Lanka Rating Agency

Rating Report

Alliance Finance Company PLC

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
05-Aug-2026	BBB	Stable	Maintain	-
03-May-2025	BBB	Stable	Upgrade	-
02-Apr-2024	BBB-	Stable	Maintain	-
10-Feb-2023	BBB-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Alliance Finance Company PLC ("AFCPLC" or "the Company") is a Licensed Finance Company (LFC) listed on the Colombo Stock Exchange (CSE) since 1959. It is a mid-sized player in the LFC industry with assets comprising ~3.2% (FY25: ~3.9%) of total industry assets in FY26. AFCPLC adopted the Triple Bottom Line (TBL) philosophy in 2012 and is on the track to develop its products in line with the values driven by sustainable business mandate.

The assigned rating reflects AFCPLC's improved financial performance during FY26, supported by a gradual recovery in credit demand and continued focus on sustainable financing. Net Interest Income ('NII') of the Company increased by ~16.3% year-on-year (YoY) to around LKR~9.0bn (FY25: LKR~7.8bn), primarily driven by higher interest income from loans and advances as lending activity and portfolio grew, albeit below industry average. Profit After Tax (PAT) rose to LKR~2.0bn (FY25: LKR~1.7bn) in FY26 due to trickledown effect of higher Net Interest Income (NII) and an increase in non-markup income. Going forward, the Company intends to consolidate its position by focusing on sustainability initiatives and selective portfolio growth. This is expected to result in an elevated cost structure, impacting margins, initially but would translate into better profitability in the longer run.

In FY26, asset quality indicates a gross non-performing loan (NPL) ratio of ~5.9% (FY25: ~4.7%), higher than the industry average of ~4.4%. The Company's capital position remained adequate, with a total capital adequacy ratio (CAR) of ~17.3% as of March 2026, above the regulatory minimum of 12.5% prescribed by the Central Bank of Sri Lanka (CBSL). The Company is projected to achieve LKR 100bln asset base in 1HFY27, resulting in higher total regulatory CAR requirement of 14%. Sustained internal capital generation is important in this regard to meet regulatory requirements.

The rating remains sensitive to changes in the Company's financial profile, particularly its profitability, capitalization, and asset quality. Deterioration in these metrics may exert downward pressure on the rating, while sustained improvement, if accompanied by a stronger financial profile, could support positive rating momentum. Improving capitalization and CAR, in line with higher regulatory requirements for LKR~100bln LFCs is critical for maintaining the rating.

Disclosure

Name of Rated Entity	Alliance Finance Company PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Non-Banking Financial Institution Rating(Jul-24)
Related Research	Sector Study | Leasing & Finance Companies(Apr-26)
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Profile

Structure Alliance Finance Company PLC ("AFCPLC" or "the Company") was incorporated as a public company in 1956 under the provisions of the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. It was listed on the Colombo Stock Exchange (CSE) in 1959.

Background AFCPLC is the oldest finance company in Sri Lanka, with ~70 years in the industry. It formally adopted the Triple Bottom Line ("TBL") philosophy in 2012.

Operations The principal business activities include acceptance of fixed and savings deposits and granting term loans, gold loans, and other credit facilities, leasing, vehicle trading and hiring services.

Ownership

Ownership Structure The largest shareholder of the Company is Mr. R K E P De Silva, with an ownership of ~36.87%. He is also the Deputy Chairman (DC) and the Managing Director (MD) of the Company.

Stability Mr. R K E P De Silva was appointed to the Board in 1990 and serves as a non-executive director in AFCPLC's associates and subsidiaries.

Business Acumen Mr. De Silva is a Fellow of the Institute of Credit Management. He also holds directorships in many companies and is also a member of multiple professional bodies.

Financial Strength The sponsors demonstrate willingness and ability to provide any capital infusion, if needed.

Governance

Board Structure The Board comprises ~9 directors, of whom ~3 are Independent Non-Executive Directors (INEDs), ~3 are Executive Directors (EDs), and ~3 are Non-Independent Non-Executive Directors (NINEDs). The Chairperson of the Company is Mrs. G. S. Tamara Dharmakirti-Herath, who was appointed to the Board in 2020.

Members' Profile The Board members have decades of experience in their respective fields. The EDs have experience in Non-Banking Financial Institutions ("NBFIs"), micro financing, investment banking, and marketing, both locally and internationally. The Non-Executive Directors (NEDs) possess a wealth of experience in sectors such as healthcare, financial services, brand building, strategic planning, and law.

Board Effectiveness The Company has formed 6 board sub committees, namely, i) Board Audit Committee ("BAC"), ii) Board Integrated Risk Management Committee ("BIRMC"), iii) Related Party Transactions Review Committee ("RPTRC") iv) Board Human Resources and Remuneration Committee ("BHRRC"), V) Board Nomination and Governance Committee ("BNGC"), VI) Board Sustainability Committee (BSC).

Financial Transparency The external auditors of the company, Deloitte, issued an unqualified audit opinion pertaining to the annual financial statements for FY26.

Management

Organizational Structure AFCPLC's Board of Directors (BoDs) oversees ~6 board-level committees covering audit, risk, related party transactions, remuneration, nomination, and sustainability, providing the primary layer of independent governance oversight. At the executive level, the company is led by the DC/MD with two EDs, one of who serves as Chief Operating Officer (COO), reporting directly to the DC/MD. Below the executive layer, the CXOs and Heads of Departments (HoDs) manage day-to-day operations, supported by Branch and Shared Services staff at the ground level. AFCPLC also maintains a dedicated Sustainability and Strategic Planning function.

Management Team The management team is headed by the DC/MD of the Company, Mr. R K E P De Silva. The MD is supported by a team of EDs, CXOs and Heads of Departments (HoDs), and a team of managers for different functions and areas. The Company has a large corporate and middle management. They have acquired decades of experience in their respective careers. The corporate management is well qualified in their respective fields.

Effectiveness AFCPLC has formed 7 management committees to run the operations smoothly in the Company.

MIS The software solutions of AFCPLC comprise mainly of the Finacle Core banking and Lime system hosting the leasing, loan, gold Loan, and funding portfolios. With the Microsoft (MS) Dynamics Platform functioning as the procurement management and General Ledger (GL) system, the core banking system and the GL system were upgraded to industry leading systems which exist in leading banks in Sri Lanka and globally. There is a dedicated Customer Relationship Management (CRM) system that supports customer lead management and complaint handling.

Risk Management Framework AFCPLC's Risk Management Framework (RMF) is governed by a Board-approved Risk Management Policy, last revised in March 2026, which outlines a structured approach for identifying, assessing, monitoring, mitigating, and reporting risks across the organization. The framework assigns clear accountability to risk owners, Heads of Divisions, and Risk Coordinators, while the ERMC provides management-level oversight and escalates material risks to the BIRMC.

Business Risk

Industry Dynamics At present, there are ~34 LFCs in Sri Lanka, of which ~27 are listed on the CSE. By FY26, the Profit After Tax (PAT) of LFCs in Sri Lanka was reported at LKR~89.38bln (FY25: LKR~69.38bn). In FY26, the Return on Asset (ROA) stood at ~6.2% (FY25: ~6.6%), and the Return on Equity (ROE) at ~17.1% (FY25: ~15.2%), respectively. The total asset base of the LFC sector stood at LKR~3,055.28bn (FY25: LKR~2089.27bn) as of FY26, the gross Non-Performing Loan (NPL) ratio stood at ~4.4% (FY25: ~8.6%) in FY26.

Relative Position AFCPLC is considered as a medium sized Leasing & Finance Company (LFC) and accounts for ~3.2% (FY25: ~3.9%) of the assets and ~2.8% (FY25: ~3.3%) of the deposits in the sector, as at FY26. AFC's net loans and advances accounts for 3.2% (FY25: ~4.0%) of the loans and advances in the sector in FY26.

Revenues The Company demonstrated ~17.1% increase in interest expense in FY26 outpacing the ~16.7% growth in interest income, AFCPLC's Net Interest Income (NII) expanded by ~16.3% to LKR ~9.0bn (FY25: LKR ~7.8bn), primarily driven by strong balance sheet expansion. The key driver was the robust growth in the loans and advances portfolio, which increased by ~23.6% to LKR~79.6bn (FY25: LKR~64.4bn) in FY26. The core spread declined to ~11.8% (FY25: ~13.0%) in FY26,

Performance The Company's PAT increased by ~17.5% to LKR 2.0bn (FY25: 1.7bn) in FY26. This increase is mainly due to trickledown effect of higher NII and an increase in non-markup income. The Return on Equity ("ROE") and the Return on Assets ("ROA") remained stable at ~20.1% (FY25: ~19.9%) and ~2.3% (FY25; ~2.5%) in FY26, respectively.

Sustainability The Company has taken initiatives in terms of digitization and sustainability which may impact the profitability in short term; however, it will translate into better profitability in the longer run.

Financial Risk

Credit Risk AFCPLC's asset quality indicates a gross non-performing loan (NPL) ratio of ~5.9% (FY25: ~4.7%), higher than the industry average of ~4.4% (FY25: ~8.6%). The net NPL ratio also saw an increase to ~3.6% (FY25: ~1.67%) in FY26.

Market Risk The Company reduced its total investments by ~66.6% in FY26 reporting to LKR~2.0bn (FY25: LKR~6.0bn). Moreover, the investment in government securities saw a decline while equity and related party investments saw a modest increase during the period. Furthermore, the Company divested from mutual funds in FY26.

Liquidity And Funding The Company's funding mix saw a shift in FY26 with borrowings constituting ~50.8% (FY25: ~43.2%) of funding in FY26, which increased by ~38.4% to LKR~43.4bn (FY25: LKR~31.4bn). The Company's deposit base also saw an increase of ~3.4% to LKR~37.8bn (FY25: LKR~36.5bn) in FY26.

Capitalization As of May 2026, the Company's Tier 1 and Total Capital Adequacy Ratio (CAR) declined to ~10.3% (FY26: ~12.4%, FY25: ~11.6%) and ~14.5% (FY26: ~17.4%, FY25: ~16.0%), respectively, remaining above the regulatory threshold.

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Alliance Finance Company PLC	Mar-26	Mar-25	Mar-24	Mar-23
Public Listed Companies	12M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	74,513	61,068	43,042	34,612
2 Investments	2,019	5,592	3,954	3,401
3 Other Earning Assets	10,586	7,999	5,024	5,572
4 Non-Earning Assets	6,339	5,485	5,092	4,272
5 Non-Performing Finances-net	2,898	1,423	3,062	4,390
Total Assets	96,356	81,565	60,175	52,248
6 Funding	81,161	67,879	48,698	43,047
7 Other Liabilities	4,221	4,337	3,348	2,243
Total Liabilities	85,382	72,216	52,046	45,290
Equity	10,974	9,350	8,129	6,958
B INCOME STATEMENT				
1 Mark Up Earned	16,610	14,236	13,185	11,947
2 Mark Up Expensed	(7,580)	(6,472)	(7,298)	(7,411)
3 Non Mark Up Income	1,547	1,456	712	422
Total Income	10,577	9,220	6,599	4,957
4 Non-Mark Up Expenses	(5,537)	(4,887)	(3,944)	(3,385)
5 Provisions/Write offs	(545)	(234)	(336)	(275)
6 Reversals	-	-	47	73
Pre-Tax Profit	4,496	4,099	2,366	1,370
7 Taxes on Financial Services	(1,139)	(1,012)	(669)	(419)
Profit Before Income Taxes	3,356	3,087	1,698	951
8 Income Taxes	(1,318)	(1,352)	(781)	(446)
Profit After Tax	2,038	1,735	917	505
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	52.3%	53.0%	59.8%	68.3%
b ROE	20.1%	19.9%	12.2%	7.4%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	97.6%	94.4%	97.6%	93.4%
b Accumulated Provisions / Non-Performing Advances	38.0%	53.0%	31.9%	21.7%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	15.9%	17.9%	16.6%	21.0%
b Borrowings from Banks and Other Financial Institutes / Funding	49.6%	44.7%	41.7%	52.4%
4 MARKET RISK				
a Investments / Equity	18.4%	59.8%	48.6%	48.9%
b (Equity Investments + Related Party) / Equity	2.9%	3.4%	7.0%	3.9%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	11.4%	11.5%	13.5%	13.3%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	18.5%	14.5%	10.8%	3.5%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-Term Rating
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
D	Obligations are currently in default.

Scale	Short-Term Rating
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business / financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.	Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) LRA finds it impractical to surveil the opinion due to lack of requisite information.	A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Company

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. https://www.sec.gov.lk/credit-rating-agency/

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2)ii.LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii.In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA´s opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.