, Mr. W.P.K. Jayawardana was appointed, Consultant Director Finance and Operations who was appointed on 4th April 2017 in the Non-Executive capacity. The appointment was made to further strengthen the functions of the Finance Department and to give impetus to the performance by improving operational efficiencies.

There were no resignations during the year under review.

The profiles of the Directors appear on pages 37 to 38.

Executive	Non Executive	Independent Non Executive
Mr. R.K.E.P. de Silva – Deputy Chairman & Managing Director	Mrs. R.N. Ponnambalam	Mr. S.K. Karunanayake
Mr. J.M. Gunasekera – Executive Director Sustainability	Mr. L.A.P. Medis – Consultant Director Marketing	Mr. A.R. Samarasinghe
	Mr. W.K.P. Jayawardana – Consultant Director Finance and Operations	

Principal Activities

The Company's performance improved along the principal Lines of Business during the year under review. Whilst moderated growth was witnessed in the growth of some product lines others performed well. The growth was in keeping with our business model for the financial year and in keeping with the budget. Business expansion was stymied due to regulatory and market conditions despite the Company has performed well.

The product portfolio with contributions from some namely Consumer Durable Finance, Collaboration Finance, Import Finance, Real Estate, General Trading and Share Portfolio Management remained unchanged.

The Company continued to enjoy infusion of foreign funding from Triodos BV Netherlands in the form of Senior Debt of USD six million and a noteworthy accomplishment was their lending USD 4 Mn as Sub Debt. Symbiotics, Switzerland also extended credit to the value of USD 10 Mn.

Management Discussion and Analysis

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

Annual Report of the Directors

Performance of the Company

The performance highlights are covered in the Chairman's Review (Page 16 to 17). Comprehensive report on the achievements and performance of the Company is comprehensively dealt with in the Deputy Chairman & Managing Director's review (Pages 18 to 21).

Financials

The Financial Statements are covered on Page 132 to 242.

Risk Management Review

This Risk Management process is monitored by the Integrated Risk Management Committee. Chief Risk Officer has been appointed and has an overview on all the risk related matters of the Company and apprises the IRMC of the risks and the degree of risk that is faced by the Company. A detailed overview of the process is set out in the integrated Risk Management Report on pages 60 to 69 of this Annual Report.

Corporate Governance

The Board has complied with the requirements of the guidelines in the Central Bank Direction No.3 of 2008 as amended by Direction No.4 of 2008 and the Colombo Stock Exchange and the detailed report on this subject appears on pages 48 to 57 of the Annual Report.

Board Committees

Audit Committee

The Audit Committee comprises of two Independent Non Executive Directors and the Chairman holds the required qualifications. Meetings were held during the year and the dispensation of their functions is covered in the Audit Committee report appears on page 128.

Remuneration Committee

This Committee is comprised of three Non Executive Directors two being Independent. The functions of the Committee are dealt with under Corporate Governance report.

RESULTS AND APPROPRIATIONS

	Year ended 31.03.2017 Rs.	Year ended 31.03.2016 Rs.
Turnover	12,039,527,922	11,144,923,766
Profit before Taxation	834,126,830	530,307,134
Profit after Taxation	649,456,817	419,189,385
Retained Profit b/f	803,805,837	598,539,503
Transfer to Reserves		
Less: Transfer to Reserve Fund	129,891,400	83,060,000
Transfer to General Reserve	-	-
Transfer to Diversification Risk Reserve	-	-
Transfer to Investment Fund Reserve	-	-
Add: Transfer to Retained Earnings	473,166,012	288,326,334
Retained profit c/f	1,147,080,445	803,805,837

Dividends

The Board of Directors has recommended an Interim Dividend of Rs. 3.70 which was paid out in March 2017 and have further recommended a Final Dividend of Rs.2.20 per share. The Directors confirm that the Company satisfies the Solvency Test set out in Section 56 of the Companies Act No. 2007. The Certificates of Confirmation was obtained from the Auditors in respect of the paid and proposed Dividends.

Reserves

The Directors have transferred Rs. 130 mn to the Reserve Fund as required by section 3(b) of the Central Bank, Finance Companies (Capital fund) direction No.1 of 2003. The Reserves including Retained Earnings stand Rs. 3,450 mn at the close of the financial year.

Rating

Our rating agency Fitch Rating assigned to the Company is BB+ with a stable outlook.

Issue of Debentures

There were no new Debenture Issue during the year under review.

Stated Capital

During the year under review after having considered the strategic positioning and the future direction of the Company the Capital structure was changed as given below.

The Shares were split in the proportion of 1:10 thereby the existing number of shares were increased from 2,430,000 to 24,300,000 after the split. On the increased number of Ordinary Shares upon Capitalization of Rs.518.4 million of the Reserves in the proportion of 1 share for every 3 shares held, 8,100,000 Ordinary Shares were issued, taking the total number of Shares in Issue to 32,400,000 and the Stated Capital to Rs.542.7 million. Thereafter on the base of 32,400,000 shares, a Rights Issue took place where one share was issued for every twenty five shares held and the number of shares in issue increased to 33,696,000 and the Stated Capital increased to Rs.613.98 million.

Shareholders' Information

The detailed Shareholders' information appear on page 252 and 253 of the Annual Report.

Twenty Major Shareholders

The names and number of shares of the 20 major shareholders appear on page 253.

Public Holding

The public holding percentage appears on page 253

Share Information

Information with regard to Dividend per Share, Dividend Pay Out and Net Asset Value per share and Market Value per appears in the ten year summary on Page 250 to 251.

Directors' Interest in Contracts

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

Related Party Transactions

The required disclosures have been made. The details appear on pages 224 to 226.

Re-Election of Directors

Mr. W.P.K. Jayawardna who was appointed during the year retires under Article number 135 and offers himself for re-election with the unanimous support of the Directors.

Directors' Remuneration

The Directors' remuneration is disclosed under Notes to the Financial Statements on page 224.

Annual Report of the Directors

Directors' Shareholdings

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

Name	31.03.2017	31.03.2016
Mr. S. Karunanayake	1,586	119
Mr. R.K.E.P. de Silva	8,934,075	640,068
Mrs. R.N. Ponnambalam	2,666	200
Mr. A.R. Samarasinghe	1,386	100
Mr. J.M. Gunasekera	1,500	N/A
Dr. L.A.P. Medis (appointed 9th August 2016)	---	N/A
Mr. W.P.K. Jayawardana (appointed on 4th April 2017)		

Shareholdings in Associate Companies

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

Name of the Company	No. of Shares as at 31.03.2017	Percentage
Alfinco Insuarnce Brokers (Pvt) Ltd	159,836	64%
Macbertan (Pvt) Ltd	1,720,000	30%
Alliance Tech Trading (Pvt) Ltd	20,000	40%

Employee Share Ownership

The Company has not implemented and Employee Share Ownership scheme.

Properties of the Company Restate

The value of freehold properties owned by the Company as at 31st March 2017 is included in the accounts at Rs. 1,706,918,419/- (31st March 2016 – Rs. 922,326,403) based on valuations undertaken by Ms. W.A.T.P. Jayathilka & Company and Ms. K.T. Nihal & Company being independent professional valuers with recent experience in the location category of the property being valued. The Directors are of the opinion that this value is not in excess of the current market value. The details are provided in the page No.196 in the Financial Statements.

Donations

The Company donated a sum of Rs. 2,735,113 during the year under review.

Auditors

The Auditors M/s. HLB Edirisinghe & Co. Chartered Accountants, of 45, Braybrooke Street, Colombo 2, have audited the accounts as at 31st March, 2017. The re-appointment rests in your hands they have offered their services at an all inclusive fee of Rs. 913,100 for the ensuing year.

By Order of the Board of Directors

(Sgd)
ALLIANCE MANAGEMENT SERVICES (PVT) LTD
Secretaries

30th May 2017

Report by the Board on Internal Control

Internal Control and Responsibility of the Board

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

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

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

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

Process of Evaluation

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

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

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

External Auditors' Statement

The External Auditors have reviewed the above Directors' Statement on internal control for the year ended 31st March 2017 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.

S. Karunanayake
Chairman - Audit Committee

Romani de Silva
Deputy Chairman and Managing Director

30th May 2017.

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 Section 150 (1) of the Companies Act No. 07 of 2007.

Accordingly, the Directors confirm that the Company's Financial Statements for the year ended 31st March 2017 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 Companies Act no.42 of 2011.They believe that the Financial Statements present a true and fair view of the state of affairs of the Company at the end of the financial year.

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

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

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

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 130.

By order of the Board

(Sgd)
Alliance Management Services (Pvt) Ltd
Secretaries

30th May 2017

Report of the Audit Committee

This report is provided by the Audit Committee, in respect of the financial year ended 31st March 2017. The Committee's operation is guided by a detailed mandate that is approved by the Board which is detailed in the Terms of Reference. The Committee is appointed by the Board and is comprised of two Independent Non-Executive Directors.

Mr. Sunil Karunanayake - Chairman
Mr. A.R. Samarasinghe - Member

Executive Functions

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

External Auditors and audit

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

- Approved the reappointment of Baker Tilly Edirisinghe & Co., External Auditors for the financial year ended 31 March 2018
- Approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
- Reviewed the audit and evaluated the effectiveness of the audit
- Obtained assurance from the auditors that their independence was not impaired
- It was noted that non-audit services were not provided by the External Auditors

In respect of Financial Statements

- Examined and reviewed the interim and annual financial statements as well as financial information disclosed to the public prior to submission and approval by the Board.
- Reviewed reports on the adequacy of the portfolio and specific impairments and impairment of other assets, and the formulae applied in determining charges for and levels of portfolio impairments.
- Ensured that the annual financial statements fairly present the financial position of the Company and the Group as at the end of the financial year and the results of operations and cash flow 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 interim and final Dividend payments 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
- 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
- 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

Report of the Audit Committee

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 Assistant General Manager Internal Audit who possesses the necessary experience and expertise.

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

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

Meetings

The Audit Committee meets on a regular basis and the meetings are designed to facilitate and encourage communication amongst the Committee and to review the internal audit reports and the replies and carry out the functions aforementioned.

The Chief Operating Officer, Chief Financial Officer, Chief Risk Officer attended the meetings by invitation.

Attendance at Meetings

	Meeting Held	Meeting Present
Mr. S. Karunanayake	17	17
Lt. Col. Athula R. Samarasinghe	17	17

Conclusion

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

Sunil Karunanayake
Chairman - Audit Committee

Independent Auditors' Report

BAKER TILLY
Edirisinghe & Co.
Chartered Accountants

TO THE SHAREHOLDERS OF ALLIANCE FINANCE COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Alliance Finance Company PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at March 31,2017, 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 a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statement that give a true and fair view 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's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at March 31,2017 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:
a) The basis of opinion and scope and limitations of the audit are as stated above.
b) In our opinion:

- 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,
- the financial statements of the Company give a true and fair view of its financial position as at March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards,
- the financial statements of the Company and the Group comply with the requirements of Sections 151 and 153 of the Companies Act No.07 of 2007.

Edirisinghe & Co.,
Chartered Accountants

Colombo
30-May-17

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

Statement of Profit or Loss

		Company		Group	
For the Financial Year Ended 31st March		**2017**	**2016**	**2017**	**2016**
	Notes	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Gross Income	5	5,376,833,125	4,575,969,828	5,448,105,866	4,616,615,382
Interest income		4,977,443,849	4,088,411,304	4,985,044,639	4,090,199,942
Interest expenses		(2,462,431,850)	(1,868,434,772)	(2,462,431,850)	(1,868,434,772)
Net Interest Income	6	2,515,011,999	2,219,976,532	2,522,612,789	2,221,765,170
Fee and commission income		199,609,918	293,843,456	267,813,058	326,083,961
Fee and commission expenses		(45,489,412)	(102,524,846)	(45,496,812)	(102,534,576)
Net Fee and Commission Income	7	154,120,506	191,318,610	222,316,246	223,549,385
Net gain/(loss) from trading	8	12,309,545	19,100,295	13,818,243	25,118,643
Other operating income (net)	9	187,469,813	174,614,773	181,429,926	175,212,836
Total Operating Income		2,868,911,863	2,605,010,210	2,940,177,204	2,645,646,034
Impairment (charges) / reversal for loans and other losses	10	(73,680,699)	(165,552,247)	(73,680,699)	(165,552,247)
Gold loan auction losses		(11,768)	(168,622,218)	(11,768)	(168,622,218)
Net Operating Income		2,795,219,396	2,270,835,745	2,866,484,737	2,311,471,569
Operating Expenses					
Personnel expenses	11	(774,573,157)	(750,965,495)	(802,058,435)	(758,476,851)
Other operating expenses	12	(901,056,784)	(815,792,384)	(927,378,520)	(824,523,377)
Depreciation of property & equipment		(117,774,125)	(99,934,198)	(118,323,088)	(101,019,509)
Total operating expenses		(1,793,404,066)	(1,666,692,077)	(1,847,760,043)	(1,684,019,737)
Operating Profit before Value Added Tax on Financial Services		1,001,815,330	604,143,668	1,018,724,694	627,451,832
Value Added Tax on Financial Services		(178,588,251)	(84,125,542)	(178,588,251)	(84,125,542)
Operating Profit after Value Added Tax on Financial Services		823,227,079	520,018,126	840,136,443	543,326,290

For the Financial Year Ended 31st March	Notes	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Share of profit from associates		10,899,751	13,442,936	10,899,751	13,442,936
Loss on change of interest in associate		-	(3,153,928)	-	(3,153,928)
Profit before Taxation from Operations		834,126,830	530,307,134	851,036,194	553,615,298
Provision for income taxation	13	(184,670,013)	(111,117,749)	(191,534,940)	(117,418,769)
Profit for the year		**649,456,817**	**419,189,385**	**659,501,254**	**436,196,529**
Profit attributable to :					
Equity holders of the company		649,456,817	419,189,385	653,314,165	430,063,754
Non controlling interest		-	-	6,187,089	6,132,776
Profit for the year		**649,456,817**	**419,189,385**	**659,501,254**	**436,196,529**
Basic Earnings Per Share	14	20	13	20	13
Dividend Per Share (Rs.)	15	6	53	6	53

Figures in brackets indicate deductions.

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

Statement of Comprehensive Income

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Profit for the year	**649,456,817**	**419,189,385**	**659,501,254**	**436,196,529**
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	798,159	(1,250,070)	798,159	(1,250,070)
Equity securities - unquoted	-	(14,366,292)	-	(14,366,292)
Net other comprehensive income to reclassified to profit or loss	798,159	(15,616,362)	798,159	(15,616,362)
Other Comprehensive Income not to be Reclassified to Profit or Loss				
Actuarial gains /(losses) on defined benefit plans	9,311,656	16,181,388	9,427,504	16,269,996
Deferred tax effect on above	(2,607,264)	(4,530,789)	(2,607,264)	(4,530,789)
	6,704,392	11,650,599	6,820,240	11,739,207
Surplus from revaluation of property, plant & equipment	798,388,667	-	798,388,667	-
Deferred tax effect on above	(889,723)	-	(889,723)	-
	797,498,944	**-**	**797,498,944**	**-**
Net Other Comprehensive Income not be Classified to Profit or Loss	**804,203,336**	**11,650,599**	**804,319,184**	**11,739,207**
Total Comprehensive Income for the Period	**1,454,458,312**	**415,223,623**	**1,464,618,597**	**432,319,375**
Attributable to:				
Equity holders of the company	1,454,458,312	415,223,623	1,458,389,733	426,154,647
Non controlling interest	-	-	6,228,864	6,164,728
Total Comprehensive Income for the year	**1,454,458,312**	**415,223,623**	**1,464,618,597**	**432,319,375**

Figures in brackets indicate deductions.

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

Statement of Financial Position

As at 31st March	Notes	Company 31.03.2017 Rs.	Company 31.03.2016 Rs. Restated	Group 31.03.2017 Rs.	Group 31.03.2016 Rs. Restated
Assets					
Cash and cash equivalents	18	250,196,373	143,982,481	294,565,160	177,180,931
Repurchase agreements		175,849,048	735,591,742	175,849,048	735,591,742
Placements with banks & financial institutions		1,218,793,508	1,834,356,115	1,273,186,055	1,834,356,115
Financial investments - held for trading	19	1,251,615,776	1,081,001,402	1,251,615,776	1,159,449,583
Loans and advances	20	7,478,467,024	5,603,981,321	7,478,583,487	5,604,087,836
Lease rentals receivable & stock out on hire	21	15,837,430,513	13,283,110,374	15,837,430,513	13,283,110,374
Hire purchase rentals receivable & stock out on hire	22	167,597,495	462,569,201	167,597,495	462,569,201
Financial investments - available for sale	23	488,324,252	450,254,097	501,824,252	463,754,097
Other trading stocks	24	9,775,936	207,857,305	9,775,936	207,857,305
Other financial assets	25	255,578,986	181,511,534	291,358,203	178,653,619
Other non financial assets	26	118,339,278	113,445,442	118,358,589	118,146,354
Investments in associates	27	68,762,442	65,834,956	68,762,442	65,834,956
Investments in subsidiaries	28	16,924,038	16,924,038	-	-
Property, plant & equipment	29	2,122,913,196	1,446,535,945	2,123,236,674	1,447,285,886
Intangible assets	30	49,498,623	-	49,498,623	-
Deferred tax assets		511,884,241	217,742,273	512,240,973	218,039,294
Total Assets		**30,021,950,728**	**25,844,698,227**	**30,153,883,226**	**25,955,917,293**
Liabilities					
Due to banks	31	11,717,899,355	8,328,978,742	11,749,382,430	8,353,691,241
Due to customers	32	10,087,821,914	10,464,149,566	10,087,821,914	10,464,149,566
Debt instruments issued and other borrowed funds	33	2,548,225,806	3,062,414,964	2,548,225,806	3,062,414,964
Other financial liabilities	34	888,031,755	884,210,568	902,782,091	890,116,107
Other non financial liabilities	35	51,661,019	35,880,403	51,661,019	35,880,403
Derivative financial liabilities	36	17,736,580	-	17,736,580	-
Income tax liability	37	108,212,452	62,954,733	111,659,369	67,590,682
Retirement benefit liability	38	80,145,738	91,237,518	81,419,781	92,298,302
Deferred tax liabilities	39	457,419,634	192,818,369	457,460,593	192,934,106
Total Liabilities		25,957,154,254	23,122,644,863	26,008,149,584	23,159,075,371

Statement of Financial Position

As at 31st March	Notes	Company 31.03.2017 Rs.	Company 31.03.2016 Rs.	Group 31.03.2017 Rs.	Group 31.03.2016 Rs.
Shareholders' Funds					
Stated capital	40	613,980,000	24,300,000	613,980,000	24,300,000
Retained earnings	41	1,147,080,445	803,805,837	1,192,724,704	845,518,674
Reserves	42	2,303,736,029	1,893,947,527	2,303,736,029	1,893,947,528
Total Equity Attributable to Equity Holders of the Company		4,064,796,475	2,722,053,364	4,110,440,734	2,763,766,202
Non controlling interest		-	-	35,292,909	33,075,720
Total Equity		4,064,796,475	2,722,053,364	4,145,733,642	2,796,841,922
Total Liabilities and Shareholders' Funds		**30,021,950,728**	**25,844,698,227**	**30,153,883,226**	**25,955,917,293**
Net assets value per share (Rs.)	16	121	1120	122	1137

Accounting policies & notes to 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,

Mahinda Gunasekara
Director

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

30 May 2017
Colombo

Statement of Changes in Equity

For the Financial Year Ended 31st March 2017

Company	Stated Capital Rs.	Statutory Reserve Rs.	Capital Reserve Rs.	Dividend Equalization Reserve Rs.	Diversification Risk Reserve Rs.	General Reserve Rs.	Development Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Reserve Rs.	Non Controlling Interest Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 April 2015	24,300,000	418,257,400	479,906,644	7,000,000	255,000,000	453,300,000	108,141,275	83,216,780	21,681,789	-	598,539,503	2,449,343,391
Profit for the year - Restated	-	-	-	-	-	-	-	-	-	-	419,189,385	419,189,385
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	(15,616,362)	-	11,650,599	(3,965,762)
Transfer to statutory reserve	-	83,060,000	-	-	-	-	-	-	-	-	(83,060,000)	-
Transfer to general reserve	-	-	-	(7,000,000)	(255,000,000)	370,141,275	(108,141,275)	-	-	-	-	-
Restated Associate company prior year profit (Note No. 27 a(ii))	-	-	-	-	-	-	-	-	-	-	(2,323,724)	(2,323,724)
Reassessment of value of fixed assets (Note no. 29.6)	-	-	-	-	-	-	-	-	-	-	(13,829,928)	(13,829,928)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(126,360,000)	(126,360,000)
Balances as at 31st March 2016 - Restated	24,300,000	501,317,400	479,906,644	-	-	823,441,275	-	83,216,780	6,065,427	-	803,805,837	2,722,053,364
Balance as at 1 April 2016 - Restated	24,300,000	501,317,400	479,906,644	-	-	823,441,275	-	83,216,780	6,065,427	-	803,805,837	2,722,053,362
Profit for the year	-	-	-	-	-	-	-	-	-	-	649,456,817	649,456,817
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	798,159	-	6,704,392	7,502,551
Revaluation surplus	-	-	797,498,944 -	-	-	-	-	-	-	-	-	797,498,944
Transfer to statutory reserve	-	129,891,400	-	-	-	-	-	-	-	-	(129,891,400)	-
Reserves capitalization	518,400,000	-	-	-	-	(435,183,220)	-	(83,216,780)	-	-	-	-
Right issue	71,280,000	-	-	-	-	-	-		-	-	-	71,280,000
Dividend paid	-	-	-	-	-	-	-	-	-	-	(182,995,200)	(182,995,200)
Balances as at 31st March 2017	613,980,000	631,208,800	1,277,405,588	-	-	388,258,055	-	-	6,863,586	-	1,147,080,445	4,064,796,475

Statement of Changes in Equity

For the Financial Year Ended 31st March 2017

Group	Stated Capital Rs.	Statutory Reserve Rs.	Capital Reserve Rs.	Dividend Equalization Reserve Rs.	Diversification Risk Reserve Rs.	General Reserve Rs.	Development Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Reserve Rs.	Non Controlling Interest Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1st April 2015	24,300,000	418,257,400	479,906,644	7,000,000	255,000,000	453,300,000	108,141,275	83,216,780	21,681,789	26,910,995	629,321,313	2,507,036,196
Profit for the year - Restated	-	-	-	-	-	-	-	-	-	6,132,776	430,063,754	436,196,529
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	(15,616,362)	31,949	11,707,258	(3,877,154)
Restated Associate company prior year profit (Note No. 27 a(ii))	-	-	-	-	-	-	-	-	-	-	(2,323,724)	(2,323,724)
Re-assessment of value of fixed assets (Note no. 29.6)	-	-	-	-	-	-	-	-	-	-	(13,829,928)	(13,829,928)
Transfer to general reserve	-	-	-	(7,000,000)	(255,000,000)	370,141,275	(108,141,275)	-	-	-	-	-
Transfer to statutory reserve	-	83,060,000	-	-	-	-	-	-	-	-	(83,060,000)	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	(126,360,000)	(126,360,000)
Balances as at 31st March 2016 - Restated	24,300,000	501,317,400	479,906,644	-	-	823,441,275	-	83,216,780	6,065,427	33,075,720	845,518,674	2,796,841,922
Balance as at 1st April 2016	24,300,000	501,317,400	479,906,644	-	-	823,441,275	-	83,216,780	6,065,427	33,075,720	845,518,674	2,796,841,919
Profit for the year	-	-	-	-	-	-	-	-	-	6,187,089	653,314,165	659,501,254
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	798,160	41,775	6,778,465	7,618,400
Revaluation surplus	-	-	797,498,944	-	-	-	-	-	-	-	-	797,498,944
Transfer to statutory reserve	-	129,891,400	-	-	-	-	-	-	-	-	(129,891,400)	-
Reserves capitalization	518,400,000	-	-	-	-	(435,183,220)	-	(83,216,780)	-	-	-	-
Right Issue	71,280,000	-	-	-	-	-	-	-	-	-	-	71,280,000
Dividend paid	-	-	-	-	-	-	-	-	-	(4,011,675)	(182,995,200)	(187,006,875)
Balances as at 31st March 2017	613,980,000	631,208,800	1,277,405,588	-	-	388,258,055	-	-	6,863,586	35,292,909	1,192,724,704	4,145,733,642

Figures in brackets indicate deductions.

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

Statement of Cash Flows

	Company		Group	
For the Financial Year Ended 31st March 2017	**31.03.2017 Rs.**	**31.03.2016 Rs. Restated**	**31.03.2017 Rs.**	**31.03.2016 Rs. Restated**
Cash Flow From / (Used in) Operating Activities				
Profit before Income Tax Expense	834,126,830	530,307,134	851,036,194	553,615,298
Adjustments for;				
Depreciation of property, plant & equipment	110,301,759	99,934,198	110,800,937	101,019,509
Amortization of intangible assets	7,472,368	-	7,522,153	-
Impairment reversal/provision	(24,269,874)	(153,371,135)	(24,269,874)	(153,371,135)
Fixed assets valuation loss	3,992,748	-	3,992,748	-
Interest on fixed deposits & treasury bills	(180,917,550)	(177,852,634)	(188,518,340)	(179,641,272)
Profit /(loss) on sale of securities	798,829	(8,235,404)	798,829	(8,235,404)
Fair value gain or loss on equity investments (FVTPL)	(4,293,334)	(261,767)	(4,293,334)	(261,767)
Profit /(loss) on AFS financial assets	-	(28,155,635)	-	(27,801,222)
Diminution/(appreciation) in value of investments	10,528,127	32,924,518	10,528,127	32,924,518
Loss/(profit) on disposal of property & equipment	(13,184,186)	(19,658,346)	(13,329,186)	(19,658,346)
Provision/(reversal) for defined benefit plans -	31,542,561	32,112,383	31,871,667	32,397,636
Dividend received	(13,829,352)	(8,305,081)	(14,725,392)	(8,305,081)
Loss on change of interest in associates	-	3,153,928	-	3,153,928
Loss on disposal of associates	-	354,413	-	354,413
Share of profit from associates	(10,899,751)	(13,442,936)	(10,899,751)	(13,442,936)
Operating Profit before Working Capital Changes	**751,369,175**	**289,503,634**	**760,514,778**	**312,748,138**
(Increase)/decrease in trading stock	198,081,369	59,143,229	198,081,369	59,143,229
(Increase)/decrease in loans and advances	(1,854,369,742)	(1,876,466,336)	(1,854,379,690)	(1,876,432,801)
(Increase)/decrease in lease rentals receivable & stock out on hire	(2,549,813,411)	(3,100,799,005)	(2,549,813,411)	(3,100,799,005)
(Increase)/decrease in hire purchase rentals receivable & stock out on hire	294,618,891	703,915,304	294,618,891	703,915,304
(Increase)/decrease in fixed deposits & repurchase agreements	1,175,305,301	(1,576,769,315)	1,120,912,754	(1,576,769,315)
(Increase)/decrease in other financial assets	(74,067,452)	(46,685,568)	(112,704,584)	(57,334,441)
(Increase)/decrease in other non-financial assets	(4,893,836)	13,765,526	(212,235)	10,219,639
Increase/(decrease) in amounts due to customers	(376,327,652)	120,083,633	(376,327,652)	120,083,633
Increase/(decrease) in derivative financial liabilities	17,736,580	-	17,736,580	-
Increase/(decrease) in other financial liabilities	3,821,165	183,524,338	12,665,970	178,655,881
Increase/(decrease) in other non-financial liabilities	15,780,616	(3,709,744)	15,780,616	(5,944,808)

Statement of Cash Flows

For the Financial Year Ended 31st March 2017	Company 31.03.2017 Rs.	Company 31.03.2016 Rs. Restated	Group 31.03.2017 Rs.	Group 31.03.2016 Rs. Restated
Cash used in from operations	**(2,402,758,996)**	**(5,234,494,304)**	**(2,473,126,614)**	**(5,232,514,547)**
Retirement benefit liabilities paid	(7,672,684)	(4,467,476)	(7,672,684)	(4,707,476)
Investment in gratuity fund	(25,650,000)	(20,000,000)	(25,650,000)	(20,000,000)
Taxes paid	(172,449,963)	(15,101,198)	(181,149,029)	(16,983,189)
Net cash used in operating activities	(2,608,531,643)	(5,274,062,978)	(2,687,598,327)	(5,274,205,212)
Cash Flow from / (Used in) Investing Activities				
Acquisition of property, plant & equipment	(74,484,502)	(450,672,209)	(74,607,002)	(450,672,209)
Proceeds from sales of property, plant & equipment	38,414,606	67,278,176	39,070,215	67,278,176
Net dividend and proceeds received from associates	7,972,265	8,288,803	7,972,265	8,288,803
Proceeds from disposal of AFS financial assets	-	44,335,336	-	44,335,336
Net sales/ (purchases) of financial investments held -for- trading	(170,614,374)	238,307,604	(92,166,193)	232,289,255
Net sale/(purchase) of financial investments - available- for- sale	(37,271,996)	73,281,074	(37,271,996)	59,426,660
Dividend received	13,829,352	8,305,081	14,725,392	8,305,081
Interest on fixed deposits, commercial paper & treasury bills	173,883,928	177,852,634	181,484,718	179,641,272
Net cash generated from investing activities	(48,270,720)	166,976,499	39,207,400	148,892,374
Cash Flows from / (Used in) Financing Activities				
Proceeds from debentures and increase in borrowed funds	(514,189,158)	(141,051,484)	(514,189,158)	(141,051,484)
Net increase /(decrease) in other borrowings	3,388,920,613	5,399,907,395	3,395,691,189	5,401,657,636
Proceeds from right issue	71,280,000	-	71,280,000	-
Dividend paid	(182,995,200)	(126,360,000)	(187,006,875)	(126,360,000)
Net cash generated from financing activities	**2,763,016,255**	**5,132,495,911**	**2,765,775,156**	**5,134,246,152**
Net Increase/(Decrease) in Cash and Cash Equivalents	**106,213,892**	**25,409,432**	**117,384,229**	**8,933,315**
Cash and cash equivalents at the beginning of the year	143,982,481	118,573,049	177,180,931	168,247,616
Cash and cash equivalents at the end of the year	250,196,373	143,982,481	294,565,160	177,180,931
Movement in Cash and Cash Equivalent	**106,213,892**	**25,409,432**	**117,384,229**	**8,933,315**

Note : Reporting cash flow from operating activities
The Company reports cash flow 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 flow – 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 2017 comprises the Company (Parent 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 2017 was Alfinco Insurance Brokers (Pvt) Ltd.

All the Group entities are Limited Liability Companies, incorporated and domiciled in Sri Lanka.

1.3 Principal Activities and Nature of Operations

1.3.1 The Company

During the year under review the Company provides a comprehensive range of financial services encompassing accepting deposits, lease financing, hire purchase financing, mortgage loans, pawning, term loans and other credit facilities, operating leases, vehicle hiring, consumer credit, microfinance activities and other financial services.

1.3.2 Subsidiaries

Ownership of Subsidiaries as of 31st March 2017 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 comprise 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 Flows, together with Accounting Policies and Notes.

Significant Accounting Policies

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.

The Board of Directors acknowledges their responsibility as set out in the "Annual Report Board of Directors", "Statement of Directors Responsibility" and the certification on the Statement of Financial Position on page 134 and 135.

2.3 Date of Authorization for Issue

The Financial Statements for the year ended 31st March 2017 were approved and authorized for issue in accordance with a resolution of the Board of Directors on 30th May 2017.

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.

- Derivatives financial instruments are measured at fair value
- Non-derivative financial instruments at fair value through profit or loss are measured at fair value
- Available for sale financial assets are measured at fair value.
- Net liability for defined benefit obligations are recognized as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.
- Land and buildings which are measured at cost at the time of acquisition, subsequently measured at revalued amounts, which are the fair values at the date of revaluation.

2.5 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Group's functional and presentation currency of the primary economic environment in which Alliance Finance PLC operates. All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee, unless otherwise stated.

2.6 Presentation of Financial Statements

The Group presents its Statement of Financial Position broadly in order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 47 on page No. 222 and 223.

2.7 Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature 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.

2.9 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 recognised 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:

2.9.1 Going Concern

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

The following notes provide more information on specific accounting judgements, estimates and assumptions used.

2.9.2 Useful life time of the property, plant & equipment
2.9.3 Allowance for impairment losses
3.9 Retirement benefit obligation
3.10 Taxation
3.12 Deferred taxation
3.18 Commitments and contingencies

2.9.2 Useful Life-time of the Property and Equipment

The Group review the residual values, useful lives and methods of depreciation of assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

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

The Group review its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for 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 flow when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

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

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

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

Significant Accounting Policies

2.9.4 Impairment of Available for Sale Financial Investments

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

The Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

2.9.5 Taxation

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

2.9.6 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be set-off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.9.7 Defined Benefit Plans

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and their long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Group.

2.9.8 Fair Value of Property and Equipment

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

2.9.9 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significant of input used in making measurements.

2.10 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorized for issue.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Company and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 (Consolidation Financial Statements).

3.1.1 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard – SLFRS 03 (Business Combinations.)

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised 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 recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company (the Parent) holds more than 50% of the voting rights and/or has the power, directly or indirectly, to govern the financial and operational policies of an enterprise to obtain benefits from its activities.

The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. The Financial Statements of the Company's Subsidiaries are same reporting year as per the Company.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration, given on the date of transfer of title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Company continues to recognize the investments in Subsidiaries at cost.

The total assets and liabilities of the Subsidiaries as at the reporting date are included in the Consolidated Statements of Financial Position. The total profit or loss for the year of the Subsidiaries is included in the Consolidated Statements of Profit or Loss.

The non-controlling interest is presented in the Consolidated Statements of Financial Position within equity; separately form the equity attributable to the equity holders of the Company. Non-controlling interest in the profit or loss of the Group is disclosed in the Consolidated Statement of Comprehensive Income. Total Comprehensive income is allocated to

Significant Accounting Policies

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 as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.1.3 Associates and Jointly Controlled Entities

Associates are those entities which the Group has significant influence, but not control or power to govern the financial and operating policies of the entities so as to obtain benefits from their activities.

The Group Financial Statements include the Group's share of the total 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. Group's share of net assets of the Associates are reported as a separate line item in the Statement of Financial Position. The Statement of Profit or Loss reflects the share of current year's profit or loss of the Associates.

When the Group and Associates' share of losses exceed the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the Investee.
Jointly controlled entities are those entities where the Group has entered into a contractual agreement to share the control over strategic, financial and operating decisions relating to economic activities of the entities through unanimous consent of other parties sharing control.

3.1.4 Transactions Eliminated on Consolidation

Intra-group balances and any income and expenses arising from intra- group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains, except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency Transactions and Balances

Monetary assets and liabilities denominated in foreign currencies have been translated into local currency as per the exchange ruling at the date of the Statement of Financial Position while all non-monetary items are reported at the rate prevailing at the time transactions were affected.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, and money at call 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. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

They are brought to Financial Statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

3.4 Financial Instruments – Initial Recognition and Subsequent Measurement

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

3.4.1 Date of Recognition

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

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with the Statement of Profit or Loss.

3.4.2 Non-Derivative Financial Assets

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

- Financial assets at fair value through profit or loss
  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.

3.4.2.1 Financial Assets at Fair Value through Profit or Loss

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

a) Financial Assets Held for Trading

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

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are 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.

Significant Accounting Policies

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in net gain or loss on financial instrument designated at fair value through profit or loss. Interest earned or incurred is accrued in interest income using the effective interest rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

3.4.2.2 Held-To-Maturity Financial Investments

Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity.

Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss line 'Impairment gain/(loss) on financial investment'.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as Available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years. The Group has not designated any financial instrument as Held-to-Maturity Financial Investment.

3.4.2.3 Due from Banks and Loans and Receivables from Customers

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

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

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

3.4.2.4 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 of, 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 hold more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available for sale financial investments is reported as Interest Income using the EIR. Dividends earned whilst holding available for sale financial investments are recognised in the Statement of Profit or Loss as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'Impairment losses on financial investments' and removed from the Available for Sale Reserve.

3.4.3 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 categorized as trading unless they are designated as hedging instruments.

All derivatives are initially recognized and subsequently measured at fair value, with all revaluation gains recognized in the 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 recognized within other comprehensive income). Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognized fair value of a derivative contract is based on a valuation model that uses 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 held, 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 recognized 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 separated embedded derivatives as at 31st March 2017.

3.4.4 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'.

3.4.5 Reclassification of Financial Instruments

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

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

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset with a fixed maturity reclassified out of the 'available for sale' category, any previous gain or loss on that asset has been recognised in Equity is amortised to profit or loss over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when the financial asset sold or disposed off. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Profit or Loss.

Out of the 'held for trading' category and into the 'loans and receivables' category, if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

Significant Accounting Policies

3.4.6 De-recognition 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 de-recognised when:

- The rights to receive cash flow from the asset Which has expired
- The Group has transferred its rights to receive cash flow from the asset or has assumed an obligation to pay the received cash flow 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.

3.4.7 De-recognition of Financial Assets

On de-recognition of a financial asset, the difference between the carrying amount of the asset, and consideration received and any cumulative gain or loss that had been recognised in the Other Comprehensive Income is recognised in the profit or loss.

When the Group has transferred its rights to receive cash flow from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.4.8 Impairment of Financial Assets

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

3.4.8.1 Loans, Advances to customers, Leases and Hire Purchase

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and for groups of loans, this is done collectively. Impairment losses are recorded as charges to the 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 is 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
- A significant downgrading in credit rating by an external credit rating agency.

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

- 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
- The likely deduction of any costs involved in recovery of amounts outstanding

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

Collectively assessed loans, advances, leases and hire purchase

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet Identified Impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the 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 impairment.

The collective impairment allowance is determined after taking into account:

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

Homogeneous groups of loans, advances, leases and hire purchase

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

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

Net flow rate method

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

Significant Accounting Policies

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 covering inherent loss.

These additional macro and portfolio risk factors may include:

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

Write-off of Loans, Advances, Leases and Hire Purchase

Loans, advances, leases and hire purchase (and the related impairment allowance accounts) 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.

3.4.8.2 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 objective evidence of impairment.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the 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 flow 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 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.

3.4.8.3 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 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.

3.4.9 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 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.

3.4.10 Collateral Repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.4.11 Repurchase Agreement

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Other Financial Assets, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in Net Interest Income and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in Net Trading Income.

3.5 Non – Financial Asset

3.5.1 Property, Plant and Equipment

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

Recognition and Measurement

Cost Model

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

Revaluation Model

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

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

Subsequent Cost

These are costs that are recognised in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Significant Accounting Policies

Depreciation

The Company has reassessed useful life time and changed the method of depreciation policy, reducing balance to the straight-line method from 1st April 2016, further company has apply this changes accordance with LKAS 8 – "Accounting Policies and changes in Accounting estimates and errors".

The Group provides depreciation from the date the assets are available for use 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	New Rate of Depreciation per annum %	Previous Rate of Depreciation per annum %
Building	5	5
Office Equipment	20	12.5-15
Plant & Machinery	20	15
Furniture & Fittings	12.5	10
Cutlery & Crockery	20	50
Motor Vehicles	20	15-25
Computers	33.33	33.33

Detail analysis of the policy change and change of accounting estimation have given in Note No 29.5 and 29.7 accordingly.

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 derecognized

Depreciation does not cease when the asset becomes idle or is retired from active use unless me asset is fully depreciated.

De-Recognition

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Statement of Profit or Loss in the year the asset is derecognised.

3.5.2 Intangible Assets

The Group's intangible assets include the value of computer software.

Basis of Recognition

All 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 reliably measure the costs to complete the development.

Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Group owned intangible assets are amortised over the period of 10 years unless otherwise stated.

De-recognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognized 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 Note No. 30 only include computer software and cost of licenses.

3.5.3 Impairment of Non–Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the 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 is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.6 Finance and Operating Leases

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

3.6.1 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 'Loans and advances to Group's or 'Loans and advances to customers', as appropriate. The finance income receivable is recognised in 'Net Interest Income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, Plant and Equipment' and the corresponding liability to the lessor is included in 'Other Liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net Interest Income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

3.6.2 Operating Lease

All other leases are classified as 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.

Significant Accounting Policies

Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Group is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other Operating Income', respectively.

3.7 Financial Liabilities

3.7.1 Initial recognition and measurement

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

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

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

3.7.2 Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated as such upon initial recognitions 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 cost 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. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.7.3 Other Financial Liabilities

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

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

3.7.4 De-recognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in Statement of Profit or Loss.

3.8 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 of the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision is presented in the Statement of Profit or Lossnet of any reimbursement.

3.9 Retirement Benefit Obligations

(i) 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 one half of the gross salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The 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 carry forward a provision in the Statement of Financial Position, based on:

- Half a month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who complete service 5 to 10 years,
- One month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who complete service over 10 years but not exceeding 15 years,
- One and half month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who complete service over 15 years but not exceeding 25 years.
- Two months' salary of the last month's salary of the financial year for each completed year of service for all permanent employees who complete service over 25 years.

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 2017 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.

The Subsidiary company provision has been made for retirement gratuity in conformity with LKAS 19 "Employee Benefits" and applied "Gratuity Formula" method (i.e Projected unit credit method) to measure the post employee benefit obligation.

Recognition of Actuarial Losses / Gains

The Group recognised the total actuarial gain and losses that arise in calculating the Group's obligation in respect of gratuity in other comprehensive income during the period which it occurs.

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 2017 fair value of plan assets is Rs.154, 218,388/-(2016 - Rs.117, 058,229/-)

Significant Accounting Policies

(ii) Defined contribution plan
The Group also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under Personnel Expenses. Unpaid contributions are recorded as a liability.

The Group contributes to the following Schemes:

Employees' Provident Fund
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's and employee's contribute 12% and 8% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

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

3.10 Taxation

As per the Sri Lanka Accounting Standard –LKAS 12 on 'Income Taxes' tax expense (Tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Profit or Loss except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in Equity or in OCI.

3.11 Current Taxation

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

3.12 Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

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

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.13 Value Added Tax on Financial Services (FVAT)

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto. The value base for the computation of value added tax on financial services is calculated by adjusting the depreciation computed on rates prescribed by the department of Inland Revenue to the accounting profit before Income Tax and emoluments payable.

3.14 Crop Insurance Levy (CIL)

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

3.15 Withholding Tax on Dividends

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

3.16 Nations Building Tax (NBT) on Financial Services

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on Financial Services.

3.17 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto. Currently the ESC was payable on aggregate turnover of the Company at 0.5 % and is deductible from income tax payable

3.18 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 46.

3.19 Recognition of Income and Expenses

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

3.20 Interest Income and Expense

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

The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Significant Accounting Policies

3.21 Fee and Commission Income

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

a) Fee income earned from services that are provided over a certain period of time
Fees earned from services that are provided over a period of time are accrued over that period. These fees include commission income from asset management, custody and other management and advisory fees.

b) Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

3.22 Dividend Income

Dividend income is recognised when the right to receive the payment is established. Usually, this is the ex-dividend date for equity securities. Dividends are presented in the 'Other Operating Income' in Statement of Profit or Loss.

3.23 Net Trading Income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'held for trading' other than interest income.

3.24 Service Income

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

3.25 Dividends on Ordinary Shares

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

3.26 Other Income

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

3.27 Statement of Cash Flow

Statement of Cash Flow has been prepared using the 'Indirect Method', as stipulated in Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows'. Cash and Cash Equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The Cash and Cash Equivalent include cash in hand and balance in banks.

3.28 Earnings per Share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

3.29 Operating Segments

A business segment is a distinguishable component of the Group, engaged in providing products or services subject to risks and returns that are different from those of other business segments. Operating results of those segments are reviewed regularly by the Board of Directors to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The primary business format is based on the core business activities of the Group, namely, Lease, Hire Purchase & Consumer Durable, Loans, Pawning, Hiring of Vehicles, Investing in Shares, Investing in Government Securities, Collaboration Finance & Others.

The management uses its judgement in determining the compositions of these core business activities 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 income which is directly identified and reported in those Segments and expenses directly identified to a particular Segment are charged accordingly, and, expenses that cannot be directly identified to a particular Segment are allocated on bases decided by the management and applied consistently throughout the period. Unallocated items mainly comprise of Head Office expenses.

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

4. NEW ACCOUNTING STANDARDS

4.1 Issued but not yet Applicable as at 31St March 2017

Standard issued but not yet effective up to the date of Group's financial statements are listed below. This listing is of standards issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement

The objective of this Accounting Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flow.

The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 'Financial Instruments: Recognition and Measurement'.

SLFRS 9 is Applicable from annual reporting periods beginning on or after 1st April 2018, with early adoption permitted.

(ii) SLFRS 15 'Revenue from Contracts with Customers

'This Accounting Standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18-Revenue, LKAS 11-Construction Contracts and IFRIC 13-Customer Loyalty Programs.

This SLFRS will become Applicable from 1st April 2018 and shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not to be applied comparative information provided for periods before initial application of this SLFRS.

Significant Accounting Policies

(iii) SLFRS 16 - Leases

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 income statement.

SLFRS - 16 substantially carry forward the lessor accounting requirement in **LKAS-17.** Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become Applicable from 1st April 2019. The impact on the implementation of the above Standard has not been quantified yet.

The Company is currently in the process of evaluating the potential effect of these standards on its financial statements and the impacts of the adoption of these standards have not been quantified as at the reporting date. Pending the completion of the detailed impact analysis, possible impact for SLFRS 9, SLFRS 15 and SLFRS 16 is not reasonably estimable as at the reporting date.

4.2 New Accounting Standards / Amendments to Existing Accounting Standards Applicable from 1st April 2017

New standards not applicable to the current period and to the Company

SLFRS 14 - Regulatory Deferral Accounts

The objective of this Standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to Customers at a price or rate that is Subject to rate regulation.

SLFRS 14 is Applicable from 01st April 2016. This Standard did not have any impact on the Consolidated/ Separate Financial Statements of the Group or the Company.

Amendments to Existing Accounting Standards Applicable From 1st April 2016

Amendments to existing Accounting Standards with Applicable from 1st April 2016 as published by the Institute of Chartered Accountants of Sri Lanka did not have any impact on the Consolidated/Separate Financial Statements of the Group/Company.

Notes to the Financial Statements

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
5. GROSS INCOME				
Interest income (Note 6.1)	4,977,443,849	4,088,411,304	4,985,044,639	4,090,199,942
Fee & commission income (Note No 7)	199,609,918	293,843,456	267,813,058	326,083,961
Net trading income (Note No 8)	12,309,545	19,100,295	13,818,243	25,118,643
Other operating income (Note No 9)	187,469,813	174,614,773	181,429,926	175,212,836
	5,376,833,125	**4,575,969,828**	**5,448,105,866**	**4,616,615,382**
6. NET INTEREST INCOME				
6.1 Interest Income				
Financial investments - Held for trading	95,018,460	65,030,439	95,018,460	65,030,439
Loans and advances (Note No. 6.1.1)	1,703,346,069	1,237,413,538	1,703,346,069	1,237,413,538
Lease rentals receivable	2,933,899,289	2,495,654,669	2,933,899,289	2,495,654,669
Hire purchase & consumer durables	64,262,481	177,490,462	64,262,481	177,490,462
Financial investments - Available for sale	42,997,528	42,761,386	42,997,528	42,761,386
Repurchase agreements	28,416,649	20,699,738	26,688,778	20,699,738
Placements with banks & other financial institutions	109,503,373	49,361,072	118,832,034	51,149,710
Total interest income	4,977,443,849	4,088,411,304	4,985,044,639	4,090,199,942
6.1.1 Interest Income from Loans & Advances				
Interest income from loans	626,219,311	315,955,735	626,219,311	315,955,735
Interest income from pledge loan	171,631,474	49,865,949	171,631,474	49,865,949
Interest income from gold loan	113,820,765	101,425,983	113,820,765	101,425,983
Interest income from microfinance	791,674,519	770,165,871	791,674,519	770,165,871
	1,703,346,069	1,237,413,538	1,703,346,069	1,237,413,538

Notes to the Financial Statements

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
6.2 Interest Expenses				
Due to banks	944,178,171	389,424,921	944,178,171	389,424,921
Due to customers (fixed deposits & savings accounts)	1,100,643,273	1,033,184,886	1,100,643,273	1,033,184,886
Debt instruments issued and other borrowed funds	390,493,495	442,920,486	390,493,495	442,920,486
Other financial liabilities	27,116,911	2,904,479	27,116,911	2,904,479
Total interest expenses	2,462,431,850	1,868,434,772	2,462,431,850	1,868,434,772
Net interest income	**2,515,011,999**	**2,219,976,532**	**2,522,612,789**	**2,221,765,170**
7. NET FEE AND COMMISSION INCOME				
7.1 Credit Related Fees and Commissions	10,695	38,809,195	67,739,129	71,049,700
Service charges	144,802,297	160,802,052	145,277,003	160,802,052
Transfer fees	33,540,664	45,492,318	33,540,664	45,492,318
Other fees	21,256,262	48,739,891	21,256,262	48,739,891
Total fee and commission income	**199,609,918**	**293,843,456**	**267,813,058**	**326,083,961**
7.2 Fee and Commission Expenses				
Brokerage fees	(15,330,709)	(79,956,558)	(15,330,709)	(79,956,558)
Credit related fees	(30,158,703)	(22,568,288)	(30,166,103)	(22,578,018)
Total fee and commission expenses	(45,489,412)	(102,524,846)	(45,496,812)	(102,534,576)
Net Fee and Commission Income	**154,120,506**	**191,318,610**	**222,316,246**	**223,549,385**

With a view to bring about a more realistic treatment of the benefits Alliance Finance Company PLC receives by way of insurance commissions from the Alfinco Insurance Brokers (subsidiary company), the following change in the basis of accounting for such income has been approved by the board of directors, after a careful review. This has been decided after evaluating the expenses incurred by the Company comparing with commission income generated for previous years; accordingly the Company has decided reimbursement of expenses would be more reasonable and appropriate basis to apply from year 2016/17 onwards.

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.

8. NET GAINS /(LOSSES) FROM TRADING

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Profit /(loss) on sale of financial investments held for trading	(798,829)	8,235,404	(798,829)	8,235,404
Profit /(loss) on sale of foreign currencies	3,655,211	(227,108)	3,655,211	(227,108)
Income from trust investment	15,687,956	43,754,750	17,196,654	49,773,098
Fair value gain / (loss) on financial investments held for trading	(6,234,793)	(32,662,751)	(6,234,793)	(32,662,751)
	12,309,545	**19,100,295**	**13,818,243**	**25,118,643**

9. OTHER OPERATING INCOME

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Income from investment securities - other investments	13,829,352	8,305,081	7,561,667	8,305,081
Profit/(loss) on disposal of property & equipment	13,184,186	19,658,346	13,184,186	19,658,346
Profit on sale of vehicles	13,920,181	20,232,478	13,920,181	20,232,478
Rental income from hiring vehicles	41,322,633	44,696,882	41,322,633	44,696,882
Income from sale of tiles & furniture	2,932,936	290,831	2,932,936	290,831
Bad debt recoveries	53,459,244	28,062,262	53,459,244	28,062,262
Income from disposal of AFS investments (Note No. 9.1)	-	28,155,635	-	27,801,222
Loss on liquidation of associates	-	(354,413)	-	-
Others	48,821,281	25,567,671	49,049,079	26,165,734
Total Other Operating Income	**187,469,813**	**174,614,773**	**181,429,926**	**175,212,836**

9.1 Net Gain /(Loss) from Disposal of Available for Sale Financial Assets

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Proceeds from disposal of available for sale financial assets	-	44,335,336	-	43,980,923
Carrying value of available for sale financial assets disposed	-	(30,549,631)	-	(30,549,631)
Transfer from available for sale financial assets reserve	-	14,369,930	-	14,369,930
	-	**28,155,635**	**-**	**27,801,222**

Notes to the Financial Statements

	Company		Group	
For the Financial Year Ended 31st March	**2017 Rs.**	**2016 Rs.**	**2017 Rs.**	**2016 Rs.**
10. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES				
Impairment Charges / (Write Back)				
Lease rentals receivable	(4,506,728)	(113,017,894)	(4,506,728)	(113,017,894)
Hire purchase rentals receivable	352,815	(42,287,334)	352,815	(42,287,334)
Loans and advances	(20,115,961)	1,934,093	(20,115,961)	1,934,093
	(24,269,874)	(153,371,135)	(24,269,874)	(153,371,135)
Bad Debts Written off				
Lease rentals receivable	31,754,033	292,934,326	31,754,033	292,934,326
Hire purchase rentals receivable	3,097,300	23,922,931	3,097,300	23,922,931
Loans and advances	63,099,240	2,066,125	63,099,240	2,066,125
	97,950,573	318,923,382	97,950,573	318,923,382
	73,680,699	**165,552,247**	**73,680,699**	**165,552,247**
11. PERSONNEL EXPENSES				
Salaries and bonus	588,205,216	577,616,878	614,007,130	583,423,600
Gratuity charge/ (reversal) for the year	31,452,561	32,112,383	31,781,667	32,397,636
Employer's contribution to EPF	98,373,397	86,345,572	99,021,740	86,994,990
Employer's contribution to ETF	14,749,738	12,937,326	14,911,823	13,099,680
Staff welfare	27,022,738	22,180,056	27,556,669	22,748,065
Other allowances & staff related expenses	14,769,507	19,773,280	14,779,406	19,812,880
	774,573,157	**750,965,495**	**802,058,435**	**758,476,851**

	Company		Group	
	2017 Rs.	**2016 Rs.**	**2017 Rs.**	**2016 Rs.**

12. OTHER OPERATING EXPENSES

12.1 Auditor's fees and expenses

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Auditor,s fees	794,000	716,000	895,000	822,150
Non audit fees and expenses	610,000	1,148,517	657,000	1,200,317
Professional fees	7,425,182	8,085,877	7,425,182	8,698,677
Office administration & establishment expenses	322,137,322	345,306,860	330,470,849	346,904,871
Advertising & business promotion expenses	52,647,919	62,428,752	63,674,900	62,428,752
Motor vehicle running & maintenance	395,466,509	315,722,661	397,966,917	318,033,148
Impairment loss on unquoted securities	4,284,655	1,173,733	4,284,655	1,173,733
Others	117,711,197	81,209,984	122,004,016	85,261,729
	901,056,784	**815,792,384**	**927,378,520**	**824,523,377**

12.2 Depreciation and amortisation

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Depreciation / amortisation of property, plant and equipment	110,301,757	99,934,198	110,800,935	101,019,509
Amortization of intangible assets	7,472,368	-	7,522,153	-
	117,774,125	**99,934,198**	**118,323,088**	**101,019,509**

Notes to the Financial Statements

	Company		Group	
	2017 Rs.	2016 Rs. Restated	2017 Rs.	2016 Rs. Restated

13. TAXATION

13.1 The Major Components of Income Tax Expense

	Company 2017 Rs.	Company 2016 Rs. Restated	Group 2017 Rs.	Group 2016 Rs. Restated
Current Income Tax Expenses				
Current tax on profit for the year (Note No. 13.2)	214,222,340	128,404,723	219,206,530	134,173,937
Under/ (over) provision of current taxes in respect of prior years	-	1,227,399	24,621	1,976,125
Share of income tax expenses for associates	3,485,362	3,362,476	3,485,362	3,362,476
	217,707,702	**132,994,598**	**222,716,513**	**139,512,538**
Deferred Tax Expenses				
Deferred taxation charge/ (reversal) (Note No. 13.5)	(33,037,689)	(21,876,849)	(33,172,180)	(22,093,769)
	184,670,014	111,117,749	189,544,344	117,418,769
Current Tax on Profit for the Year - Subsidiary				
Alfinco Insurance Brokers (Pvt) Ltd			6,864,927	6,301,020
			6,864,927	**6,301,020**

13.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the years ended 31 March 2017 and 2016 is as follows.

	Company		Group	
	2017	**2016**	**2017**	**2016**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Accounting profit before income taxation	834,126,830	530,307,134	851,036,194	553,615,298
Tax effect of non deductible expenses	10,654,291,035	8,706,890,276	10,657,963,585	8,729,732,696
Tax effect of other allowable credits	(10,741,040,230)	(8,773,943,479)	(10,743,821,466)	(8,774,404,947)
Tax effect of exempt income	17,702,150	(4,460,280)	17,702,150	(10,478,628)
Tax effect of tax losses claimed	-	(205,355)	-	(205,355)
	765,079,785	458,588,296	782,880,463	498,259,064
Tax rate at 28%	28%	28%	28%	28%
Income tax for the year	**214,222,340**	**128,404,723**	**219,206,530**	**134,173,937**

13.3 Applicable Income Tax Rates

Alliance Finance Company PLC	28%
Alfinco Insurance Brokers (Pvt) Ltd	28%

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

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

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements & the resulting notional tax credit amounts to Rs.13.60 Mn /- (2016 - Rs.11.9 Mn /-)

Notes to the Financial Statements

13.5 Deferred tax expense/(income)

The following table shows deferred tax expense recorded in the profit or loss due to changes in the deferred tax assets and liabilities.

	Company		Group	
	2017 Rs.	2016 Rs. Restated	2017 Rs.	2016 Rs. Restated
Deferred Tax Liabilities				
Defined benefit obligation- Profit or Loss	3,105,698	2,390,215	3,030,919	2,194,756
Other temporary differences	8,214,555	-	8,214,555	-
Accelerated depreciation - Leased assets	-	3,157,106	-	3,157,106
Accelerated depreciation - Own assets	-	-	(59,712)	(21,461)
Lease rentals	277,279,325	90,877,487	277,279,325	90,877,487
	288,599,579	96,424,808	288,465,088	96,207,888
Deferred Tax Assets				
Accelerated depreciation - own assets	22,113,526	99,424,399	22,113,526	99,424,399
Accelerated depreciation - Leased assets	12,678,059	-	12,678,059	-
Other temporary differences	283,348,696	14,346,470	283,348,696	14,346,470
	318,140,281	113,770,869	318,140,281	113,770,869
Total Deferred tax expense / Reversal	(29,540,702)	(17,346,061)	(29,675,193)	(17,562,981)
Defined benefit obligation - Other Comprehensive Income	(3,496,987)	(4,530,789)	(3,496,987)	(4,530,789)
Deferred tax expense adjusted through Profit or Loss	**(33,037,689)**	**(21,876,849)**	**(33,172,180)**	**(22,093,769)**

14. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

For the year ended 31 st March	Company 2017 Rs.	Company 2016 Rs. Restated	Group 2017 Rs.	Group 2016 Rs. Restated
Amounts Used as the Numerators:				
Net profit/ (loss) attributable to ordinary shareholders for basic Earnings Per Share	649,456,817	419,189,385	653,314,168	430,063,754
Number of Ordinary Shares Used as Denominators for Basic Earnings per share				
Weighted average number of ordinary shares in issue (Note No. 38)	32,724,000	32,400,000	32,724,000	32,400,000
Basic earnings per ordinary share (Rs.)	20	13	20	13

The company diluted EPS is equal to the Basic Earning per Ordinary Share since the Company does not have any convertible securities as at the reporting date.

14.1 Weighted Average Number of Ordinary Shares for Basic Earnings per Share

	Outstanding No. of Shares 2017	Outstanding No. of Shares 2016	Weighted average No. of Shares 2017	Weighted average No. of Shares 2016
Number of shares in issue as at April 01 st,	2,430,000	2,430,000	2,430,000	2,430,000
Add: Number of shares increased as a Share Split	21,870,000	-	21,870,000	21,870,000
	24,300,000	2,430,000	24,300,000	24,300,000
Add: No of shares satisfied in the form of issue and allotment of new shares by using General Reserves	8,100,000	-	8,100,000	8,100,000
	32,400,000	2,430,000	32,400,000	32,400,000
Add: No of shares issue and satisfied in the form of issue and allotment of new shares in right issue scheme	1,296,000	-	324,000	-
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	**33,696,000**	**2,430,000**	**32,724,000**	**32,400,000**

Due to the bonus share issue/capitalisation of general reserve and share split, number of ordinary shares outstanding before the event is adjusted as if the event had occurred at the beginning of the earliest period. This change in the number of shares does not need a weighted average calculation. As required by LKAS-33 " Earning per Share"; the weighted average number of ordinary shares outstanding during the year and previous year were adjusted on account events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources, such as bonus share issue/capitalisation of general reserve and share split.

Notes to the Financial Statements

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
15. DIVIDENDS				
15.1 Declared and Paid During the Year				
Dividends on Ordinary Shares:				
Interim Dividends Rs.3.70 per share, (2016 , Rs.29)	124,675,200	70,470,000	124,675,200	70,470,000
Final dividend proposed for 2017 - Rs. 2.20 per share (2016 - Rs.24 per share)	74,131,200	58,320,000	74,131,200	58,320,000
	198,806,400	128,790,000	198,806,400	128,790,000
Dividend Per Share (Rs.)	5.90	53.00	5.90	53.00

The Board of Directors of the Company has recommended the payment of a final dividend of Rs. 2.20 per share to the ordinary shareholders of the Company for the year ended 31st March 2017. (Company declared Rs. 24 per share in 2016). Final dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on 30th June 2017. The Company paid interim dividend of Rs. 3.70 in year 2016/17 and Rs. 29 per share in 2015/2016.

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

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
16. NET ASSET VALUE PER ORDINARY SHARE				
Amount used as the numerator				
Total equity attributable to equity holders of the Company	4,064,796,478	2,722,053,364	4,110,440,737	2,763,766,202
Number of ordinary shares used as the denominator				
Total number of ordinary shares	33,696,000	2,430,000	33,696,000	2,430,000
Net assets value per ordinary share	121	1,120	122	1,137

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 on 'Financial Instrument Recognition & Measurement' under the headings of the Statement of Financial Position.

As at 31st March 2017 Financial Assets	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
17.1 Company				
Cash and cash equivalents	-	250,196,373	-	250,196,373
Repurchase agreements	-	175,849,048	-	175,849,048
Placements with banks & financial institutions	-	1,218,793,508	-	1,218,793,508
Financial investments - Held for trading	1,251,615,776	-	-	1,251,615,776
Loans and advances	-	7,478,467,024	-	7,478,467,024
Lease rentals receivable & stock out on hire	-	15,837,430,513	-	15,837,430,513
Hire purchase rentals receivable & stock out on hire	-	167,597,495	-	167,597,495
Financial investments - Available for sale	-	-	488,324,251	488,324,252
Other financial assets	-	255,578,986	-	255,578,986
Total Financial Assets	**1,251,615,776**	**25,383,912,946**	**488,324,252**	**27,123,852,974**

Financial Liabilities	Other Financial Liabilities at Amortised cost Rs.	Total Rs.
Due to banks	11,717,899,355	11,717,899,355
Due to customers	10,087,821,914	10,087,821,914
Debt Instruments issued and other borrowed funds	2,548,225,806	2,548,225,806
Other financial liabilities	888,031,755	888,031,755
Total Financial Liabilities	**25,241,978,830**	**25,241,978,830**

Notes to the Financial Statements

As at 31st March 2016 Financial Assets	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
17.2 Company				
Cash and cash equivalents	-	143,982,481	-	143,982,481
Repurchase agreements	-	735,591,742	-	735,591,742
Placements with banks & financial institutions	-	1,834,356,115	-	1,834,356,115
Financial investments - Held for trading	1,081,001,402	-	-	1,081,001,402
Loans and advances	-	5,603,981,321	-	5,603,981,321
Lease rentals receivable & stock out on hire	-	13,283,110,374	-	13,283,110,374
Hire purchase rentals receivable & stock out on hire	-	462,569,201	-	462,569,201
Financial investments - Available for sale	-	-	450,254,097	450,254,097
Other financial assets	-	181,511,534	-	181,511,534
Total Financial Assets	**1,081,001,402**	**22,245,102,768**	**450,254,097**	**23,776,358,268**

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	8,328,978,742	8,328,978,742
Due to customers	10,464,149,566	10,464,149,566
Debt Instruments issued and other borrowed funds	3,062,414,964	3,062,414,964
Other financial liabilities	884,210,568	884,210,568
Total Financial Liabilities	**22,739,753,841**	**22,739,753,841**

As at 31st March 2017	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
17.3 Group				
Financial Assets				
Cash and cash equivalents	-	294,565,160	-	294,565,160
Repurchase agreements	-	175,849,048	-	175,849,048
Placements with banks & financial institutions	-	1,273,186,055	-	1,273,186,055
Financial investments - Held for trading	1,251,615,776	-	-	1,251,615,776
Loans and advances	-	7,478,583,487	-	7,478,583,487
Lease rentals receivable & stock out on hire	-	15,837,430,513	-	15,837,430,513
Hire purchase rentals receivable & stock out on hire	-	167,597,495	-	167,597,495
Financial investments - Available for sale	-	-	501,824,252	501,824,252
Other financial assets	-	291,358,203	-	291,358,203
Total Financial Assets	**1,251,615,776**	**25,518,569,961**	**501,824,252**	**27,272,009,988**

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	11,749,382,430	11,749,382,430
Due to customers	10,087,821,914	10,087,821,914
Debt instruments issued and other borrowed funds	2,548,225,806	2,548,225,806
Other financial liabilities	902,782,091	902,782,091
Total Financial Liabilities	**25,288,212,241**	**25,288,212,241**

Notes to the Financial Statements

As at 31st March 2016	Fair Value Through Profit or Loss Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
17.4 Group				
Financial Assets				
Cash and cash equivalents	-	177,180,931	-	177,180,931
Repurchase agreements	-	735,591,742	-	735,591,742
Placements with banks & financial institutions	-	1,834,356,115	-	1,834,356,115
Financial investments - Held for trading	1,159,449,583	-	-	1,159,449,583
Loans and advances	-	5,604,087,836	-	5,604,087,836
Lease rentals receivable & stock out on hire	-	13,283,110,374	-	13,283,110,374
Hire purchase rentals receivable & stock out on hire	-	462,569,201	-	462,569,201
Financial investments - Available for sale	-	-	463,754,097	463,754,097
Other financial assets	-	178,653,619	-	178,653,619
Total Financial Assets	**1,159,449,583**	**22,275,549,817**	**463,754,097**	**23,898,753,499**

	Other Financial Liabilities at Amortised Cost Rs.	Total Rs.
Financial Liabilities		
Due to banks	8,353,691,241	8,353,691,241
Due to customers	10,464,149,566	10,464,149,566
Debt Instruments issued and other borrowed funds	3,062,414,964	3,062,414,964
Other financial liabilities	890,116,107	890,116,107
Total Financial Liabilities	**22,770,371,878**	**22,770,371,878**

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
18. CASH AND CASH EQUIVALENTS				
Cash in hand	34,700,630	39,907,651	34,706,630	39,909,609
Balances with banks	215,495,743	104,074,830	259,858,530	137,271,322
	250,196,373	**143,982,481**	**294,565,160**	**177,180,931**
19. FINANCIAL INVESTMENTS - HELD FOR TRADING				
Government of Sri Lanka treasury bills	1,053,340,388	583,697,462	1,053,340,388	583,697,462
Quoted equity securities (Note 19.1)	198,275,389	198,773,769	198,275,389	198,773,769
Investments in unit trusts (Note 19.2)	-	298,530,171	-	376,978,352
	1,251,615,777	**1,081,001,402**	**1,251,615,777**	**1,159,449,583**

	2017 Company & Group No of Shares	2017 Company & Group Cost of Investment Rs.	2017 Company & Group Fair Value Rs.	2016 Company & Group No of Shares	2016 Company & Group Cost of Investment Rs.	2016 Company & Group Fair Value Rs.
19.1 Quoted Equities						
Banks, Finance & Insurance						
Seylan Bank PLC	131,525	14,462,307	11,442,675	136,525	15,020,785	11,741,150
Seylan Bank PLC non voting	49,000	3,468,416	2,680,300	49,000	3,468,416	3,087,000
People's Leasing Company PLC	529,800	12,043,920	8,264,880	529,800	12,043,920	8,476,800
Ceylinco Insurance PLC - non voting	1,500	602,749	1,230,000	1,500	602,749	1,173,000
Sinhaputhra Finance PLC -preference	50,000	125,000	405,000	50,000	125,000	450,000
Commercial Bank - non voting	78	9,093	8,042	77	8,954	8,701
Central Finance Co PLC	31,000	4,084,490	2,672,200	15,000	4,084,490	3,150,000
Hatton National Bank PLC	25,000	5,591,699	5,632,500	30,071	6,904,933	5,993,150
LB Finance PLC	40,000	5,079,990	4,736,000	-	-	-
Union Bank PLC	91,764	2,366,190	1,303,049	91,764	2,366,190	1,523,282
Merchant Bank of Sri Lanka PLC	385	718,750	4,158	385	718,750	3,927
Sanasa Development Bank	40,867	6,162,667	4,045,833	35,500	5,522,999	4,852,850
		54,715,271	42,424,637		50,867,186	40,459,860

Notes to the Financial Statements

	2017 Company & Group			2016 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
19.1 Quoted Equities (Continued)						
Land & Property						
East West Properties PLC	1,867,153	28,371,773	26,326,857	1,867,153	28,371,773	25,206,566
		28,371,773	26,326,857		28,371,773	25,206,566
Hotels & Travels						
Sigiriya Village Hotels PLC	64,902	6,779,287	3,861,669	64,902	6,779,287	3,822,728
Ceylon Hotels Corporation PLC	50,900	2,139,964	977,280	50,900	2,139,964	1,221,600
Mahaweli Reach Hotels PLC	71,928	2,970,734	1,366,632	71,928	2,970,734	1,625,573
Taj Lanka Hotels PLC	17,800	997,893	373,800	17,800	997,893	416,520
Serendib Hotels PLC -non voting	14,510	334,376	290,200	14,510	334,376	253,925
Nuwara Eliya Hotels Company PLC	300	455,040	434,910	300	455,040	412,470
Browns Beach Hotels PLC	100,000	2,231,637	2,130,000	100,000	2,231,637	3,260,000
Stafford Hotels PLC	129,038	7,012,700	4,064,697	129,038	7,012,700	5,419,596
Tangerine Beach Hotels PLC	7,516	630,813	447,202	7,516	630,813	501,317
Crescat- Asian Hotels PLC				30,000	2,120,486	1,590,000
MTD Walkers PLC	45,000	2,803,621	1,575,000	45,000	2,803,621	1,498,500
Hotel Sigiriya PLC	35,000	3,539,200	3,405,500	35,000	3,539,200	3,360,000
		29,895,265	18,926,890		32,015,751	23,382,229
Manufacturing						
Central Industries PLC	200,000	11,764,452	8,800,000	100,000	11,764,452	8,580,000
Tokyo Cement PLC - non voting	22,000	498,319	1,166,000	22,000	498,319	710,600
Singer Sri Lanka PLC	30,405	3,675,127	4,253,807	30,405	3,675,127	3,578,669
Regnis Lanka PLC	100,000	12,317,694	13,490,000	100,000	12,317,694	14,620,000
Lanka Aluminium Industries PLC	10,000	1,152,728	678,000	10,000	1,152,728	700,000
Alumex PLC	250,000	4,550,400	4,750,000	250,000	4,550,400	3,850,000
ACL Plastic PLC	-	-	-	2,120	372,999	328,600
		33,958,720	33,127,807		34,331,719	32,367,869

	2017 Company & Group			2016 Company & Group		
	No of Shares	Cost of Investment Rs.	Fair Value Rs.	No of Shares	Cost of Investment Rs.	Fair Value Rs.
Investment Trusts						
Renuka Holdings PLC	674,529	23,042,074	13,625,486	674,529	23,042,074	14,232,562
Lee Hedges PLC	272,700	16,714,244	17,725,500	54,540	16,714,244	20,485,224
		39,756,318	31,350,986		39,756,318	34,717,786
Diversified Holdings						
John Keells Holdings PLC	105	19,025	12,687	92	19,025	13,616
Aitken Spence PLC	354,551	36,661,167	19,925,766	254,551	30,161,167	18,709,499
Hayleys PLC	35,000	12,386,795	9,275,000	35,000	12,386,795	8,599,500
Richard Pieris	250,000	2,175,000	2,075,000	-	-	
		51,241,987	31,288,453		42,566,987	27,322,615
Plantations						
Kegalle Plantations PLC	37,100	8,266,496	1,929,200	37,100	8,266,496	2,251,970
Horana Plantations PLC	25,000	1,873,625	412,500	25,000	1,873,625	422,500
		10,140,121	2,341,700		10,140,121	2,664,470
Construction & Engineering						
Access Engineering PLC	21,500	500,038	511,700	21,500	500,038	447,200
Colombo Dockyard PLC	6,580	1,232,107	500,080	6,580	1,232,107	711,298
		1,732,145	1,011,780		1,732,145	1,158,498
Power & Energy						
Mackwoods Energy PLC	100,000	1,399,997	240,000	100,000	1,399,997	280,000
Lanka IOC Company PLC	25,000	1,302,426	725,000	25,000	1,302,426	812,500
		2,702,423	965,000		2,702,423	1,092,500

Notes to the Financial Statements

	2017 Company & Group No of Shares	2017 Company & Group Cost of Investment Rs.	2017 Company & Group Fair Value Rs.	2016 Company & Group No of Shares	2016 Company & Group Cost of Investment Rs.	2016 Company & Group Fair Value Rs.
19.1 Quoted Equities (Continued)						
Motors						
Diesel & Motor Engineering PLC	17,500	19,143,781	9,798,250	17,500	19,143,781	9,619,750
Colonial Motors PLC	2,285	800,794	171,147	2,285	800,794	205,650
United Motors PLC	6,819	668,851	531,882	6,819	668,851	565,977
		20,613,426	10,501,279		20,613,426	10,391,377
Total Investment		273,127,447	198,275,389		263,097,848	198,773,770

	2017 No of Units	2017 Cost (Initial Investment) Rs.	2017 Fair Value Rs.	2016 No of Units Rs.	2016 Cost (Initial Investment) Rs.	2016 Fair Value
19.2 Investments in Unit Trusts						
Company						
Arranger						
Capital Alliance Pvt. Ltd - Corporate treasury fund	-	-	-	19,554,720	292,537,167	298,530,171
	-	-	-		292,537,167	298,530,171
Subsidiary						
Arranger						
Capital Alliance Pvt. Ltd - Corporate treasury fund	-	-	-	5,138,617	70,649,816	78,448,181
	-	-	-	-	70,649,816	78,448,181
	-	-	-	-	363,186,983	376,978,352

	Company		Group	
	2017	**2016**	**2017**	**2016**
	Rs.	**Rs.**	**Rs.**	**Rs.**

20. LOANS AND ADVANCES

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Term loan receivable	3,703,425,411	2,597,028,565	3,703,425,411	2,597,028,565
Gold loans	467,625,639	367,909,866	467,625,639	367,909,866
Pledge loans	1,554,678,053	668,563,924	1,554,678,053	668,563,924
Micro finance loans	1,789,242,332	2,011,667,242	1,789,242,332	2,011,667,242
Loans against fixed deposits	69,187,156	80,958,989	69,187,156	80,958,989
Staff loans (Note 20.3)	8,385,380	12,087,643	8,501,843	12,194,158
Operating lease debtors	1,216,740	1,174,740	1,216,740	1,174,740
	7,593,760,711	5,739,390,969	7,593,877,174	5,739,497,484
Less : Allowance for impairment losses (Note 20.1 & 20.2)	(115,293,687)	(135,409,648)	(115,293,687)	(135,409,648)
Net loans and advances	**7,478,467,024**	**5,603,981,321**	**7,478,583,487**	**5,604,087,836**

20.1 Allowances for Impairment Losses

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
As at 01st April	135,409,648	133,475,555	135,409,648	133,475,555
Charge / (Reversal) for the year	(20,115,961)	1,934,093	(20,115,961)	1,934,093
As at 31st March	**115,293,687**	**135,409,648**	**115,293,687**	**135,409,648**

Notes to the Financial Statements

	Company		Group	
	2017	**2016**	**2017**	**2016**
	Rs.	**Rs.**	**Rs.**	**Rs.**
20.2 Loan Category wise Allowances for Impairment Losses				
Term loan receivable	19,839,527	14,077,610	19,839,527	14,077,610
Gold loans	17,127,518	15,074,937	17,127,518	15,074,937
Pledge loans	4,000,535	1,928,031	4,000,535	1,928,031
Micro finance loans	74,326,107	104,329,070	74,326,107	104,329,070
	115,293,687	**135,409,648**	**115,293,687**	**135,409,648**
20.3 Staff Loans Include Loans Granted to Company Officers, the Movement of which is as follows :				
As at the beginning of the year	12,087,643	14,317,135	12,194,158	14,317,135
Loans granted during the year	17,042,477	16,604,524	17,158,940	16,604,524
Repayments during the year	(20,744,740)	(18,834,016)	(20,851,255)	(18,727,501)
As at the end of the year	**8,385,380**	**12,087,643**	**8,501,843**	**12,194,158**

21. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Gross rentals receivables				
- Lease rentals	20,760,052,332	17,227,500,643	20,760,052,332	17,227,500,643
- Amounts receivable from hirers	628,529,065	417,995,854	628,529,065	417,995,854
	21,388,581,397	17,645,496,497	21,388,581,397	17,645,496,497
Less: Unearned income	(5,355,785,690)	(4,162,514,201)	(5,355,785,690)	(4,162,514,201)
Net rentals receivables	16,032,795,707	13,482,982,296	16,032,795,707	13,482,982,296
Less : Allowance for impairment losses (Note 21.1)	(195,365,194)	(199,871,922)	(195,365,194)	(199,871,922)
Total net rentals receivable (Note 21.2 & 21.3)	**15,837,430,513**	**13,283,110,374**	**15,837,430,513**	**13,283,110,374**

	Company		Group	
	2017	**2016**	**2017**	**2016**
	Rs.	**Rs.**	**Rs.**	**Rs.**
21.1 Allowances for Impairment Losses				
As at 01st April	199,871,922	312,889,816	199,871,922	312,889,816
Charge / (Reversal) for the year	(4,506,728)	(113,017,894)	(4,506,728)	(113,017,894)
As at 31st March	**195,365,194**	**199,871,922**	**195,365,194**	**199,871,922**

As at 31st March 2017	**Within one year**	**1 - 5 years**	**Over 5 years**	**Total**
	Rs.	Rs.	Rs.	Rs.
21.2 Company & Group				
Gross rentals receivables				
- Lease rentals	8,087,004,947	12,659,561,924	13,485,461	20,760,052,332
- Amounts receivable from hirers	616,802,215	11,726,850	-	628,529,065
	8,703,807,162	12,671,288,774	13,485,461	21,388,581,397
Less: Unearned income	(2,826,836,890)	(2,528,948,800)	-	(5,355,785,690)
Net rentals receivables	**5,876,970,272**	**10,142,339,974**	**13,485,461**	**16,032,795,707**
Less : Allowance for impairment losses				(195,365,194)
Total net rentals receivable				**15,837,430,513**
21.3 Company & Group				
As at 31st March 2016				
Gross rentals receivables				
- Lease rentals	6,746,859,752	10,456,294,259	24,346,632	17,227,500,643
- Amounts receivable from hirers	400,275,796	17,714,387	5,671	417,995,854
	7,147,135,548	10,474,008,646	24,352,303	17,645,496,497
Less: Unearned income	(2,173,449,885)	(1,988,212,266)	(852,050)	(4,162,514,201)
Net rentals receivables	**4,973,685,663**	**8,485,796,380**	**23,500,253**	**13,482,982,296**
Less : Allowance for impairment losses				(199,871,922)
Total net rentals receivable				**13,283,110,374**

Lease rentals receivables include receivables amounting to Rs. 6,753,377,016 that have been assigned under a securitisation funding arrangement.

Notes to the Financial Statements

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
22. HIRE PURCHASE RENTALS RECEIVABLE & STOCK OUT ON HIRE				
Gross rentals receivables				
- Hire purchase rentals	132,270,625	532,742,659	132,270,625	532,742,659
- Amounts receivable from hirers	70,609,450	35,935,139	70,609,450	35,935,139
	202,880,075	568,677,798	202,880,075	568,677,798
Less: Unearned income	(22,759,328)	(93,938,160)	(22,759,328)	(93,938,160)
Net rentals receivables	180,120,747	474,739,638	180,120,747	474,739,638
Less : Allowance for impairment losses (Note 22.1)	(12,523,252)	(12,170,437)	(12,523,252)	(12,170,437)
Total net rentals receivable (Note 22.2 & 22.3)	**167,597,495**	**462,569,201**	**167,597,495**	**462,569,201**
22.1 Allowance for impairment losses				
As at 01st April	12,170,437	54,457,771	12,170,437	54,457,771
Charge / (Reversal) for the year	352,815	(42,287,334)	352,815	(42,287,334)
As at 31st March	12,523,252	12,170,437	12,523,252	12,170,437

As at 31st March 2017	**Within one year Rs.**	**1 - 5 years Rs.**	**Over 5 years Rs.**	**Total Rs.**
22.2 Company & Group				
Gross rentals receivables				
- Hire purchase rentals	83,636,099	48,634,526	-	132,270,625
- Amounts receivable from hirers	70,141,740	467,710	-	70,609,450
	153,777,839	49,102,236	-	202,880,075
Less: Unearned income	(18,602,572)	(4,156,756)	-	(22,759,328)
Net rentals receivables	**135,175,267**	**44,945,480**	**-**	**180,120,747**
Less : Allowance for impairment losses				(12,523,252)
Total net rentals receivable				**167,597,494**

As at 31st March 2016	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
22.3 Company & Group				
Gross rentals receivables				
- Hire purchase rentals	307,628,625	225,114,034	-	532,742,659
- Amounts receivable from hirers	33,189,849	2,745,290	-	35,935,139
	340,818,474	227,859,324	-	568,677,798
Less: Unearned income	(64,207,595)	(29,730,565)	-	(93,938,160)
Net rentals receivables	**276,610,879**	**198,128,759**	**-**	**474,739,638**
Less : Allowance for impairment losses				(12,170,437)
Total net rentals receivable				**462,569,201**

Hire purchase receivables include receivables amounting to Rs.56,861,017 that have been assigned under a securitization funding arrangement.

	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
23. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE				
Government of Sri Lanka treasury bonds	480,606,721	438,251,912	480,606,721	438,251,912
Unquoted equities (Note 23.1)	7,717,531	12,002,185	21,217,531	25,502,185
	488,324,252	**450,254,097**	**501,824,252**	**463,754,097**

Notes to the Financial Statements

Company & Group	2017 Cost of Investment Rs.	2017 Fair Value Rs.	2016 Cost of Investment Rs.	2016 Fair Value Rs.
23.1 Unquoted equities				
Comptrust Equity Fund	200,500	200,500	200,500	200,500
Commercial Fund Management	1,500	1,500	1,500	1,500
Shaw Wallace Distributors 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
Alliance Tech Trading (Pvt) Ltd	200,000	200,000	200,000	200,000
Orient Hotels Ltd	1	1	1	1
Ranweli Holiday Resorts Ltd	65,001	65,001	65,001	65,001
Jetwing Symphony Ltd	8,250,000	6,494,795	8,250,000	10,061,884
Nation Lanka Equities (Pvt) Ltd	8,785,740	443,487	8,785,740	1,161,052
Total	**17,814,989**	**7,717,531**	**17,814,989**	**12,002,185**
Unquoted equities of associates				
Macbertan (Pvt) Ltd	13,500,000	13,500,000	13,500,000	13,500,000
Total	**31,314,989**	**21,217,531**	**31,314,989**	**25,502,185**

	Company		Group	
	2017	**2016**	**2017**	**2016**
	Rs.	**Rs.**	**Rs.**	**Rs.**

24. OTHER TRADING STOCKS

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Other trading stocks	9,775,936	207,857,305	9,775,936	207,857,305
	9,775,936	**207,857,305**	**9,775,936**	**207,857,305**

25. OTHER FINANCIAL ASSETS

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Collaboration debtors	6,039,880	1,793,477	6,039,880	1,793,477
Other receivables	249,539,106	179,718,057	285,318,323	176,860,142
	255,578,986	**181,511,534**	**291,358,203**	**178,653,619**

26. OTHER NON FINANCIAL ASSETS

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Pre-paid expenses	110,457,074	104,987,803	110,457,074	104,987,803
Stationery stock account	5,226,639	5,087,147	5,226,639	5,087,147
VAT payables/recoverable	2,655,565	3,370,492	2,674,876	8,071,404
	118,339,278	**113,445,442**	**118,358,589**	**118,146,354**

Notes to the Financial Statements

27. INVESTMENT IN ASSOCIATES

Equity Method

	% Holding	Carrying Value 01.04.2016 Restated Rs.	Profit Share Rs.	Dividend Received Rs.	Changes of interest Rs.	Adjustment on Liquidation Rs.	Deemed Cost Adjustment on Revaluation Rs.	Carrying Value 31.03.2017 Rs.
Macbertan (Pvt) Ltd	24.70%	65,834,956	7,414,389	(4,486,903)	-	-	-	68,762,442
		65,834,956	7,414,389	(4,486,903)	-	-	-	68,762,442

Equity Method

	% Holding	Carrying Value 01.04.2015 Rs.	Profit Share Rs.	Dividend Received Rs.	Changes of interest Rs.	Adjustment on liquidation Rs.	Deemed Cost Adjustment on Revaluation Rs.	Carrying Value 31.03.2016 Rs. Restated
Macbertan (Pvt) Ltd Note - a (i)	24.70%	63,271,188	10,080,460	(2,039,040)	(3,153,928)	-	(2,323,724)	65,834,956
Xesol (Pvt) Ltd	39.62%	6,604,176	-	-	-	(6,604,176)	-	-
		69,875,364	10,080,460	(2,039,040)	(3,153,928)	(6,604,176)	(2,323,724)	65,834,956

Note - a (i)

Alliance Finance Company PLC shareholding of Macbertan (Pvt) Ltd has changed from 30% to 24.71% in year 2016, consequent to a new issue of shares. Accordingly loss of Rs.3,153,928/- has been charged to the Profit & Loss.

Note - a (ii)

In measuring the differed tax liability on temporary differences relating to the buildings, the company has not considered the amount relating to revaluation surplus. This error has been retrospectively restated in accordance with LKAS 08 'Accounting policies, estimates changes and errors". The error adjusted through statement of Changes in Equity, in the year 2015/16.

b) Cost Method

	No. of Ordinary Shares	2017 Rs. Cost of Investment Rs.	2016 Rs. Cost of Investment Rs.
Macbertan (Pvt) Ltd	1,720,000	17,200,000	17,200,000
		17,200,000	**17,200,000**

c) Summary Financial information of the Investment in Associates

	2017 Rs.	2016 Rs.
Total assets	746,712,867	638,494,788
Total liabilities	468,149,932	371,784,024
Net assets	278,562,935	266,710,764
Revenue	936,555,178	974,735,405
Profits	30,017,771	36,579,748

Notes to the Financial Statements

	Principal Activity	% Holding	Cost of Investment Rs.
28. INVESTMENT IN SUBSIDIARIES			
Alfinco Insurance Brokers (Pvt) Ltd	Insurance Brokering	63.94%	16,924,038

Alfinco Insurance Brokers (Pvt) Ltd not quoted in Colombo Stock Exchange.

As at 31st March **Alfinco Insurance Brokers (Pvt) Ltd**	**2017** **Rs.**	**2016** **Rs.**
28.1 Summarised Financial Information of Subsidiary		
Net Operating income	41,683,839	40,645,551
Less: Operating expenses	(17,606,769)	(17,337,388)
Profit before taxes	24,077,070	23,308,163
Less: Taxes	(6,866,041)	(6,301,020)
Profit after tax	**17,211,029**	**17,007,143**
Assets	157,971,398	168,556,666
Liabilities	60,110,193	76,844,071
Equity	97,914,472	91,712,595

Gross Carrying Amounts	Balance As at 01.04.2016 Restated Rs.	Transfers/ Written off Rs.	Additions Rs.	Revaluation Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Company

Cost / Valuation						
Freehold Assets						
Land	784,845,627	-	-	781,414,436	-	1,566,260,063
Buildings	137,480,776	-	-	3,177,580	-	140,658,356
Furniture & fittings	94,470,259	(38,585,713)	8,846,505	-	(320,740)	64,410,311
Equipment	267,666,747	(137,750,393)	35,035,929	-	(88,169)	164,864,114
Motor vehicles & accessories	274,912,236	76,866,071	377,273	-	(47,887,495)	304,268,085
Computers	240,998,213	(156,333,951)	20,582,703	-	(549,240)	104,697,725
Antiques	25,580	-	-	-	-	25,580
	1,800,399,438	(255,803,985)	64,842,410	784,592,016	(48,845,644)	2,345,184,234
Assets on Finance Lease						
Motor vehicles	76,866,071	(76,866,071)	-	-	-	-
Computers	26,251,500	(26,251,500)	-	-	-	-
	103,117,571	(103,117,571)	-	-	-	-
	1,903,517,009	(358,921,556)	64,842,410	784,592,016	(48,845,644)	2,345,184,234

Notes to the Financial Statements

Gross Carrying Amounts	Balance As at 01.04.2016 Restated Rs.	Transfers/ Written off Rs.	Additions Rs.	Revaluation Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.
29.1 Property, plant and equipment (Continued)						
Depreciation						
Freehold Assets						
Land	-	-	-	-	-	-
Buildings	11,037,957	-	6,874,039	(13,796,650)	-	4,115,346
Furniture & fittings	33,530,329	(30,246,442)	8,586,869	-	-	11,870,756
Equipment	124,570,402	(115,985,309)	29,628,155	-	(51,562)	38,161,686
Motor vehicles & accessories	107,918,498	16,556,585	33,633,025	-	(23,434,886)	134,673,222
Computers	161,179,668	(159,180,535)	31,579,671	-	(128,776)	33,450,028
Antiques	-	-	-	-	-	-
	438,236,854	(288,855,701)	110,301,759	(13,796,650)	(23,615,224)	222,271,038
Assets on Finance Lease						
Motor vehicles	16,556,585	(16,556,585)	-	-	-	-
Computers	2,187,625	(2,187,625)	-	-	-	-
	18,744,210	(18,744,210)	-	-	-	-
	456,981,064	(307,599,910)	110,301,759	(13,796,650)	(23,615,224)	222,271,038

Gross Carrying Amounts	Balance As at 01.04.2016 Restated Rs.	Transfers/ Written off Rs.	Additions Rs.	Revaluation Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.
Net Book Value						
Land	784,845,627					1,566,260,063
Buildings	126,442,819					136,543,010
Furniture & fittings	60,939,930					52,539,555
Equipment	143,096,345					126,702,428
Motor vehicles & accessories	166,993,738					169,594,863
Computers	79,818,545					71,247,697
Antiques	25,580					25,580
	1,362,162,584					2,122,913,196
Assets on Finance Lease						
Motor vehicles	60,309,486					-
Computers	24,063,875					-
	84,373,361					-
Total Value of Depreciable Assets	1,446,535,945					2,122,913,196

Notes to the Financial Statements

Gross Carrying Amounts	Balance As at 01.04.2016 Restated Rs.	Transfers/ Written off Rs.	Additions Rs.	Revaluation Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.
29.2 Group						
Cost / Valuation						
Freehold Assets						
Land	784,845,627	-	-	781,414,436	-	1,566,260,063
Buildings	137,480,776	-	-	3,177,580	-	140,658,357
Furniture & fittings	95,459,412	(38,585,713)	8,846,505	-	(320,740)	65,399,465
Equipment	269,958,821	(137,750,393)	35,140,929	-	(88,169)	167,261,187
Motor vehicles & accessories	275,422,845	76,866,071	377,273	-	(48,398,104)	304,268,085
Computers	243,445,393	(157,886,951)	20,600,203	-	(549,240)	105,609,405
Antiques	25,580	-	-	-	-	25,580
	1,806,638,453	(257,356,986)	64,964,910	784,592,016	(49,356,253)	2,349,482,142
Assets on Finance Lease						
Motor vehicles	76,866,071	(76,866,071)	-	-	-	-
Computers	26,251,500	(26,251,500)	-	-	-	-
	103,117,571	(103,117,571)	-	-	-	-
	1,909,756,024	(360,474,557)	64,964,910	784,592,016	(49,356,253)	2,349,482,142
Depreciation						
Freehold Assets						
Land	-	-	-	-	-	-
Buildings	11,037,957	-	6,874,039	(13,796,650)	-	4,115,346
Furniture & fittings	34,370,532	(30,246,442)	8,640,927	-	-	12,765,017
Equipment	126,633,641	(115,985,309)	29,772,131	-	(51,562)	40,368,901
Motor Vehicles & accessories	108,429,107	16,556,585	33,633,025	-	(23,945,495)	134,673,222
Computers	163,254,692	(160,683,750)	31,880,815	-	(128,776)	34,322,981
	443,725,929	(290,358,916)	110,800,937	(13,796,650)	(24,125,833)	226,245,467

Gross Carrying Amounts	Balance As at 01.04.2016 Restated Rs.	Transfers/ Written off Rs.	Additions Rs.	Revaluation Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.
Assets on Finance Lease						
Motor vehicles	16,556,585	(16,556,585)	-	-	-	-
Computers	2,187,625	(2,187,625)	-	-	-	-
	18,744,210	(18,744,210)	-	-	-	-
	462,470,139	(309,103,126)	110,800,937	(13,796,650)	(24,125,833)	226,245,467
Net book value						
Land	784,845,627					1,566,260,063
Buildings	126,442,819					136,543,011
Furniture & fittings	61,088,880					52,634,448
Equipment	143,325,180					126,892,286
Motor vehicles & accessories	166,993,738					169,594,863
Computers	80,190,701					71,286,424
Antiques	25,580					25,580
	1,362,912,525					2,123,236,674
Assets on Finance Lease						
Motor vehicles	60,309,486					-
Computers	24,063,875					-
	84,373,361					-
Total Value of Depreciable Assets	1,447,285,886					2,123,236,674

Notes to the Financial Statements

29.3 Revaluation of Fixed Assets

The Company revalued its land and buildings as at 31st March 2017, 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.

29.3.1 Details of Company's Land Stated at Valuation

Location	Valuer	Date of Valuation	Method of Valuation	Net Book Value Before Valuation Rs.	Revaluation Amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.
No.84, Ward Place, Colombo 7	W.A.T.I.P. Jayathilake & Company	15.02.2017	Market Comparable Method	275,000,000	708,500,000	433,500,000
No.199/11, Rajagiriya Road, Rajagiriya	W.A.T.I.P. Jayathilake & Company	31.03.2017	Market Comparable Method	206,250,000	412,500,000	206,250,000
No.98, Ward Place, Colombo 7	K.T. Nihal	01.04.2017	Market Comparable Method	83,105,564	224,770,000	141,664,436
				564,355,564	1,345,770,000	781,414,436

29.3.2 Details of Company's Buildings Stated at Valuation

Location	Valuer	Date of Valuation	Method of Valuation	Net Book Value Before Valuation Rs.	Revaluation Amount Rs.	Revaluation Gain/(Loss) Recognised in OCI Rs.
No.84, Ward Place, Colombo 7	W.A.T.I.P. Jayathilake & Company	15.02.2017	Market Comparable Method	18,132,452	8,187,200	(9,945,252)
No.199/11, Rajagiriya Road, Rajagiriya	W.A.T.I.P. Jayathilake & Company	31.03.2017	Market Comparable Method	9,865,504	19,148,250	9,282,746
No.98, Ward Place, Colombo 7	K.T.Nihal	01.04.2017	Market Comparable Method	13,835,963	31,472,700	17,636,737
				41,833,919	58,808,150	16,974,231

29.3.3 Valuation Technique and Significant Unobservable Inputs

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used:

Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land value is based on the market prices of each land respectively.	Market value of Land (Price per Perch)	The estimated fair value would increase/ (decrease) if - Market value per perch was higher (Lower)

29.4 Measurement of Fair Values

29.4.1 Fair Value Hierarchy

The fair value measurement for freehold lands have been categorized as a Level 3 fair value based on the input to the valuation technique used.

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

Carrying Value at Cost	**Cost As At 31.03.2017 Rs.**	**Accumulated Depreciation As At 31.03.2017 Rs.**	**Net Book Value As At 31.03.2017 Rs.**
Land	65,330,093	-	65,330,093
Building	145,605,564	6,892,056	138,713,508
	210,935,657	**6,892,056**	**204,043,601**

Carrying value at Revaluation	**Revalued Amount As At**	**Accumulated Depreciation**	**Net Book Value As At**

Notes to the Financial Statements

	31.03.2017 Rs.	As At 31.03.2017 Rs.	31.03.2017 Rs.
29.4.2 Measurement of fair Values (continued)			
Land	1,345,770,000	-	564,980,564
Building	58,808,150	-	58,808,150
	1,404,578,150	**-**	**623,788,714**

29.4.3 Details of Freehold Land and Buildings as at 31st March 2017

Location	Extent (Perches)	Cost or Revaluation of Land Rs.	Building (Square Feet)	Cost or Revaluation of Building Rs.	Total Value Rs.
No 84 Ward Place Colombo - 7	37.33 P	708,500,000	6,967	8,187,200	716,687,200
No. 199/11, Obesekara Crescent, Rajagiriya Road, Rajagiriya	165 P	412,500,000	16,508	19,148,250	431,648,250
No.98, Ward Place, Colombo - 7	19.41 P	224,770,000	8,460	31,472,700	256,242,700
No.152, Batapadura Watta Road, Siyambalagoda	28 P	732,470	-	-	732,470
No.720, Kotte Road, Rajagiriya	33.85 P	130,253,800	-	-	130,253,800
No.722, Kotte Road, Rajagiriya	23.26 P	89,503,793	16,660	81,850,207	171,354,000
Freehold Land and Building		**1,566,260,063**		**140,658,357**	**1,706,918,420**

29.5 Impact on Accounting Policy Change

The Company has changed its existing depreciation policy from ‘reducing balance’ method to ‘straight line’ method with effect from 01.04.2016. Due to this change, accumulated depreciation increased by 13,829,928 as well as did result in a deferred tax impact of Rs. 3,872,380. Further in accordance with LKAS 8 -Accounting Policies changes in accounting estimates and errors changes, the relevant variables were adjusted retrospectively. Asset class wise impact is given below.

Class of assets	Rs.
Building	3,261,456
Furniture	2,988,445
Machinery	1,206,039
Office equipment	6,373,988
	13,829,928

29.6 Reclassification and Reassessment of Company Fixed Assets

The company carried out a physical verification as at 01.04.2016 and written off done to the relevant classes of assets are as follows.

	Rs.
Computers	26,111,607
Furniture & Fittings	(8,339,271)
Office Equipment	(21,765,084)
	(3,992,748)

Notes to the Financial Statements

29.7 Change of Accounting Estimates

The Company reassessed their estimated useful life time of Motor Vehicle and Equipment to 5 years from previously recognised 6.67 years and Furniture & Fittings to 8 years from 10 years. The effect of such change in accounting estimates have been recognized prospectively in the statement of profit or loss as per LKAS 8 "Accounting Policies and Change in Accounting Estimates and Errors".

Depreciation charge for the year	**Motor vehicle**	**Furniture & Fittings**	**Equipment**
If the estimation changed	33,633,024	8,425,833	29,388,216
If the estimation not changed	31,373,064	6,043,303	21,230,047
	2,259,960	2,382,530	8,158,169

29.8 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 64,842,410 (2016 - Rs.450,672,209) and payment made by cash.

29.9 There aren't any temporarily idling assets as at 31st March 2017.

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

	Company		**Group**	
	2017 Rs.	**2016 Rs.**	**2017 Rs.**	**2016 Rs.**
Equipment	-	16,650	-	16,650
Computers	-	107,724,768	-	61,339,511
Motor Vehicles	21,154,787	20,484,501	21,410,009	20,995,110
	21,154,787	**128,225,919**	**21,410,009**	**82,351,271**

30. INTANGIBLE ASSETS

30.1 Company

	Balance As at 01.04.2016 Rs.	Additions Rs.	Transfers Rs.	Balance As at 31.03.2017 Rs.
Gross Carrying Amounts				
Cost / Valuation				
Computer Software - Freehold	-	9,642,092	37,587,118	47,229,210
Computer Software - Leasehold	-	-	26,251,500	26,251,500
	-	9,642,092	63,838,618	73,480,710
Amortization				
Freehold Assets				
Computer Software - Freehold	-	7,472,368	14,322,094	21,794,462
Computer Software - Leasehold	-	-	2,187,625	2,187,625
	-	7,472,368	16,509,719	23,982,087
Net Book Value				
Computer Software - Freehold	-	-	-	25,434,748
Computer Software - Leasehold	-	-	-	24,063,875
	-	**-**	**-**	**49,498,623**

Notes to the Financial Statements

	Balance As at 01.04.2016 Rs.	Additions Rs.	Transfers Rs.	Balance As at 31.03.2017 Rs.
30.2 Group				
Cost / Valuation				
Computer Software - Freehold	-	9,642,092	39,140,118	48,782,210
Computer Software - Leasehold	-	-	26,251,500	26,251,500
	-	9,642,092	65,391,618	75,033,710
Amortization				
Freehold Assets				
Computer Software - Freehold	-	7,522,153	15,825,309	23,347,462
Computer Software - Leasehold	-	-	2,187,625	2,187,625
	-	7,522,153	18,012,934	25,535,087
Net Book Value				
Computer Software - Freehold	-	-	-	25,434,748
Computer Software - Leasehold	-	-	-	24,063,875
	-	**-**	**-**	**49,498,623**

During the year the Company reclassified Computer hardware and software accounted for as fixed assets, and investments in software were separately disclosed as an Intangible Asset. Accordingly Rs 39,140,118 worth of investments in software were transferred from Property, Plant and Equipment (PPE), as intangible assets and such assets are accounted for at cost less accumulated amortization and any accumulated impairment losses.

	Company		Group	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
31. DUE TO BANKS				
Bank overdrafts	441,798,937	234,247,782	473,282,013	258,960,281
Securitised borrowings and other bank facilities (Note 31.1 , 31.2 & 31.3)	11,260,316,698	8,063,318,111	11,260,316,698	8,063,318,111
Finance lease (31.4)	15,783,720	31,412,849	15,783,719	31,412,849
Total	**11,717,889,355**	**8,328,978,742**	**11,749,382,430**	**8,353,691,241**

Company and Group Securitised Borrowings	As at 31.03.2016 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Rs.	As at 31.03.2017 Rs.	Period	Security
31.1 Securitised Borrowings, Syndicated Loans and Other Bank Facilities							
Deutsche Bank Trust - 26	12,071,239	-	118,299	(12,189,538)	-	36 Months	Lease receivables
Deutsche Bank Trust - 27	119,356,421	-	7,500,991	(126,857,412)	-	36 Months	Lease receivables
Deutsche Bank Trust - 28	935,179,528	-	79,571,023	(273,012,908)	741,737,642	48 Months	Lease/HP receivables
Deutsche Bank Trust - 29	293,502,323	-	19,297,958	(172,742,311)	140,057,970	36 Months	Lease/HP receivables
Deutsche Bank Trust - 30	607,428,848	-	66,880,408	-	674,309,257	48 Months	Lease receivables
BOC Trust 01 Agora	-	479,649,537	56,288,719	(65,384,615)	470,553,641	30 Months	Lease receivables
	1,967,538,359	479,649,537	229,657,398	(650,186,784)	2,026,658,510		

Notes to the Financial Statements

Company and Group Securitised Borrowings	As at 31.03.2016 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Rs.	As at 31.03.2017 Rs.	Period	Security
31.2 Direct Bank Borrowings							
Term Loans							
BOC Loan	1,397,361,233	400,000,000	114,048,933	(823,751,829)	1,087,658,337	12 Months	USD -Fixed deposits
Cargills Bank	100,000,000	100,000,000	19,500,044	(33,157,451)	186,342,594	48 Months	Lease receivables
Commercial Bank	143,058,001	100,000,000	13,871,763	(162,485,317)	94,444,447	36 Months	Land & building
DFCC Bank	54,642,848	-	5,719,138	(60,361,986)	-	96 Months	Land & building
DFCC Bank - PCI Loan	116,170,312	-	7,732,024	(23,240,979)	100,661,357	180 Months	Nil
Hatton National Bank	155,030,000	-	13,634,867	(64,574,867)	104,090,000	48 Months	Lease/HP receivables
NDB Bank	302,002,740	750,000,000	18,629,726	(618,652,466)	451,980,000	03 Months	Lease/HP receivables
Public Bank	94,588,197	320,000,000	27,142,104	(65,453,459)	376,276,842	60 Months	Lease receivables
Nations Trust Bank	-	300,000,000	9,210,280	(159,210,280)	150,000,000	6 Months	Lease receivables
Reverse repo on treasury bills	185,735,001	485,000,000	11,050,620	(681,785,620)	-	7 Days	Treasury bonds
Sampath Bank Loan	584,568,653	1,950,000,000	122,283,001	(799,485,005)	1,857,366,649	36 Months	Lease/HP receivables
Seylan Bank	445,899,758	-	47,668,470	(178,175,716)	315,392,512	48 Months	Lease receivables
Union Bank	344,999,993	1,045,000,007	34,824,906	(1,124,854,921)	299,969,985	03 Months	Lease/HP receivables
Union Bank	412,500,000	1,502,178,346	11,910,188	(1,019,788,547)	906,799,986	60 Months	Micro finance
	5,795,533,177	9,294,858,028	599,090,377	(6,696,143,942)	8,993,337,640		
31.3 Foreign Currency Borrowings							
Foreign currency Loan capital - Tridos	735,551,441	189,475,000	51,975,025	(49,762,260)	927,239,206	36 Months	Micro finance receivable
Foreign currency Loan capital - Commercial Bank	723,425,000	58,854,676	46,442,788	(828,722,464)	-	12 Months	Nil
Symbiotics Index	-	743,550,000	27,602,431	-	771,152,431	36 Months	Nil
Symbiotics USD	-	744,000,000	13,163,293	-	757,163,293	36 Months	Nil
Triodos Loan-SUB	-	606,800,000	2,680,775	(2,680,775)	606,800,000	72 Months	Nil
	1,458,976,441	2,342,679,676	141,864,314	(881,165,499)	3,062,354,931		
Syndication loan	300,246,575	-	27,838,356	(87,764,384)	240,320,548	48 Months	Lease/HP receivables
	8,063,318,111	9,774,507,565	856,586,132	(7,434,095,110)	11,260,316,698		

	As at 01.04.2016 Rs.	New Facilities Rs.	Repayments Rs.	As at 31.03.2017 Rs.
31.4 Finance Lease				
31.4.1 Company and group				
Finance leases	31,412,849	-	(15,629,130)	15,783,720
	31,412,849	**-**	**(15,629,130)**	**15,783,720**

	2017 Rs.	2016 Rs.
31.4.2 Finance Lease		
Gross liability	17,475,039	35,130,889
Less: Finance charges allocated for future periods	(1,691,319)	(3,718,040)
Net liability	15,783,720	31,412,849
Repayable within one year		
Gross liability	7,766,684	15,702,261
Less: Finance charges allocated for future periods	(1,138,713)	(2,034,873)
Net liability	6,627,971	13,667,388
Repayable within one to five years		
Gross liability	9,708,355	19,428,628
Less: Finance charges allocated for future periods	(552,606)	(1,683,167)
Net liability	9,155,749	17,745,461

Notes to the Financial Statements

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
32. DUE TO CUSTOMERS				
Fixed deposits	9,501,784,496	9,786,480,092	9,501,784,496	9,786,480,092
Certificates of deposits	100,000	100,000	100,000	100,000
Savings deposits	585,937,418	677,569,474	585,937,418	677,569,474
	10,087,821,914	**10,464,149,566**	**10,087,821,914**	**10,464,149,566**

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
33. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS				
Commercial papers	-	126,630,566	-	126,630,566
Unsecured debentures (Note No 33.1)	2,548,225,806	2,935,784,398	2,548,225,806	2,935,784,398
	2,548,225,806	**3,062,414,964**	**2,548,225,806**	**3,062,414,964**
33.1 Unsecured Debentures				
Face value	2,400,840,488	2,804,450,488	2,400,840,488	2,804,450,488
Accrued interest	147,385,318	131,333,910	147,385,318	131,333,910
	2,548,225,806	**2,935,784,398**	**2,548,225,806**	**2,935,784,398**

33.2 Quoted - Debentures

Company and Group

a) The debentures include 10,000,000 Unsecured Redeemable Subordinated Listed Rated Debentures of Rs. 100/- each issued by the company in 2012. The Debentures are quoted on the Colombo Stock Exchange in November 2013. Debenture type D of 10,000 were redeemed during the financial year. Remaining debentures break up are given below.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type 'A'	05 Years	7,524,700	752,470,000	Monthly	Fixed - 20% per annum
		7,524,700	**752,470,000**		

b) 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 are quoted on the Colombo Stock Exchange. Debenture Type 'A' of rupees 403,600,000 were redeemed during the financial year. Remaining debenture breakup are given below. Debenture Type 'D' issued at discount basis.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type 'B'	04 Years	1,682,000	168,200,000	Semi-annually	Fixed rate of 16% per annum
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%
		7,964,000	**648,370,488**		

c) The debentures include 10,000,000 Unsecured Redeemable Listed Rated Debentures of Rs. 100/- each issued by the Company in December 2014. The Debentures are quoted on the Colombo Stock Exchange. Details are given below.

Category	Period	No of Debentures	Face Value Rs.	Interest payable	Rate of Interest
Type 'A'	04 Years	2,000,000	200,000,000	Annually	9% per annum
Type 'B'	05 Years	8,000,000	800,000,000	Annually	9.35% per annum
		10,000,000	**1,000,000,000**		

Notes to the Financial Statements

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
34. OTHER FINANCIAL LIABILITIES				
Accrued expenses	90,028,937	118,516,728	90,028,937	118,516,728
Others	798,002,818	765,693,840	812,753,154	771,599,379
	888,031,755	**884,210,568**	**902,782,091**	**890,116,107**
35. OTHER NON FINANCIAL LIABILITIES				
VAT payables	42,697,891	22,092,978	42,697,891	22,092,978
Other taxes payables	8,963,128	13,787,425	8,963,128	13,787,425
	51,661,019	**35,880,403**	**51,661,019**	**35,880,403**
36. DERIVATIVE FINANCIAL LIABILITIES				
Foreign currency swaps	17,736,580	-	17,736,580	-
	17,736,580	**-**	**17,736,580**	**-**
37. INCOME TAX LIABILITY				
Receivable from Inland Revenue Department	(21,950,768)	(65,449,990)	(21,950,768)	(65,449,990)
ESC paid	(41,449,994)	-	(41,449,994)	-
Current tax liabilities	171,613,214	128,404,723	175,060,131	133,040,672
	108,212,452	**62,954,733**	**111,659,369**	**67,590,682**

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
37.1 Movement of Current Tax Liability				
Balance as at 01st April	62,954,733	(49,124,070)	67,590,682	(46,889,005)
Current tax Based on profit for the year	214,222,340	128,404,723	221,197,146	134,173,937
Over/under Provision in respect of previous years	-	-	24,612	748,726
Payment of tax	(168,964,621)	(16,325,920)	(177,153,071)	(20,442,976)
	108,212,452	**62,954,733**	**111,659,369**	**67,590,682**

38. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Obligations - Gratuity

38.1 Liability Recognized in the Balance sheet

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Balance at the beginning of the year	91,237,518	99,773,999	92,298,302	100,758,137
Amount charged/(reversed) for the year (Note - 38.2)	22,230,905	15,930,995	22,444,163	16,127,641
Transfer to gratuity trust fund	(25,650,000)	(20,000,000)	(25,650,000)	(20,000,000)
Payments made during the year	(7,672,684)	(4,467,476)	(7,672,684)	(4,587,476)
Balance at the end of the year	**80,145,738**	**91,237,518**	**81,419,781**	**92,298,302**

38.2 Amount Recognised in Profit or Loss

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Current service cost for the year	21,514,684	22,055,492	21,726,262	22,247,891
Interest cost for the year	22,904,282	19,208,727	23,021,810	19,301,582
Expected return on plan assets	(12,876,405)	(9,151,836)	(12,876,405)	(9,151,836)
	31,542,561	32,112,383	31,781,667	32,397,637
Amount Recognised in Other Comprehensive Income				
Net actuarial (gain)/ loss	(9,311,656)	(16,181,388)	(9,427,504)	(16,269,996)
Amount Charged/(Reversed) for the year	**22,230,905**	**15,930,995**	**22,444,163**	**16,127,641**

Notes to the Financial Statements

For the Financial Year Ended 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
38.3 Changes in the Present Value of Obligation				
Present value obligation as at 01st April	208,220,747	192,087,265	208,220,747	192,087,265
Interest cost	22,904,282	19,208,727	22,904,282	19,208,727
Current service cost	22,424,684	21,123,584	22,424,684	21,123,584
Benefits paid / payable	(7,597,684)	(4,405,476)	(7,597,684)	(4,405,476)
Actuarial (Gain) / Loss	(10,677,902)	(19,793,353)	(10,677,902)	(19,793,353)
Present value obligation as at 31st March	235,274,127	208,220,747	235,274,127	208,220,747
38.4 Movement in the Present Value of Plan Assets				
Value of plan assets as at 01st April	117,058,229	91,518,358	117,058,229	91,518,358
Expected return on the plan assets for the period	12,876,405	9,151,836	12,876,405	9,151,836
Contribution paid to the plan	25,650,000	20,000,000	-	20,000,000
Gratuity paid by the plan assets	-	-	-	-
Actuarial Gain/(Loss) on Plan Assets	(1,366,246)	(3,611,965)	(1,366,246)	(3,611,965)
Value of Plan Assets as at 31st March	154,218,388	117,058,229	128,568,388	117,058,229
38.5 Assumptions				
Discount rate	12%	11%	12%	11%
Salary scale	10%	10%	10%	10%
Mortality table	A 67/70	A 67/70	A 67/70	A 67/70
Staff turnover	17%	15%	15%	15%

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 2017 by Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by LKAS 19

	Company		Group	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.

39. DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Deferred tax liabilities				
Balance at 01st April	192,818,349	143,545,449	192,934,086	143,856,645
Recognised in profit & loss	264,601,285	49,272,900	264,526,507	49,077,441
Balance as at 31st March	**457,419,634**	**192,818,349**	**457,460,593**	**192,934,086**
Deferred tax assets				
Balance at 01st April	217,742,273	151,123,290	218,039,294	151,398,849
Recognised in profit & loss	297,638,954	67,277,392	297,698,666	67,298,854
Recognised in other comprehensive income	(3,496,987)	(4,530,789)	(3,496,987)	(4,530,789)
Reassessment on value of fixed assets	-	3,872,380	-	3,872,380
Balance as at 31st March	**511,884,241**	**217,742,273**	**512,240,973**	**218,039,294**
Net Deferred tax (assets)/ liabilities	**(54,464,606)**	**(24,923,924)**	**(54,780,380)**	**(25,105,208)**

39.1 Recognised Deferred Tax Assets and Liabilities

	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
Liabilities				
Accelerated depreciation - Own assets		-	40,959	115,737
- Leased assets	1,109,832	13,787,891	1,109,832	13,787,872
Lease rentals	456,309,802	179,030,477	456,309,802	179,030,477
	457,419,634	**192,818,349**	**457,460,593**	**192,934,086**
Assets				
Defined benefit obligation	22,440,807	25,546,505	22,797,539	25,843,526
Own assets	76,776,252	54,662,726	76,776,252	54,662,726
Others	7,022,317	15,236,873	7,022,317	15,236,873
Tax loss carried forward	405,644,865	122,296,169	405,644,865	122,296,169
	511,884,241	**217,742,273**	**512,240,973**	**218,039,294**

Notes to the Financial Statements

40. STATED CAPITAL

	Company		Group	
	2017 Rs.	**2016 Rs.**	**2017 Rs.**	**2016 Rs.**
40.1 Issued and Fully Paid-Ordinary shares				
Rs. 1/- each 24,300,000 ordinary shares (2016, Rs.10/- each 2,430,000 Ordinary shares)	24,300,000	24,300,000	24,300,000	24,300,000
Capitalization of reserves by issuing 8100,000 shares	518,400,000	-	518,400,000	-
Right Issue 1,296,000 ordinary shares	71,280,000	-	71,280,000	-
	613,980,000	**24,300,000**	**613,980,000**	**24,300,000**
40.2 Movement in Number of Shares				
Balance as at 01st April	2,430,000	2,430,000	2,430,000	2,430,000
Share split by issue 1:10	21,870,000	-	21,870,000	-
Capitalisation of reserves on the basis 1:3	8,100,000	-	8,100,000	-
Right issue basis 1: 25	1,296,000	-	1,296,000	-
	33,696,000	**2,430,000**	**33,696,000**	**2,430,000**

On 16 November 2016, ordinary shares of the company were subdivided on the basis 1:10, increasing the Shares in Issue to 24,300,000, and the Stated Capital remained unchanged. Thereafter on 21 November 2016, a capitalization of 1:3 was effected at Rs.64per share through utilization of the General Reserve. Thus the Shares in issue increased to 32,400,000 together with an increase in the Stated Capital to Rs.542,700,000.00. Further, the company effected a Rights Issue on the basis of 1:25, thereby increasing the shares in Issue to 33,696,000 and the Stated Capital to Rs.613,980,000.00, resulting from the inflow on the Rights Issue that amounted to Rs.71,280,000.00.This strengthened the working capital base of company resulting in improvements in its growth capability.

40.3 Rights of Shareholders

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

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

As at 31st March	Company 2017 Rs.	Company 2016 Rs.	Group 2017 Rs.	Group 2016 Rs.
41. RETAINED EARNINGS				
As at 01st April	803,805,837	598,539,503	845,518,674	629,321,313
Dividend paid	(182,995,200)	(126,360,000)	(182,995,200)	(126,360,000)
Profit for the year	649,456,817	419,189,385	653,314,165	430,063,754
Reassessment of value of fixed assets	-	(13,829,928)	-	(13,829,928)
Associate Company prior year adjustment	-	(2,323,724)	-	(2,323,724)
Adjustment on actuarial gain / (losses) on defined benefit plan	6,704,392	11,650,599	6,778,465	11,707,258
Transfers to statutory reserve fund	(129,891,400)	(83,060,000)	(129,891,400)	(83,060,000)
As at 31st March	**1,147,080,445**	**803,805,837**	**1,192,724,704**	**845,518,674**

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

As at 31st March	Company 2016 Rs.	Company Transfers Rs.	Company 31.03.2017 Rs.	Group 2016 Rs.	Group Transfers Rs.	Group 31.03.2017 Rs.
42. RESERVES						
Available for sale reserve (Note 42.1)	6,065,427	798,159	6,863,586	6,065,427	798,159	6,863,586
Capital reserve (Note 42.2)	479,906,644	797,498,944	1,277,405,588	479,906,644	797,498,944	1,277,405,588
General reserve	823,441,275	(435,183,220)	388,258,055	823,441,275	(435,183,220)	388,258,055
Investment fund reserve (Note 42.3)	83,216,780	(83,216,780)	-	83,216,780	(83,216,780)	-
Statutory reserve fund (Note 42.4)	501,317,400	129,891,400	631,208,800	501,317,400	129,891,400	631,208,800
	1,893,947,527	409,788,503	2,303,736,029	1,893,947,528	409,788,503	2,303,736,029

The Board decided to consolidate the reserves, thereby Investment fund reserve of Rs. 83.2mn transferred to the General reserve. In year 2016 Dividend Equalization Reserve of Rs. 7mn, Diversification Risk Reserve Rs. 255Mn, Development Reserve Rs.108.14Mn were transferred to the General Reserve increasing the Reserve from Rs. 453.3Mn to 823.44 Mn. The Company maintains the General Reserve to retain funds for future expansion.

Notes to the Financial Statements

	Company		Group	
	2017 Rs.	**2016 Rs.**	**2017 Rs.**	**2016 Rs.**
42.1 Available for Sale Reserve				
Balance as at 01st April	6,065,427	21,681,789	6,065,427	21,681,789
Sri Lanka government securities	798,159	(1,250,070)	798,159	(1,250,070)
Equity securities - unquoted	-	(14,366,292)	-	(14,366,292)
Transfer of realized gain/(loss) on available for sale financial assets	-	-		
	6,863,586	**6,065,427**	**6,863,586**	**6,065,427**

42.2 Capital Reserve - Revaluation Reserve

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

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

42.3 Investment Fund Reserve

Investment fund reserve is a free reserve and has been added to the core capital of the company.

42.4 Reserve Fund

20% of profits after tax of 2016 is transferred to the Reserve Fund to full-fill the minimum requirement of the Section 3 (b) of Finance Companies (Capital Funds) Direction No.1 of 2003. This balance in the Statutory Reserve Fund will be used only for the purposes specified in the Finance Business Act, No.42 of 2011.

43. SEGMENT REPORT

31st March 2017	Leasing	Hire Purchase & Consumer Durables	Loans	Pawning	Hire of vehicles	Investing in Shares	Collaboration Finance	Investing in Government Securities	Others	Total
Revenue										
External sales	9,449,654,323	358,713,279	1,654,667,651	113,831,460	49,097,842	11,703,530	170,725,971	22,259,597	208,874,268	12,039,527,922
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	9,449,654,323	358,713,279	1,654,667,651	113,831,460	49,097,842	11,703,530	170,725,971	22,259,597	208,874,268	12,039,527,922
Total income	3,124,219,302	83,808,485	1,692,911,116	113,831,460	49,097,842	(3,765,289)	187,922,625	8,402,711	191,677,614	5,448,105,867
Results										
Segment results	2,324,820,827	67,454,023	1,035,614,926	43,612,358	15,202,219	(15,383,620)	131,419,225	8,402,711	191,677,087	3,802,819,754
Unallocated company expenses										(500,251,461)
Operating profit										3,302,568,293
Interest expense	(1,430,101,659)	(15,133,860)	(634,518,110)	(40,679,459)	(14,939,252)	(19,819,957)	(154,392,616)	(545,394)	(152,301,542)	(2,462,431,850)
Share of profits of associates before tax										10,899,751
Loss on change of interest in associates	-									
Income taxes										(191,534,940)
Net Profit										659,501,254
Other Information										
Segment assets	15,837,430,513	167,597,495	7,026,868,626	450,498,121	165,442,341	219,492,920	1,709,796,157	6,039,880	1,686,638,903	27,269,804,955
Investment in associates										68,762,442
Unallocated company assets										2,815,315,829
Total assets										30,153,883,226
Segment liabilities	13,803,525,680	141,261,586	5,922,681,657	379,707,818	139,445,089	185,002,276	1,441,122,479	5,090,786	1,421,604,107	23,439,441,478
Unallocated company liabilities										2,568,708,105
Total liabilities										26,008,149,584

Notes to the Financial Statements

43. Segment report (continued)

31st March 2016	Leasing	Hire Purchase & Consumer Durables	Loans	Pawning	Hire of vehicles	Investing in Shares	Collaboration Finance	Investing in Government Securities	Others	Total
Revenue										
External sales	8,559,446,796	814,852,166	1,208,541,818	101,533,619	47,698,979	44,341,707	130,481,201	33,396,878	204,630,602	11,144,923,766
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	8,559,446,796	814,852,166	1,208,541,818	101,533,619	47,698,979	44,341,707	130,481,201	33,396,878	204,630,602	11,144,923,766
Total income	2,689,946,108	197,586,713	1,233,935,002	101,533,619	47,698,979	11,417,189	180,254,299	19,044,494	135,198,979	4,616,615,382
Results										
Segment results	1,751,831,888	177,818,037	707,061,903	(201,497,766)	22,017,489	(21,981,048)	141,931,366	19,044,494	134,943,521	2,731,169,884
Unallocated company expenses										(319,408,822)
Operating profit										2,411,761,062
Interest expense	(1,025,026,977)	(35,695,398)	(405,136,418)	(27,293,350)	(12,763,563)	(17,306,858)	(135,625,392)	(138,398)	(209,448,417)	(1,868,434,772)
Share of profits of associates before tax										13,442,936
Loss on change of interest in associate										(3,153,928)
Income taxes										(117,418,769)
Net Profit										436,196,530
Other Information										
Segment assets	13,283,110,374	462,569,201	5,250,078,167	353,688,820	165,400,341	224,275,954	1,757,541,117	1,793,477	2,714,198,269	24,212,655,720
Investment in associates										65,834,956
Unallocated company assets										1,677,426,617
Total assets										25,955,917,293
Segment liabilities	11,908,323,665	407,301,385	4,622,798,278	311,430,043	145,638,291	197,479,440	1,547,549,920	1,579,192	2,389,905,576	21,532,005,790
Unallocated company liabilities										1,627,069,581
Total liabilities										23,159,075,371

44. 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.

44.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Company

As at 31st March 2017 **Financial Assets**	**Level 1** **Rs.**	**Level 2** **Rs.**	**Level 3** **Rs.**	**Total** **Rs.**
44.1 Determination of Fair Value and Fair Value Hierarchy (Continued)				
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bonds	-	1,053,340,388	-	1,053,340,388
Quoted equities	198,275,389	-	-	198,275,389
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bonds	-	480,606,721	-	480,606,721
Unquoted equities	-	-	7,717,531	7,717,531
Total Financial Assets	**198,275,389**	**1,533,947,109**	**7,717,531**	**1,739,940,028**

Notes to the Financial Statements

As at 31st March 2016	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bonds	-	583,697,462	-	583,697,462
Quoted equities	198,773,769	-	-	198,773,769
Financial Investments - Available for Sale -				
Government of Sri Lanka treasury bonds	-	438,251,912	-	438,251,912
Unquoted equities	-	-	12,002,185	12,002,185
Investments in unit trusts	-	298,530,171	-	298,530,171
Total Financial Assets	**198,773,769**	**1,320,479,546**	**12,002,185**	**1,531,255,500**

Group

As at 31st March 2017 Financial Assets	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	1,053,340,388	-	1,053,340,388
Quoted equities	198,275,389	-	-	198,275,389
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bills	-	480,606,721	-	480,606,721
Unquoted equities	-	-	21,217,531	21,217,531
Total Financial Assets	**198,275,389**	**1,533,947,109**	**21,217,531**	**1,753,440,028**

As at 31st March 2016 **Financial Assets**	**Level 1** **Rs.**	**Level 2** **Rs.**	**Level 3** **Rs.**	**Total** **Rs.**
Financial Investments - Held for Trading				
Government of Sri Lanka treasury bills	-	583,697,462	-	583,697,462
Quoted equities	198,773,769	-	-	198,773,769
Financial Investments - Available for Sale				
Government of Sri Lanka treasury bills	-	438,251,912	-	438,251,912
Unquoted equities	-	-	25,502,185	25,502,185
Investments in unit trusts	-	376,978,352	-	376,978,352
Total Financial Assets	**198,773,769**	**1,398,927,727**	**25,502,185**	**1,623,203,681**

44.2 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.

Company	**2017**		**2016**	
	Carrying Amount Rs.	**Fair Value Rs.**	**Carrying Amount Rs.**	**Fair Value Rs.**
Financial Assets				
Cash and cash equivalents	250,196,373	250,196,373	143,982,481	143,982,481
Repurchase agreement	175,849,048	175,849,048	735,591,742	735,591,742
Placement with banks & other financial institutions	1,218,793,508	1,218,793,508	1,834,356,115	1,834,356,115
Loans and advances	7,478,467,024	7,949,379,104	5,603,981,321	5,552,831,650
Lease rentals receivable	15,837,430,513	16,308,898,758	13,283,110,374	11,452,250,737
Hire purchase receivable	167,597,495	167,597,495	462,569,201	418,162,462
Other financial assets	255,578,986	255,578,986	181,511,534	181,511,534
Total Financial Assets	**25,383,912,946**	**26,326,293,272**	**22,245,102,768**	**20,318,686,721**

Notes to the Financial Statements

Company	2017 Carrying Amount Rs.	2017 Fair Value Rs.	2016 Carrying Amount Rs.	2016 Fair Value Rs.
44.2 Determination of Fair Value and Fair Value Hierarchy (continued)				
Financial Liabilities				
Due to banks	11,717,889,355	11,717,889,355	8,328,978,742	8,328,978,742
Due to customers	10,087,821,914	10,092,101,864	10,464,149,566	10,468,429,515
Debt instruments issued and other borrowed funds	2,548,225,806	2,548,225,806	3,062,414,964	3,062,414,964
Financial liabilities	888,031,755	888,031,755	884,210,568	884,210,568
Total Financial Liabilities	**25,241,978,830**	**25,246,258,779**	**22,739,753,840**	**22,744,033,789**

Group	2017 Carrying Amount Rs.	2017 Fair Value Rs.	2016 Carrying Amount Rs.	2016 Fair Value Rs.
Financial Assets				
Cash and cash equivalents	294,565,160	294,565,160	177,180,931	177,180,931
Repurchase agreement	175,849,048	175,849,048	735,591,742	735,591,742
Placement with banks & other financial institutions	1,273,186,055	1,273,186,055	1,834,356,115	1,834,356,115
Loans and advances	7,478,583,487	8,064,672,791	5,604,087,836	5,552,831,650
Lease rentals receivable	15,837,430,513	16,308,898,758	13,283,110,374	11,452,250,737
Hire purchase receivables	167,597,495	167,597,495	462,569,201	418,162,462
Other financial assets	291,358,203	291,358,203	178,653,619	178,653,619
Total Financial Assets	**25,518,569,961**	**26,576,127,510**	**22,275,549,818**	**20,349,027,255**
Financial Liabilities				
Due to banks	11,749,382,430	11,749,382,430	8,353,691,241	8,353,691,241
Due to customers	10,087,821,914	10,092,101,863	10,464,149,566	10,468,429,515
Debt instruments issued and other borrowed funds	2,548,225,806	2,548,225,806	3,062,414,964	3,062,414,964
Financial liabilities	902,782,091	902,782,091	890,116,107	890,116,107
Total Financial Liabilities	**25,288,212,241**	**25,292,492,191**	**22,770,371,878**	**22,774,651,827**

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

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

Assets for which Fair Value Approximates Carrying Value

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

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

Fixed Rate Financial Instruments

"Carrying amounts are considered as fair values for short term credit facilities. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. For quoted debt issued the fair value are determined based on quoted market prices."

45. 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.

45.1 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

46. 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.

Notes to the Financial Statements

47. 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 2017	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31/03/2017
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	250,196,373	-	-	-	-	250,196,373
Repurchase agreements	175,849,048	-	-	-	-	175,849,048
Placements with banks & financial institutions	371,022,349	847,771,159	-	-	-	1,218,793,508
Financial investments - Held for trading	592,272,233	659,343,543	-	-	-	1,251,615,776
Loans and advances	1,863,726,775	3,393,104,306	1,618,986,849	597,330,742	5,318,352	7,478,467,024
Lease rentals receivable & stock out on hire	1,507,531,524	4,206,093,037	7,842,823,956	2,267,038,641	13,943,353	15,837,430,513
Hire purchase rentals receivable & stock out on hire	53,456,476	70,693,657	43,447,364	-	-	167,597,497
Financial investments - Available for sale	30,644,147	55,756,850	17,194,800	17,194,800	367,533,654	488,324,251
Other financial assets	157,971,752	39,786,469	56,425,682	1,395,083	-	255,578,986
Total Assets	5,002,670,676	9,272,549,021	9,578,878,652	2,882,959,267	386,795,359	27,123,852,976
Financial Liabilities						
Due to banks	2,424,975,572	2,609,687,226	5,191,355,719	735,462,874	756,417,863	11,717,899,254
Due to customers	3,080,015,777	3,508,162,977	3,364,268,191	135,374,969	-	10,087,821,914
Debt instruments issued and other borrowed funds	11,931,431	964,801,178	1,571,493,197	-	-	2,548,225,806
Derivative financial liabilities	-	17,736,580	-	-	-	17,736,580
Other financial liabilities	837,232,610	50,799,145	-	-	-	888,031,755
Total Liabilities	6,354,155,391	7,151,187,106	10,127,117,108	870,837,842	756,417,863	25,259,715,309
Net Financial Assets/ (Liabilities)	(1,351,484,716)	2,121,361,914	(548,238,456)	2,012,121,425	(369,622,503)	1,864,137,666

As at 31st March 2016	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31/03/2016
Financial Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	143,982,481	-	-	-	-	143,982,481
Repurchase agreements	735,591,742	-	-	-	-	735,591,742
Placements with banks & financial institutions	345,084,626	1,489,271,488	-	-	-	1,834,356,115
Financial investments - Held for trading	957,904,524	123,096,879	-	-	-	1,081,001,402
Loans and advances	1,838,064,766	2,613,773,060	799,377,494	348,230,004	4,535,995	5,603,981,321
Lease rentals receivable & stock out on hire	1,450,896,617	3,391,120,548	6,119,837,765	2,297,760,863	23,494,582	13,283,110,375
Hire purchase rentals receivable & stock out on hire	92,477,556	152,905,790	206,830,105	10,355,751	-	462,569,202
Financial investments - Available for sale	11,819,558	15,975,100	16,622,400	16,622,400	389,214,639	450,254,097
Other financial assets	84,693,620	36,063,459	51,011,124	9,743,330	-	181,511,533
Total Assets	5,660,515,489	7,822,206,326	7,193,678,888	2,682,712,349	417,245,216	23,776,358,266
Financial Liabilities						
Due to banks	1,519,940,922	3,189,079,785	2,924,050,724	644,977,586	50,929,726	8,328,978,743
Due to customers	2,800,364,836	4,666,977,340	2,830,503,448	166,303,942	-	10,464,149,566
Debt instruments issued and other borrowed funds	137,391,342	464,089,076	1,600,840,488	860,094,060	-	3,062,414,966
Other financial liabilities	785,909,653	98,300,915	-	-	-	884,210,568
Total Liabilities	5,243,606,753	8,418,447,116	7,355,394,660	1,671,375,588	50,929,726	22,739,753,843
Net Financial Assets / (Liabilities)	416,908,737	(596,240,791)	(161,715,772)	1,011,336,761	366,315,490	1,036,604,423

Notes to the Financial Statements

48. 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,

48.1 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.

	2017 Rs.	2016 Rs.
48.1.1 Key Management Personnel Compensation		
KMP's Emoluments		
Short Term	79,377,030	84,371,090
Long Term	15,894,378	13,112,120
	95,271,408	**97,483,210**
Directors Emoluments		
Short Term	29,192,831	26,435,032
Long Term & Post employment benefits	9,672,484	25,950,390
	38,865,315	**52,385,422**

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

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

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

Company and Group	2017 Rs.	2016 Rs.
Fixed Deposits		
Fixed Deposits accepted during the year	31,051,748	16,599,946
Fixed Deposits held at the end of the year	85,926,729	27,374,579
Interest payable on Fixed Deposits	2,067,791	852,778
Interest paid on Fixed Deposits	13,402,219	1,271,058

Debt Instruments Issued and Other Borrowed Funds	2,017 Rs.	2,016 Rs.
Debentures	3,520,000	3,520,000

Notes to the Financial Statements

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

		Company	
		2017 Rs.	2016 Rs.
Nature of Transaction	**Nature of Transaction / Facility**		
M/S.Alfinco Insurance Brokers (Pvt) Ltd.	Fixed deposits	54,780,430	-
Reimbursement of expenses		36,756,608	35,694,720
M/S.Alliance Management Services (Private) Limited	Fixed deposits	3,186,084	2,917,916
Management fees		1,098,891	608,000
M/S.Alliance Travel Services Ltd	Fixed deposits	3,115,242	5,835,135
M/S Xesol (Pvt) Ltd	Liquidation fees	-	6,249,763
M/S. Macbertan (Private) Limited	Lease rentals receivable & stock out on hire	178,471	865,397
Loan rentals receivable		501,984	1,223,478
M/S.Alliance Tech Trading (PVT) Ltd.	Fixed deposits	10,143,631	9,008,082
Virtusa Pvt. Ltd	Software development fees	-	4,146,980
Alliance Ventures Pvt Ltd	Fixed deposits	1,114,936	1,160,815

48.5 Parent and Ultimate Controlling Party

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

49. RISK MANAGEMENT

49.1 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 appraised 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.

49.2 Credit Risk

49.2.1 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.

Notes to the Financial Statements

49.2.1 Credit Quality by Class of Financial Assets (continued)

Impairment assessment

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

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including hire purchase, 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.

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

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

As at 31st March 2017 Company	Notes	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Total Rs.
Financial Assets				
Cash and cash equivalents	18	250,196,373	-	250,196,373
Repurchase agreements		175,849,048	-	175,849,048
Placements with banks & financial institutions		1,218,793,508	-	1,218,793,508
Financial investments - Held for trading	21	1,251,615,776	-	1,251,615,776
Loans and advances	22	6,262,292,653	1,216,174,370	7,478,467,024
Lease rentals receivable & stock out on hire	23	9,864,449,851	5,972,980,662	15,837,430,513
Hire purchase rentals receivable & stock out on hire	24	73,111,656	94,485,839	167,597,495
Financial investments - Available for sale	25	488,324,252	-	488,324,252
Other financial assets	26	255,578,986	-	255,578,986
Total Financial Assets		**19,840,212,104**	**7,283,640,871**	**27,123,852,975**

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

	Past Due but Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and Advances	665,092,776	230,584,975	87,671,848	232,824,772	1,216,174,370
Lease rentals receivable & Stock out on hire	3,526,183,069	1,386,323,036	389,583,984	670,890,573	5,972,980,662
Hire purchase rentals receivable & Stock out on hire	34,627,443	19,494,650	8,124,622	32,239,124	94,485,839
	4,225,903,288	**1,636,402,661**	**485,380,453**	**935,954,469**	**7,283,640,871**

Notes to the Financial Statements

As at 31st March 2017 Group	Notes	Neither Past Due nor Impaired Rs.	Past Due but Not Impaired Rs.	Total Rs.
49.2.1 Credit Quality By Class Of Financial Assets (continued)				
Assets				
Cash and cash equivalents	18	294,565,160	-	294,565,160
Repurchase agreements		175,849,048	-	175,849,048
Placements with banks & financial institutions		1,273,186,055	-	1,273,186,055
Financial investments - Held for trading	19	1,251,615,776	-	1,251,615,776
Loans and advances	20	6,262,292,653	1,216,290,833	7,478,583,487
Lease rentals receivable & stock out on hire	21	9,864,449,851	5,972,980,661	15,837,430,512
Hire purchase rentals receivable & stock out on hire	22	73,111,656	94,485,838	167,597,494
Financial investments - Available for sale	23	501,824,252	-	501,824,252
Other financial assets	25	291,358,203	-	291,358,203
Total Financial Assets		19,988,252,655	7,283,757,332	27,272,009,986

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

	Past Due but Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and advances	665,092,776	230,584,975	87,671,848	232,824,772	1,216,174,370
Lease rentals receivable & Stock out on hire	3,526,183,069	1,386,323,036	389,583,984	670,890,573	5,972,980,662
Hire purchase rentals receivable & Stock out on hire	34,627,443	19,494,650	8,124,622	32,239,124	94,485,839
	4,225,903,288	**1,636,402,661**	**485,380,453**	**935,954,469**	**7,283,757,332**

Credit risk - Credit Quality by Class of Financial Assets

As at 31st March 2016 Company	Notes	Neither Past Due nor Impaired Rs.	Past Due but Not Impaired Rs.	Total Rs.
Cash and cash equivalents	18	143,982,481	-	143,982,481
Repurchase agreements		735,591,742	-	735,591,742
Placements with banks & financial institutions		1,834,356,115	-	1,834,356,115
Financial investments - Held for trading	19	1,081,001,402	-	1,081,001,402
Loans and advances	20	4,590,510,686	1,013,470,635	5,603,981,320
Lease rentals receivable & stock out on hire	21	7,134,074,132	6,149,036,242	13,283,110,374
Hire purchase rentals receivable & stock out on hire	22	166,186,750	296,382,451	462,569,201
Financial investments - Available for sale	23	450,254,097	-	450,254,097
Other financial assets	25	181,511,534	-	181,511,534
Total Financial Assets		**16,317,468,938**	**7,458,889,327**	**23,776,358,266**

Notes to the Financial Statements

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

	Past Due but Not Impaired				
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
49.2.1 Credit Quality by Class of Financial Assets (continued)					
Loans and Advances	623,100,616	186,977,101	48,012,594	155,380,324	1,013,470,635
Lease rentals receivable & Stock out on hire	3,366,449,306	1,808,280,026	358,773,543	615,533,367	6,149,036,242
Hire purchase rentals receivable & Stock out on hire	136,384,548	65,717,272	19,594,595	74,686,036	296,382,451
	4,125,934,470	**2,060,974,399**	**426,380,732**	**845,599,727**	**7,458,889,327**

As at 31st March 2016	**Notes**	**Neither Past Due nor Impaired**	**Past Due but Not Impaired**	**Total**
Group		**Rs.**	**Rs.**	**Rs.**
Assets				
Cash and cash equivalents	18	177,180,931	-	177,180,931
Repurchase agreements		735,591,742	-	735,591,742
Placements with banks & financial institutions		1,834,356,115	-	1,834,356,115
Financial investments - Held for trading	19	1,159,449,583	-	1,159,449,583
Loans and advances	20	4,590,510,686	1,013,577,147	5,604,087,833
Lease rentals receivable & stock out on hire	21	7,134,074,132	6,149,036,242	13,283,110,374
Hire purchase rentals receivable & stock out on hire	22	166,186,750	296,382,451	462,569,201
Financial investments - Available for sale	23	463,754,097	-	463,754,097
Other financial assets	25	178,653,619	-	178,653,619
Total Financial Assets		**16,439,757,654**	**7,458,995,840**	**23,898,753,494**

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

	Past Due but Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and advances	623,100,616	187,962,612	48,012,594	155,380,324	1,014,456,146
Lease rentals receivable & Stock out on hire	3,366,449,306	1,808,280,026	358,773,543	615,533,367	6,149,036,242
Hire purchase rentals receivable & Stock out on hire	136,384,548	65,717,272	19,594,595	74,686,036	296,382,451
	4,125,934,470	**2,061,959,910**	**426,380,732**	**845,599,727**	**7,459,874,839**

49.2.2 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 Investments - Held for Trading Rs.	Loans and Advances Rs.	Financial Investments - Available for Sale Rs.	Other Financial Assets Rs.	Total Financial Assets Rs.
Agriculture & Fishing	-	-	3,214,414,767	-	-	3,214,414,767
Construction	-	-	481,054,417	-	-	481,054,417
Food, Beverages & Tobacco	-	-	3,150,324,091	-	-	3,150,324,091
Financial Services	294,565,160	-	222,711,569	-	1,273,186,055	1,790,462,784
Industry	-	-	213,680,794	-	-	213,680,794
Tourism	-	-	87,833,644	-	-	87,833,644
Government	-	1,053,340,388	169,245,571	480,606,721	175,849,048	1,879,041,728
Transport	-	-	6,024,386,361	-	-	6,024,386,361
Services	-	-	5,763,811,164	-	291,358,203	6,055,169,367
Consumption	-	-	503,899,548	-	-	503,899,548
Other	-	198,275,389	3,652,249,569	21,217,531	-	3,871,742,488
Total	**294,565,160**	**1,251,615,776**	**23,483,611,496**	**501,824,252**	**1,740,393,306**	**27,272,009,990**

Notes to the Financial Statements

49.2.3 Risk Limit Control and Mitigation Policies

The Company manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counter parties and groups, and to industries and countries.

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

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

Some other specific control and mitigation measures are outlined below:

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Company will seek additional collateral from the counter party as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

49.3 Liquidity Risk & Funding Management

"Liquidity risk refers to the availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes counter parties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

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

Liquidity risk management process

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

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

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

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

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

49.3.1 Statutory Liquid Asset Ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 01 of 2009,

(i) Company has to maintain minimum liquid assets, not less than the total of, 10%
   (a) The outstanding value of the time deposits received by the finance company at the close of the business on such day, and
   (b) The face value of certificate of deposits issued by the finance company; as appearing on the books of the finance company at the close of the business of such day and
(ii) 15% of the outstanding value of savings deposits accepted by such company, at the close of the business on such day.

As at 31st March 2017, the Company maintained Statutory Liquid Asset ratio at 12.11%.

49.3.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the un-discounted cash flow of the Company's financial assets and liabilities as at 31 March 2017.

	On Demand Rs.	Less than 03 Months Rs.	3-12Months Rs.	12-60 Months Rs.	Over 60 Months Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	250,196,373	-	-	-	-	250,196,373
Repurchase agreement	175,849,048	-	-	-	-	175,849,048
Placement with banks & other financial institution	198,275,388	172,746,961	847,771,159	-	-	1,218,793,508
Financial investments - held for trading	-	592,272,233	659,343,543	-	-	1,251,615,776
Loans and advances	-	1,863,726,775	3,393,104,306	2,216,317,591	5,318,352	7,478,467,024
Lease rentals receivable & stock out on hire	-	1,507,531,524	4,206,093,037	10,109,862,598	13,943,353	15,837,430,512
Hire purchase rentals receivable & stock out on hire	-	53,456,476	70,693,657	43,447,364	-	167,597,496
Financial investments - available for sale	-	30,644,147	55,756,850	34,389,600	367,533,654	488,324,251
Other financial assets	-	157,971,752	39,786,469	57,820,766	-	255,578,986
Total Financial Assets	624,320,808	4,378,349,868	9,272,549,021	12,461,837,919	386,795,359	27,123,852,974

	On Demand Rs.	Less than 03 Months Rs.	3-12Months Rs.	12-60 Months Rs.	Over 60 Months Rs.	Total Rs.
Financial Liabilities						
Due to banks	441,798,837	1,983,176,735	2,609,687,226	5,926,818,593	756,417,863	11,717,899,254
Due to customers	628,916,282	2,451,099,495	3,508,162,977	3,499,643,160	-	10,087,821,914
Debt instruments issued and other borrowed funds	11,501,431	430,000	964,801,178	1,571,493,197	-	2,548,225,806
Other financial liabilities	736,056,580	101,176,030	50,799,145	-	-	888,031,755
Total Financial Liabilities	1,818,273,130	4,535,882,260	7,133,450,526	10,997,954,950	756,417,863	25,241,978,729
Total Net Financial Assets/(Liabilities)	(1,193,952,322)	(157,532,392)	2,139,098,495	1,463,882,969	(369,622,503)	1,881,874,245

Assets held for managing liquidity risk

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

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

49.4 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.

Notes to the Financial Statements

49.4.1 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 2017	Sensitivity of Profit or Loss 2017 Rs.	Sensitivity of Profit or Loss 2017 Rs.
Long term loans linked to AWPLR	+100/ (-100)	(352,432.5)/352,432.53	(352,432.5)/352,432.53

49.4.2 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 31/03/2017 Rs.
Assets						
Cash and cash equivalents		-	-	-	250,196,373	250,196,373
Loans and advances	1,863,726,775	3,393,104,306	2,216,317,591	5,318,352	-	7,478,467,024
Lease rentals receivable & stock out on hire	1,507,531,524	4,206,093,037	10,109,862,598	13,943,353	-	15,837,430,513
Hire purchase rentals receivable & stock out on hire	53,456,476	70,693,657	43,447,364	-	-	167,597,496
Financial investments - available for sale	-	-	-	-	488,324,252	488,324,252
Other financial assets	-	-	-	-	255,578,986	255,578,986
Total Financial Assets	3,424,714,775	7,669,891,000	12,369,627,553	19,261,705	994,099,611	24,477,594,644

	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31/03/2017 Rs.
Financial Liabilities						
Due to banks	2,424,975,572	2,609,687,226	5,926,818,593	756,417,863	-	11,717,899,254
Due to customers	3,080,015,777	3,508,162,977	3,499,643,160	-	-	10,087,821,914
Debt instruments issued and other borrowed funds	11,931,431	964,801,178	1,571,493,197	-	-	2,548,225,806
Derivative financial liabilities	-	17,736,580	-	-	-	17,736,580
Other financial liabilities	-	-	-	-	888,031,755	888,031,755
Total Financial Liabilities	5,516,922,780	7,100,387,961	10,997,954,950	756,417,863	888,031,755	25,259,715,309
Interest Sensitivity Gap	(2,092,208,005)	569,503,039	1,371,672,603	(737,156,157)	106,067,856	(782,120,666)

49.4.3 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 2017.

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The following significant exchange rates were applied during the year

	Average Rate 2017	Reporting date spot rate 2017	2016
USD/ LKR	135.36	142.88	131.50

The Company's exposure to foreign currency risk is as follows;

As at 31st December 2017	Rs.	USD Converted to Rs.	Total
Trade & Other Receivables	-	-	-
Cash & Cash Equivalents	-	-	-
Trade & Other Payables	1,449,401	144.69	1,449,545
Amounts due to Related Parties	-	-	-
	1,449,401	144.69	1,449,545

Notes to the Financial Statements

49.4.3 Exposure to foreign currency risk (continued)

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 2017.

	Effect on profit or loss (Rs.)	Effect on equity (Rs.)
USD depreciated against LKR by 5%	72,470	72,470
USD appreciated against LKR by 5%	(72,470)	(72,470)

49.5 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.

49.6 CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka . The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy are to ensure that the company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

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

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

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

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

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

- Tier 1 capital

  Tire 1 Capital is capital which is permanently and freely available to absorb losses without a finance company being obliged to cease trading. An example of Tier 1 Capital is the paid up ordinary share capital of a finance company. Tier 1 Capital is important because it safeguards both the survival of a finance company and stability of the financial system.
- Tier 2 capital:

  Tier 2 Capital is capital which generally absorbs losses only in the event of a winding up of a finance company, and so provides a lower level of protection for depositors and other creditors. Tier - 2 Capital includes revaluation reserve, general provisions and hybrid capital instruments and approved subordinated term debts.

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

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

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 March 2017 and 2016. During those two years, the Company has complied with all of the externally imposed capital requirements to which they are subject.

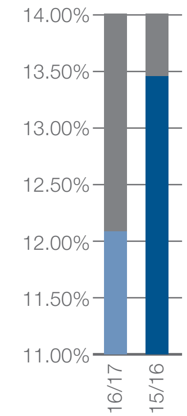
Notes to the Financial Statements

50. CAPITAL ADEQUACY RATIO

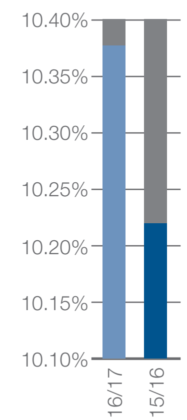
Capital Base	**31.03.2017 Rs.**	**31.03.2016 Rs.**
Tier 1: Core Capital		
Issued and Paid up Share Capital	590,030,000	350,000
Statutory Reserve Fund	631,208,800	501,317,400
General Reserves	388,258,055	906,658,055
Published Retained Profit	1,147,080,445	816,087,109
Total Tier 1: Capital	**2,756,577,300**	**2,224,412,564**
Tire 1: Supplementary Capital		
Capital Reserves (Revaluation)	239,953,322	239,953,322
Shares issued against Approved Reserves	11,975,000	11,975,000
General Provisions	-	
Eligible Approved Unsecured Subordinated Term Debt	256,921,646	503,449,744
Total Tier 2: Capital	508,849,968	755,378,066
Deductions		
Equity Investments in Unconsolidated Banking and Financial Subsidiaries	54,715,271	50,867,186
Capital Base	**3,210,711,998**	**2,928,923,444**

Capital Adequacy Ratio			31.03.2017	31.03.2016
Core Capital Ratio (Minimum 5%)	Tier 1 Capital / Risk Weighted Assets	x 100	10.38%	10.22%
Total Risk Weighted Capital Ratio (Minimum 10%)	Capital Base / Risk Weighted Assets	x100	12.09%	13.45%

Total Risk Weighted Capital Ratio Ratio %



Core Capital Ratio %



Contribution to National Economy

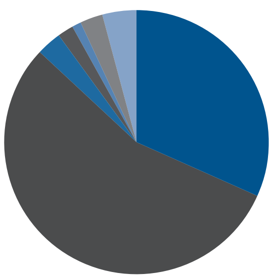
Sources and Utilisation of Income - Company

For the year ended 31st March	2017 Rs.	%	2016 Rs.	%
Sources of Income				
Loans and Advances	1,703,346,069	31.96%	1,237,413,538	27.67%
Lease, Hire purchases and Consumer Durables	2,998,161,770	56.24%	2,673,145,131	59.77%
Government Securities	138,015,988	2.59%	107,791,825	2.40%
Placements with Banks & Financial Institutions	109,503,373	2.05%	49,361,072	1.10%
Other Investments	28,416,649	0.53%	20,699,738	0.46%
Net Fee and Commission Income	154,120,506	2.89%	191,318,610	4.28%
Other Income	199,779,358	3.74%	193,715,068	4.32%
Total Income	5,331,343,714	100.00%	4,473,444,981	100.00%
To Employees				
Personnel Expenses	774,573,157	14.53%	750,965,495	16.79%
To suppliers				
Interest paid	2,462,431,850	46.19%	1,868,434,772	41.77%
Other Expenses	901,056,784	16.90%	815,792,384	18.24%
Depreciation	117,774,125	2.21%	99,934,198	2.23%
Impairment for loans and other losses	73,692,467	1.38%	334,174,465	7.47%
	3,554,955,226	66.68%	3,118,335,818	69.71%

Contribution to National Economy

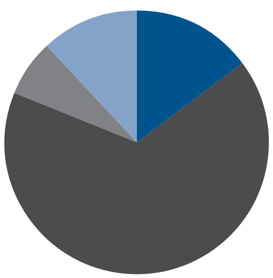
Sources and Utilisation of Income - Company
For the year ended 31st March

	2017 Rs.	%	2016 Rs.	%
To Government				
Value Added Tax & Other Taxes	178,588,251	3.35%	84,125,542	1.88%
Income Tax	184,670,010	3.46%	111,117,749	2.48%
	363,258,261	6.81%	195,243,291	4.35%
To Shareholders				
Dividends	182,995,200	3.43%	126,360,000	2.82%
Invested in the business	455,561,868	8.54%	282,540,377	6.32%
	638,557,068	11.98%	408,900,377	9.14%
	5,331,343,713	100.00%	4,473,444,981	100.00%



Sources of Income - 2016/17

Loans and Advances	32%
Lease, Hire purchases and Consumer Durables	56%
Government Securities	3%
Placements with Banks & Financial Institutions	2%
Other Investments	1%
Net Fee and Commission Income	3%
Other Income	4%



Utilization of Income - 2016/17

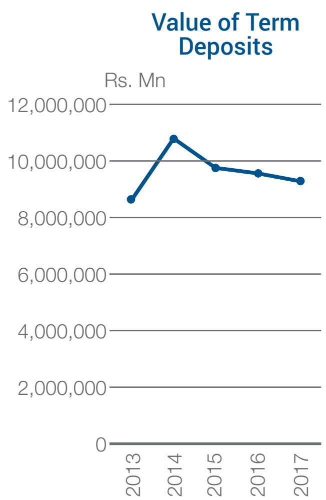
To Employees	15%
To Suppliers	67%
To Government	7%
To Shareholders	12%

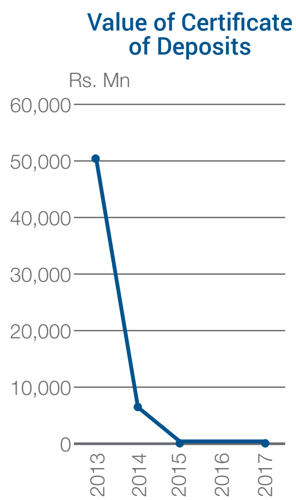
Depositors Information

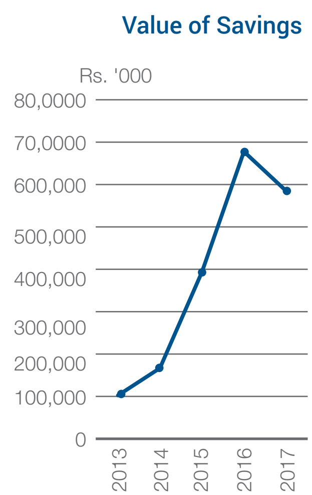
Analysis of Deposit Base

a) Value of Deposit Base and Certificate of Deposits

Value of Deposits	2013 Rs.'000	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000	2017 Rs.'000
Value of Term Deposits	8,611,827	10,746,932	9,723,254	9,524,730	9,261,908
Value of Certificate of Deposits	51,035	6,206	84	84	84
Value of Savings	104,747	168,436	393,517	677,534	585,658
	8,767,609	**10,921,574**	**10,116,855**	**10,202,348**	**9,847,650**



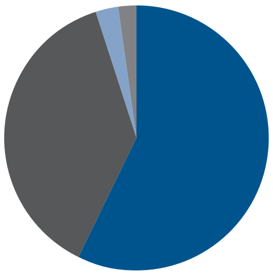




Depositors Information

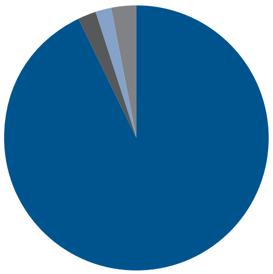
b) Rate of Interest Basis on Term Deposits

	As at 31st March 2017			As at 31st March 2016		
	No. of Deposits	Value Rs.'000	% of Total	No.of Deposits	Value Rs.'000	% of Total
Less than 13%	5,878	5,343,338	58%	8,780	8,900,604	93%
More than or equal to 13% and less than 15%	2,974	3,517,691	38%	238	158,098	2%
More than or equal to 15% and less than 17%	258	253,637	3%	321	225,640	2%
More than or equal to 17% and less than 19%	185	147,242	2%	266	240,388	3%
More than or equal to 19%	-	-	0%	-	-	0%
Total	**9,295**	**9,261,908**	**100%**	**9,605**	**9,524,730**	**100%**



Deposit Base Rate Wise- 2016/17

Less than 13%	58%
More than or equal to 13% and less than 15%	38%
More than or equal to 15% and less than 17%	3%
More than or equal to 17% and less than 19%	2%
More than or equal to 19%	0%

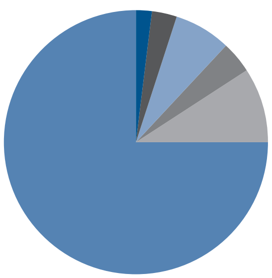


Deposit Base Rate Wise - 2015/16

Less than 13%	93%
More than or equal to 13% and less than 15%	2%
More than or equal to 15% and less than 17%	2%
More than or equal to 17% and less than 19%	3%
More than or equal to 19%	0%

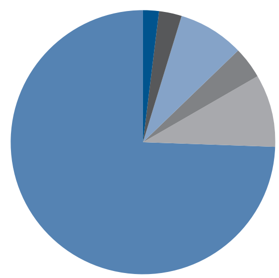
c) Capital Range on Term Deposits

	As at 31st March 2017			As at 31st March 2016		
	No. of Deposits	Total Deposits	%	No. of Deposits	Total Deposits	%
1 - 100,000	2,576	141,099	2%	2,669	144,434	2%
100,000 - 250,000	1,670	298,805	3%	1,807	319,541	3%
250,001 - 500,000	1,682	682,888	7%	1,798	729,630	8%
500,001 - 750,000	547	342,327	4%	581	366,295	4%
750,001 - 1,000,000	917	870,378	9%	913	866,107	9%
Over 1,000,000	1,903	6,926,411	75%	1,837	7,098,723	75%
	9,295	**9,261,908**	**100%**	**9,605**	**9,524,730**	**100%**



Capital Range of Term Deposits- 2016/17

1 - 100,000	2%
100,000 - 250,000	3%
250,001 - 500,000	7%
500,001 - 750,000	4%
750,001 - 1,000,000	9%
Over 1,000,000	75%



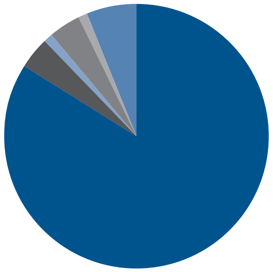
Capital Range of Term Deposits- 2015/16

1 - 100,000	2%
100,000 - 250,000	3%
250,001 - 500,000	8%
500,001 - 750,000	4%
750,001 - 1,000,000	9%
Over 1,000,000	75%

Depositors Information

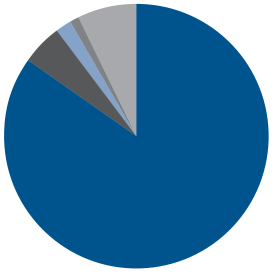
d) Deposits Analysis

	As at 31st March 2017		As at 31st March 2016	
	Rs.'000	%	Rs.'000	%
Individuals	8,315,589	84%	8,596,407	84%
Shareholders	359,206	4%	558,643	5%
Subsidiaries / Associate Companies	90,304	1%	39,592	0%
Other Companies	420,781	4%	250,509	2%
Pensions, Provident Funds, Clubs etc.	76,027	1%	79,579	1%
Certificate of Deposits	84	0%	84	0%
Savings	585,658	6%	677,534	7%
	9,847,650	**100%**	**10,202,348**	**100%**



Deposit Analysis - 2016/17

Individuals	84%
Shareholders	4%
Subsidiaries / Associate Companies	1%
Other Companies	4%
Pensions, Provident Funds, Clubs etc.	1%
Certificate of Deposits	0%
Savings	6%



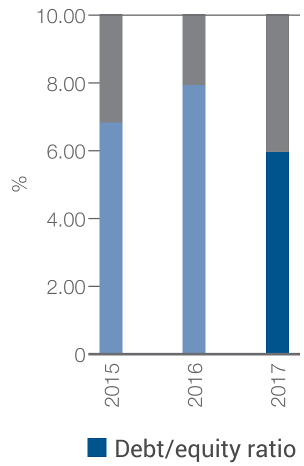
Deposit Analysis - 2015/16

Individuals	84%
Shareholders	5%
Subsidiaries / Associate Companies	0%
Other Companies	2%
Pensions, Provident Funds, Clubs etc.	1%
Certificate of Deposits	0%
Savings	7%

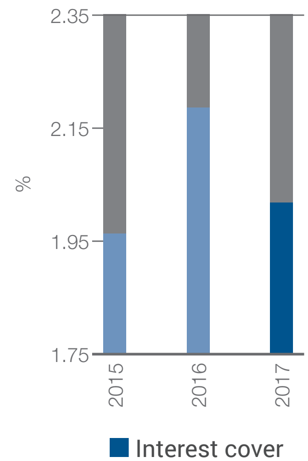
Debenture Investor Indicators

	2015	2016	2017
Debt/equity ratio (times)	6.89	7.99	6.01
Interest cover times	1.96	2.19	2.02
Liquid assets ratio (%)	19.19	25.37	20.19

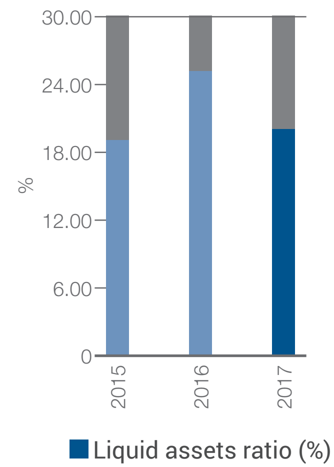
Debt/equity ratio (times) (%)



Interest cover (times) (%)

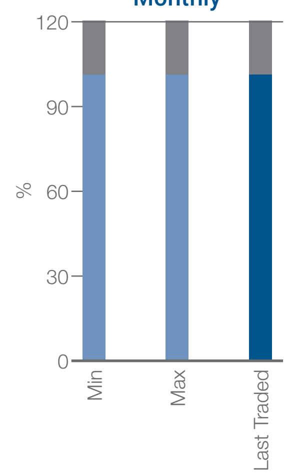


Liquid assets ratio (%)

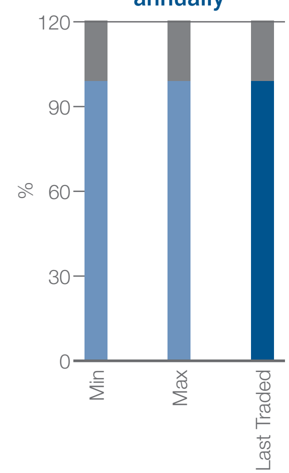


Market Value Per Debenture During Financial Year 2016/17			
Debenture 2012-2017 Market Price (Rs.)	Min	Max	Last Traded
3 Years - 18.5% p.a payable quarterly	N/A	N/A	N/A
5 Years - 20.0% p.a payable Monthly	102.28	102.28	102.28
Debenture 2013-2018 Market Price (Rs.)	Min	Max	Last Traded
3 Years - 15.5% p.a payable semi annually	N/A	N/A	N/A
4 Years - 16% p.a payable semi annually	100	100	100
5 Years - 16.5% p.a payable semi annually	N/A	N/A	N/A
5 Years - 16.5% p.a payable at 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

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



Debenture 2013-2018 Market Price (Rs.) 4 Years - 16% p.a payable semi annually



Ten Year Summary - Company

(In Rupees Million)

For Year Ended 31 March	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
OPERATING RESULTS										
Income	973.07	1,346.86	1,527.78	1,869.41	2,270.91	3,487.97	3,837.89	4,175.93	4,473.44	5,331.34
Profit before Tax	73.92	70.65	78.68	234.79	492.72	586.18	261.27	277.45	530.31	834.13
Income Tax	(11.53)	9.08	10.83	50.00	36.98	75.06	(35.22)	74.54	111.12	184.67
Profit after Tax	85.45	61.57	67.85	184.79	455.74	511.11	296.49	202.90	419.19	649.46
BALANCE SHEET										
Assets										
Cash,Cash Equivalent & Deposits	73.03	79.51	237.16	467.29	527.37	1,043.08	1,248.20	1,111.75	2,713.93	1,644.84
Receivables	397.94	845.99	947.59	705.37	1,220.85	1,126.05	1,350.21	1,101.92	595.04	1,306.76
Stocks	3,315.36	3,492.58	3,628.76	5,775.25	9,366.68	13,477.41	12,997.64	14,440.63	19,293.67	22,866.23
Investments	601.52	730.79	846.01	1,035.80	785.08	770.74	2,010.06	2,122.07	1,795.53	2,081.21
Property,Plant & Equipment	665.81	679.32	654.63	623.25	754.01	1,074.24	1,120.35	1,133.33	1,446.54	2,122.91
	5,053.66	5,828.19	6,314.14	8,606.97	12,653.99	17,491.52	18,726.47	19,909.69	25,844.70	30,021.95
Liabilities										
Term Deposit	2,590.06	3,355.68	4,176.99	5,001.75	6,732.81	9,001.88	11,201.59	10,344.07	10,464.15	10,087.82
Bank Overdraft/Loans	1,473.48	1,283.73	919.42	2,269.00	4,213.29	6,013.19	4,945.87	6,833.37	12,275.60	15,154.16
Provisions & Other Liabilities	344.75	488.32	455.10	171.76	240.20	357.37	187.70	282.91	382.89	715.18
	4,408.29	5,127.73	5,551.51	7,442.51	11,186.30	15,372.44	16,335.16	17,460.35	23,122.64	25,957.15
Shareholders' Funds	645.37	700.47	762.64	1,164.45	1,467.69	2,119.08	2,391.31	2,449.34	2,722.05	4,064.80
CHANGES IN FINANCIAL POSITION										
Sources of Funds										
Operations	104.49	250.46	90.71	635.37	717.93	820.61	(904.12)	541.03	876.95	802.96
Sale of Fixed Assets	26.27	15.64	57.56	69.87	59.98	36.01	21.44	8.06	47.62	25.23
Term Deposits	455.60	765.62	821.31	830.05	1,731.06	2,269.07	2,199.71	(857.52)	120.08	(376.33)
Bank Overdraft/Loans	334.39	(191.54)	(180.26)	715.26	2,168.21	1,812.02	(1,103.21)	1,547.45	5,258.86	2,874.73
Others	(53.38)	(95.29)	(66.04)	(44.93)	(50.95)	(105.27)	(165.36)	(108.48)	(153.38)	(101.67)
	867.37	744.89	723.28	2,205.61	4,626.22	4,832.44	48.45	1,130.54	6,150.13	3,224.93

(In Rupees Million)

For Year Ended 31 March	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Application of Funds										
Capital Expenditure	137.93	97.75	82.82	84.86	237.85	158.35	137.36	106.74	450.67	70.49
Portfolio Disbursements	939.73	683.78	301.11	2,190.98	4,169.62	4,654.30	20.34	1,071.33	5,952.84	2,832.38
Deposits	(36.75)	28.59	(1.35)	3.72	(110.79)	10.17	66.37	400.92	(73.28)	37.27
Income Tax	24.40	32.98	32.28	64.63	42.56	1.89	1.14	0.93	19.57	180.12
Dividends	5.67	6.48	5.67	5.67	105.30	109.35	36.45	48.60	126.36	183.00
Other	(58.53)	(80.80)	(40.30)	(16.81)	164.93	(130.93)	(199.30)	(479.01)	(351.44)	(184.54)
Changes in available resources	(145.08)	(23.89)	343.05	(127.43)	16.75	29.31	(13.93)	(18.96)	25.41	106.21
	867.37	744.89	723.28	2,205.61	4,626.22	4,832.44	48.45	1,130.54	6,150.13	3,224.93
NO. OF SHARES	1,620,000	1,620,000	1,620,000	1,620,000	2,430,000	2,430,000	2,430,000	2,430,000	2,430,000	33,696,000
INDICATORS OF PERFORMANCE										
Return on Shareholders Funds %(After Tax)	14.11	9.15	9.27	21.68	34.63	28.50	13.15	8.38	16.21	19.14
Return on Total Assets %(After Tax)	1.88	1.13	1.12	2.52	4.29	3.39	1.64	1.05	1.83	2.33
Earnings per Share Rs.	52.75	38.01	41.88	76.05	187.55	210.33	122.01	83.50	172.51	19.85
Market Value per Share (Rs.)	175.00	175.00	419.00	850.10	630.00	800.10	769.80	770.00	740.00	55.00
Price Earning Ratio	3.32	4.60	10.00	11.18	3.36	3.80	6.31	9.22	4.29	2.77
Rate of Dividend %	40.00	35.00	35.00	275.00	450.00	400.00	200.00	230.00	530.00	32.38
Dividend per Share (Rs.)	4.00	3.50	3.50	27.50	45.00	40.00	20.00	23.00	53.00	5.90
Gross Dividend	6.48	5.67	5.67	44.55	109.35	97.2	48.60	55.89	128.79	198.81
Dividend cover (times)	13.19	10.86	11.97	4.42	4.17	5.26	6.10	3.63	3.25	3.27
Net Assets per share (Rs.)	398.37	432.39	470.77	581.34	603.99	872.05	984.08	1,007.96	1,120.19	120.63
MARKET VALUE PER SHARE DURING THE YEAR ENDED										
Highest Value Recorded During the Year (Rs.)	235.00	220.00	485.00	1,100.00	824.90	702.00	820.00	929.00	1,000.00	1,600.00
Lowest Value Recorded During the Year (Rs.)	168.00	175.00	185.00	700.00	516.00	849.00	730.00	810.00	732.00	23.00
Market Value as at 31st March (Rs.)	175.00	175.00	419.00	850.10	630.00	800.10	769.80	770.00	740.00	55.00

FINANCIAL HIGHLIGHTS

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assets	5,054	5,828	6,314	8,607	12,654	17,492	18,726	19,910	25,845	30,022
Liabilities	4,408	5,128	5,552	7,443	11,186	15,372	16,335	17,460	23,123	25,957
Shareholders Funds	645	700	763	1,164	1,468	2,119	2,391	2,449	2,722	4,065

Shareholder Information

20 MAJOR SHAREHOLDERS

	31.3.2017			31.3.2016		
No.	Name of Shareholder	No. of Shares	%	Name of Shareholder	No. of Shares	%
1	Mr. R.K.E.P. de Silva	8,934,075	26.51	Mr. R.K.E.P. de Silva	644,068	26.50
2	Motor Service Station (Pvt) Ltd.,	4,542,220	13.48	Motor Service Station (Pvt) Ltd.,	327,564	13.48
3	Miss D.M.E.P. Perera	2,501,443	7.42	Miss D.M.E.P. Perera	182,181	7.50
4	Mr. R.K.E.P. de Silva & Mr.J.E.P.A. de Silva	2,101,216	6.24	Mr. R.K.E.P. de Silva & Mr.J.E.P.A. de Silva	151,530	6.24
5	Mr. D.F.W.S.K. Perera & Mr. D.F.W. Perera	1,381,536	4.10	Mr. D.F.W.S.K. Perera & Mr.D.F.W. Perera	99,630	4.10
6	Orient Hotels Ltd.,	1,358,323	4.03	Orient Hotels Ltd.,	97,956	4.03
7	Mr. N. Amarasinghe	889,360	2.64	Mr. N. Amarasinghe	74,340	3.06
8	Mrs. S.E. Canekeratne	612,268	1.82	Janashakthi PLC A/c No. 1	50,551	2.08
9	Mr. D.L.S.R. Perera	553,556	1.64	Mrs.S.E. Canekeratne	44,154	1.82
10	Janashakthi PLC A/c No. 1	504,663	1.50	Mr. D.L.S.R. Perera	39,920	1.64
11	Mrs. S.R.L. Marcelline	492,480	1.46	Mrs. S.R.L. Marcelline	36,936	1.52
12	Trading Partners (Pvt) Ltd.	422,475	1.25	Trading Partners (Pvt) Ltd.	30,020	1.24
13	Mrs. C.R. de Silva	374,400	1.11	Seylan Bank PLC/Janashakthi Ltd.,	27,287	1.12
14	Mr. D.F.W. Perera	310,560	0.92	Mrs. C.R. Cooray	27,000	1.11
15	Ms. D.D.P.T. Perera	309,384	0.92	Mr. D.F.W. Perera	23,292	0.96
16	Mrs. P. Weththasinghe	299,975	0.89	Ms. D.D.P.T. Perera	21,460	0.88
17	Seylan Bank PLC/Janashakthi Ltd.,	276,742	0.82	Mrs. P. Weththasinghe	21,397	0.88
18	Mrs. A.S. Wijewardena	259,200	0.77	Mrs. A.S. Wijewardena	19,440	0.80
19	Mrs. L.S. Semage	249,016	0.74	Mrs. L.S. Semage	17,958	0.74
20	Ms. D.C.M.A. Perera	236,632	0.70	Ms. D.C.M.A. Perera	17,000	0.70
		26,609,524	78.97		1,953,684	80.40

Holdings	31st March 2017			31st March 2016		
	No. of Holders	Total	%	No. of Holders	Total	%
1 - 1,000	621	160,921	0.48	550	78,440	3.23
1,001 - 10,000	317	1,017,041	3.02	90	298,971	12.30
10,001 - 100,000	126	3,825,934	11.35	26	793,246	32.64
100,001 - 1,000,000	28	7,873,291	23.37	4	1,259,343	51.82
Over 1,000,000	6	20,818,813	61.78	-	-	-
	1,098	33,696,000	100.00	670	2,430,000	100.00

The shares in the hands of the public 31.3.2017 were 18,100,071 representing 53.72% of the Issued Share Capital of the Company and as at 31.3.2016 were 1,305,573 representing 59.96% of the Issued Share Capital of the Company.

	31.3.2017			31.3.2016		
Institution	27	728,711	21.63	18	508,779	20.94
Individuals	643	2,640,889	78.37	652	1,921,221	79.06
	670	3,369,600	100.00	670	2,430,000	100 .00

GRI G4 Index Table

General Standard Disclosures - G4			
Number	Description	Reference/Comments	Page
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	Chairman's Message	16 - 17
Organisational Profile			
G4-3	Name of the organization	Alliance Finance PLC	4
G4-4	Primary brands, products, and services	About our Company-Organisational structure	7
G4-5	The location of the organization's headquarters	Colombo, Sri Lanka	268
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	The Company operates only within Sri Lanka	268
G4-7	The nature of ownership and legal form	Corporate Information	268
G4-8	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Social and Relationship Capital	104-113
G4-9	The scale of the organization, including: • Total number of employees • Total number of operations • Net sales (for private sector organizations) or net revenues (for public sector organizations) • Total capitalization broken down in terms of debt and equity (for private sector organizations) • Quantity of products or services provided	About our Company Organisational structure Performance highlights	7,9
G4-10	a. The total number of employees by employment contract and gender. b. The total number of permanent employees by employment type and gender. c. The total workforce by employees and supervised workers and by gender. d. The total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	Human Capital	96-103

General Standard Disclosures - G4			
Number	Description	Reference/Comments	Page
G4-11	The percentage of total employees covered by collective bargaining agreements.	N/A	
G4-12	Describe the organization's supply chain.	Value Creation Model Social and relationship capital- Our Business Partners	24 104-113
G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including: Changes in the location of, or changes in, operations, including facility openings, closings, and expansions Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations) Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	About this Report	4,5
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	Natural Capital	115-119
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	About this Report	4-5
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is a member.	Social and Relationship Capital- Industry networks	104-113
Identified Material Aspects and Boundaries			
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	About this Report	4,5
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	Strategic Report-Defining what is material	28-29
G4-19	List all the material Aspects identified in the process for defining report content.	Strategic Report-Defining what is material	28-29
G4-20	For each material Aspect, the Aspect Boundary within the organization	Strategic Report-Defining what is material	28-29

GRI G4 Index Table

General Standard Disclosures - G4			
Number	Description	Reference/Comments	Page
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	Strategic Report-Defining what is material	28-29
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Notes to the Financial Statements	163-242
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Strategic Report-Defining what is material	28-29
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organization.	Stakeholder engagement	25-27
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder engagement	25-27
G4-26	The organization's approach to stakeholder engagement	Stakeholder engagement	25-27
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder engagement	25-27
Report Profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	About this Report	4,5
G4-29	Date of most recent previous report (if any).	About this Report	4,5
G4-30	Reporting cycle (such as annual, biennial)	Annual	4,5
G4-31	The contact point for questions regarding the report or its contents.	About this Report	4,5
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured.	Core	4,5
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	External assurance has not been obtained	4,5

General Standard Disclosures - G4			
Number	Description	Reference/Comments	Page
Governance			
G4-34	The governance structure of the organization, including committees of the highest governing body.	Corporate Governance	47-58
Ethics and Integrity			
G4-56	The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Corporate Governance	47-58

Specific Standard Disclosures			
Material Aspect	DMA/Indicators	Reference/comments/Reasons for omission	Page
Economic Performance			
G4-EC1	Direct economic value generated	**Performance highlights**	9
G4-EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Natural Capital	115-119
G4-EC3	Coverage of defined benefit plan obligations	Financial Statements	209
Environmental			
Energy			
G4-EN3	Energy consumption within the organization	Natural Capital	117-119
G4-EN6	Reduction of energy consumption	Natural Capital	117-119
Effluents and waste			
G4-EN23	Total weight of waste by type and disposal method	Natural Capital	116
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	119

GRI G4 Index Table

Specific Standard Disclosures			
Material Aspect	DMA/Indicators	Reference/comments/Reasons for omission	Page
SOCIAL			
Employment: Labour practices and Decent Work			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Human Capital	102
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Human Capital	98
Employment: Occupational health and safety			
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Human Capital	103
Employment: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Human Capital	102
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital	102
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Human Capital	102

Specific Standard Disclosures			
Material Aspect	DMA/Indicators	Reference/comments/Reasons for omission	Page
Society: Local Communities			
G4-SO2	Operations with significant actual or potential negative impacts on local communities	Community Engagement	110
Product Responsibility: Product and service labelling			
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	Social and relationship capital	110-113
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Social and relationship capital	110-113
G4-PR5	Results of surveys measuring customer satisfaction	Social and relationship capital	107
Product Responsibility: Marketing Communications			
G4-PR6	Sale of banned or disputed products	None	107
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Social and relationship capital	107

GRI G4 Index Table

Specific Standard Disclosures			
Material Aspect	DMA/Indicators	Reference/comments/Reasons for omission	Page
Product Responsibility: Customer privacy			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Social and relationship capital	108
Product Responsibility: Compliance			
G4-PR9	Monetary value of significant fines	Social and relationship capital	108
Product Responsibility: Product Portfolio			
G4-FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/sme/large) and by sector	Social and relationship capital	105

Glossary

A

Accounting Policies

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

Accounting

The profit or loss for a period before deducting tax expense

Accrual Basis of Accounting

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

Amortisation (Depreciation)

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

C

Carrying Amount

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

Cash Equivalents

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

Contingencies

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

Corporate Governance

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

Cost to Income Ratio

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

Current Tax

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

D

Dealing Securities

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

Deferred tax liabilities

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

Defined Benefit Plans

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

Disbursements

Another term for investments

Discretionary Provision

This includes provision for bonuses and incentives

Dividends

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

Dividend Cover

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

Dividend per share (DPS)

Gross dividend divided by the number of shares in issues

Glossary

E

Earnings per Share (EPS)

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

Efficiency Ratio

The Non-Interest Expenses divided by total income

G

General Reserves

Reserves set aside for future

Gross NPA (NPL) Ratio

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

Gross Dividend

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

I

Impairment

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

Investments

Value of facilities granted during a specific period

Investments Securities

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

L

Liquidity

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

Liquid Assets

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

Liquid Assets Ratio

Liquid assets as a percentage of total deposits

M

Materiality

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

Market Value per Share

Market capitalization divided by the number of ordinary shares in issue

N

Non-Performing Accommodations (Advances/ Loans) -NPA

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

Net Assets Value per Share

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

Net NPA Ratio

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

Net Interest Income

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

Net Interest Margin

Net interest income divided by total average assets

O

Off Balance Sheet Transactions

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

P

Portfolio

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

Price Earning (P/E) Ratio

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

Provision for loan losses

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

R

Return on Assets (ROA)

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

Return on Shareholders' Fund/Equity (ROE)

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

Revaluation

Restatement of assets and liabilities

Rate of Dividend

Gross dividend as a percentage of total par value of shares

S

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

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 First Annual General Meeting of Alliance Finance Company PLC, will be held on Friday, 30th June 2017 at 10.00 a.m., at the "The Light House", No.24, Horton Place, Colombo 7. The business to be brought before the Meeting will be:-

1. To receive and consider the Report of the Directors and the Statement of Accounts for the Financial Year ended 31st March 2017, with the Report of the Auditors thereon.
2. To declare a Dividend.
3. To re-elect a Director

   Mr. Athula Ranmal Samarasinghe retires under Articles numbered 130 and 131
4. To elect a Director

   Mr. Wickramasinghe Pathiranage Kusal Jayawardana retires under Article number 135
5. To re-appoint Auditors to hold office until the next Annual General Meeting and to fix their remuneration.
6. To authorize the Directors to determine and make donations.
7. To consider any other business of which due notice has been given.

By order of the Board

(sgd)
ALLIANCE MANAGEMENT SERVICES (PRIVATE) LIMITED
Secretaries

6th June 2017.

Note:

(i) A member is entitled to appoint a proxy to attend and vote in his/her place.

(ii) A proxy need not be a member of the Company.

(iii) A member wishing to vote by proxy at the meeting may use the Form of Proxy enclosed and interpolate the words "right to speak".

(iv) To be valid, the completed Form of Proxy must be lodged at Alliance Management Services (Pvt) Ltd, No.84, Ward Place, Colombo 7, not less than 48 hours before the meeting.

(v) Shareholders/Proxy holders are requested when attending the Annual General Meeting to bring with them their National Identity 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.

Form of Proxy

I/We...of

....

being a member/members of the above named Company hereby appoint Sunil Karunanayake or failing him Romani Kumar Eardley Partick de Silva or failing him Jalathge Mahinda Gunasekera or failing him Ramani Nelun Ponnambalam or failing her Athula Ranmal Samarasinghe or failing him Lansage Ajith Prasanna Medis or failing him Wickramasinghe Pathiranage Kusal Jayawardana or failing him ....

of ....

NIC No...

as my/our proxy to represent me/us and to *vote for me/us on my/our behalf at the 61st Annual General Meeting of the Company to be held on 30th June 2017 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

1. Resolution No.1 The Ordinary Resolution No.1 set out in the Notice convening the aforesaid Meeting.	☐	☐
2. Resolution No.2 The Ordinary Resolution No.2 set out in the Notice convening the aforesaid Meeting.	☐	☐
3. Resolution No.3 The Ordinary Resolution No.3 set out in the Notice convening the aforesaid Meeting.	☐	☐
4. Resolution No.4 The Ordinary Resolution No.4 set out in the Notice convening the aforesaid Meeting.	☐	☐
5. Resolution No.5 The Ordinary Resolution No.5 set out in the Notice convening the aforesaid Meeting.	☐	☐
6. Resolution No.6 The Ordinary Resolution No.6 set out in the Notice convening the aforesaid Meeting.	☐	☐

Signed this .... day of 2017

....
Signature

Instruction as to completion of Form of Proxy given overleaf.

Form of Proxy

Instructions as to completion of the Form of Proxy

1. A proxy holder need not be a member of the Company.
2. The full name and 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.

Notes

Corporate Information

Name of the Company

Alliance Finance Company PLC

Statutory Status

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

Approved and registered under the

- Finance Business Act No. 42 of 2011
- Finance Leasing Act No. 56 of 2000

An approved Credit Agency under the

- Mortgage Act No.6 of 1949
- Trust Receipt Ordinance No.12 of 1947

Company Registration No.

PQ 93

Registered Office

Alliance House No.84,
Ward Place,
Colombo 7,
Sri Lanka.
Tel: (+94) 11 2673673
Fax: (+94) 11 2697205
E-mail: info@alliancefinance.lk

Board of Directors

Mr. Sunil Karunanayake - Chairman
Mr. Romani de Silva - Deputy Chairman & Managing Director
Mr. J.M. Gunasekera - Director Sustainability
Lt. Col. (Retd) A.R. Samarasinghe - Independent Non-Executive Director
Mrs. R.N. Ponnambalam - Non-Executive Director
Dr. L.A.P. Medis – Consultant Director Marketing
Mr. W.K.P. Jayawardana – Consultant Director Finance and Operations

Advisory Council

Mr. Pratapkumar de Silva FICM (SL), FICM (Eng.), JP
Mr. B. Ponnambalam
Mrs. K.S.K. de Silva
Mr. Abbas Akbarally (Chairman - Akbar Brothers Group of Companies)
Mr. K. Kanaglsvaran LLB (London) of Lincoln's Inn Barrister - (President's Counsel)
Mr. S.P. Morawake (Former Registrar of Companies)

Audit Committee

Mr. Sunil Karunanayake - Chairman
Lt. Col. (Retd) A.R. Samarasinghe

Remuneration Committee

Lt. Col. (Retd) A.R. Samarasinghe – Chairman
Mr. Sunil Karunanayake
Mrs. R.N. Ponnambalam

Related Party Transactions Committee

Lt. Col. (Retd) A.R. Samarasinghe – Chairman
Mr. Sunil Karunanayake
Mrs. R.N. Ponnambalam

Subsidiaries

Alfinco Insurance Brokers (Pvt) Ltd.

Auditors

M/s. Baker Tilly Edirisinghe & Co.
Chartered Accountants
No.45, 2nd Floor ,
Braybrooke Street,
Colombo 2.

Legal Consultants

Gunawardena & Ranasinghe Associates
Sudath Perera Associates

Secretaries

Alliance Management Services (Pvt) Ltd
No. 84 Ward Place, Colombo 7.

Bankers

Sampath Bank PLC
Seylan Bank PLC
Public Bank Berhad
People's Bank
Hatton National Bank PLC
Commercial Bank PLC
Bank of Ceylon
Nations Trust Bank PLC
NDB Bank PLC
DFCC Bank PLC

Produced by Copyline (Pvt) Ltd
Printed by Gunaratne Offset Ltd

www.alliancefinance.lk

Since 1956

Alliance Finance Co. PLC

Built on Trust. Powered by Innovation.