Lanka Rating Agency

Rating Report

Alliance Finance Company PLC - Green Bond

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
30-Jan-2026	A+	Stable	Maintain	-
06-Jun-2025	A+	Stable	Upgrade	-
20-Nov-2024	A-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The assigned rating reflects financial guarantee (unconditional and irrevocable by Seylan Bank) structure of the Green Bond holders. The guarantee covers both interest and principal payments of maximum LKR~1.107bn in case of non-payment by Alliance Finance Company PLC's ('AFC' or 'the Company's'), the issuer. The rating also draws support from AFC's sustained financial performance during 1HFY26, supported by a gradual recovery in credit demand and continued focus on sustainable financing. Net Interest Income ('NIM') of the Company increased by ~22.34% year-on-year (YoY) to around LKR~4.7bn (1HFY25: LKR~3.9bn), primarily driven by higher interest income from loans and advances as lending activity strengthened. Meanwhile, cost of funds remained low as interest rates have stabilized. Profit After Tax ('PAT') rose to LKR~902.4mn (1HFY25: LKR~569.7mn) in 1HFY26 in line with industry trend, reflecting improved core profitability. Asset quality remained relatively stable, with the non-performing loan (NPL) ratio reported at about ~6.8%, around industry average. The Company's capital position remained adequate, with a total capital adequacy ratio (CAR) of ~14.5% as at 1HFY26, above the regulatory minimum of 12.5% prescribed by the Central Bank of Sri Lanka (CBSL). The CAR remains below the sector average and peers. The assigned rating also factors in the anticipated improvement in AFC's capital buffers following the proposed subordinated bond issuance, which is expected to provide capacity to support balance sheet growth.

The rating is dependent on the credit profile of the guarantor, Seylan Bank, and any material change in this regard will be accordingly incorporated in the debenture rating. The rating will remains sensitive to AFC's ability to achieve its strategic objectives while improving its profitability, sustaining asset quality, and achieve performance indicators.

Disclosure

Name of Rated Entity	Alliance Finance Company PLC - Green Bond
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	
Related Research	Sector Study | Leasing & Finance Companies(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Issuer Profile

Profile Alliance Finance Company PLC ("AFC" or "the Company") was incorporated as a public limited 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. AFC is the oldest finance company in Sri Lanka, with ~68 years of operations in the industry. It formally adopted the Triple Bottom Line (“TBL”) philosophy in 2012. The principal business activities of the Company include acceptance of fixed and savings deposits and granting term loans, gold loans, and other credit facilities, leasing, vehicle trading and hiring services.

Ownership The largest shareholder of the Company is Mr. R K E P De Silva, with an ownership of ~36.87% as of 1HFY26. He is also the Deputy Chairman ("DC") and the Managing Director ("MD") of the Company. Mr. De Silva was appointed to the Board in 1990 and serves as a non-executive director (NED) in AFC's associates and subsidiaries. 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. The ownership structure drives comfort from sponsor's ability and willingness to provide financial support if ever needed.

Governance The Board has nine Directors, out of which three are Independent Directors and three are non-independent NEDs. Mrs. DharmakirtiHerath has been chairing the Board since 2020. The Executive Directors ("EDs") have experience in Non-Banking Financial institutions ("NBFIs"), micro financing, investment banking and marketing, both locally and internationally. The NEDs possess a wealth of experience in sectors such as healthcare, financial services, brand building, strategic planning and law. The Company has formed five board sub-committees to oversee audit, risk management, related party transactions, Human Resource (HR) and Remuneration, and Nomination and Governance.

Management Mr. De Silva, who is the DC and MD of AFC, is also on the Board. Four divisions of the Company report directly to Mr. De Silva while the other divisions report indirectly to him through the EDs. The management team is also headed by Mr. R K E P De Silva. The MD is supported by a team of EDs, Chief Experience Officers ("CXOs"), Assistant General Managers ("AGMs"), 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. AFC has formed seven management committees to run the operations smoothly in the Company. The Company moved into a new core banking system which features direct connectivity to Lanka pay platform for seamless integrations to payment systems of Sri Lanka in August 2025. The on-premises datacenters were migrated to local cloud datacenters as well which resulted in improved performance and the Disaster Recovery ("DR') process. The internal audit department follows a comprehensive audit plan where all branches are audited at least once a year, while the gold loan divisions are audited twice a year. The risk management division focuses mainly on credit risk, market risk, and liquidity risk.

Business Risk There are thirty-four (34) Licensed Finance Companies (LFCs) in Sri Lanka, out of which twenty-seven (27) are listed on the CSE. The Profit After Tax (PAT) of LFCs and Specialized Leasing Companies sector for 1HFY26 stood at LKR~41.9bn. The sector’s Net interest income (NII) improved by ~26.6% in 1HFY26 to clock in at LKR~119.7bn (1HFY25: LKR~94.5bn). The total asset base of the LFC sector reported a ~39.0% YoY growth, reported at LKR~2.5bn (1HFY25: LKR ~1.8bn) as of 1HFY26. Within this operating environment, AFC is positioned as a medium-sized LFC, accounting for around ~3.8% of sector assets and ~3.2% of sector deposits as of 1HFY26. AFC’s net loans and advances represented ~2.6% of total sector lending, indicating a moderate but stable market share within a competitive industry dominated by a few large players.

Financial Risk AFC reported a NII of LKR~4.7bn (FY25: LKR~ 8.1bn) for 1HFY26, reflecting a YoY increase of around ~22.3% from same period last year (“SPLY”). Interest income rose by about ~18.5% to LKR~8.3bn (FY25: LKR~14.6bn) in 1HFY26 from SPLY, supported primarily by higher income from loans and advances, while interest expense increased by roughly ~13.8% to LKR~3.6bn (FY25: LKR~6.5bn) over the same period. The Company maintained a core spread of around ~11.8% (FY25: ~13.2%; FY24: ~11.0%) in 1HFY26. PAT increased by ~58.4% to LKR~902.4mn (1HFY25: LKR~569.7mn) in 1HFY26, driven by growth in interest income and higher fee and commission income. As of 1HFY26, AFC reported a Return on Equity (“ROE”) and Return on Assets (“ROA”) of about ~18.6% and ~2.1%, respectively. Asset quality remained moderate, with the gross and net non-performing loan (“NPL”) ratios at around ~6.8% (FY25: ~4.7%) and ~3.9% (FY25: ~1.7%) in 1HFY26, respectively, both below the industry averages. The movement in NPLs reflects the broader credit environment and portfolio seasoning, while the Company continues to emphasize recovery and credit risk management practices. AFC reduced its investment portfolio by about ~39.5% to LKR~3.7bn (FY25: LKR~5.8bn) in 1HFY26 mainly through lower exposure to other investments. The Company’s funding structure remains largely deposit-based, with deposits accounting for ~49.8% (1QFY26: ~51.8%) of total funding as of 1HFY26. Borrowings comprise a mix of local and foreign sources, including securitized facilities, term loans, and bank overdrafts, reflecting a diversified but debt-reliant funding profile. The Company’s total capital adequacy ratio (“CAR”) stood at ~14.5% as of 1HFY26, remaining above the Central Bank of Sri Lanka’s (“CBSL”) minimum requirement of 12.5%, though slightly below the sector average. The ratio indicates adequate loss-absorption capacity and supports moderate balance sheet expansion in the near term.

Instrument Rating Considerations

About The Instrument AFC has issued a 3-year Green Bond of a face value of LKR~1000mn. The interest rate on the bond is fixed and is ~10.75% per annum (p.a.), paid semiannually and repayments are made on a semi-annual basis. The Green Bond is fully secured by Seylan Bank's unconditional and irrevocable financial guarantee that will cover the entire Face Value and two interest payments of maximum upto LKR~1.107bn.

Relative Seniority/Subordination Of Instrument The claims of the Green Bond Holders shall in the event of winding up of the Company, rank after all the claims of secured creditors and preferential claims under any Statutes governing the Company but Pari Passu to the claims of unsecured creditors of the Company, however that the Green Bond Holders unlike the other unsecured creditors would be entitled to the benefit of the Guarantee which has been issued by the Guarantor and shall rank in priority to and over any subordinated debt of the Company and the ordinary and preference shareholders of the Company.

Credit Enhancement Seylan Bank has provided unconditional and irrevocable financial guarantee in favor of the Trustee for the benefit of the Green Bond holders, guaranteeing both interest and principal payments for up to two interest periods of maximum of LKR~1.107bn.

Lanka Rating Agency

Alliance Finance Company PLC	Sep-25	Mar-25	Mar-24	Mar-23
Public Listed Company	6M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	70,572	61,411	43,471	35,400
2 Investments	3,722	5,780	4,142	3,564
3 Other Earning Assets	10,401	7,998	5,024	5,572
4 Non-Earning Assets	6,176	5,271	4,905	4,109
5 Non-Performing Finances-net	1,270	1,105	2,633	3,603
Total Assets	92,142	81,565	60,175	52,248
6 Funding	77,853	67,879	48,698	43,047
7 Other Liabilities	4,278	4,337	3,348	2,243
Total Liabilities	82,131	72,216	52,046	45,290
Equity	10,010	9,350	8,129	6,958
B INCOME STATEMENT				
1 Mark Up Earned	8,346	14,617	13,185	11,947
2 Mark Up Expensed	(3,627)	(6,472)	(7,298)	(7,411)
3 Non Mark Up Income	575	1,012	712	422
Total Income	5,294	9,156	6,599	4,957
4 Non-Mark Up Expenses	(3,052)	(4,887)	(3,944)	(3,385)
5 Provisions/Write offs	(230)	(234)	(336)	(275)
6 Reversals	48	64	47	73
Pre-Tax Profit	2,060	4,099	2,366	1,370
7 Taxes on Financial Services	(539)	(1,012)	(669)	(419)
Profit Before Income Taxes	1,521	3,087	1,698	951
8 Income Taxes	(619)	(1,352)	(781)	(446)
Profit After Tax	902	1,735	917	505
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	57.6%	53.4%	59.8%	68.3%
b ROE	18.6%	19.9%	12.2%	7.3%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	95.1%	94.9%	98.5%	94.7%
b Accumulated Provisions / Non-Performing Advances	63.5%	63.5%	41.5%	32.6%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	16.9%	17.9%	16.6%	21.0%
b Borrowings from Banks and Other Financial Institutes / Funding	46.3%	44.7%	41.7%	52.4%
4 MARKET RISK				
a Investments / Equity	37.2%	61.8%	50.9%	51.2%
b (Equity Investments + Related Party) / Equity	6.1%	3.4%	7.0%	3.9%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	10.9%	11.5%	13.5%	13.3%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	12.7%	21.3%	5.2%	3.4%

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

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 6MFY26 (LKR)
Listed, Rated, Gurarantеed, Senior, Redeemable Green Bond	Up to LKR 1 Billion	3 Years	Gurarantееd by Seylan Bank	100%	N/A	Hatton National Bank PLC	

Name of Issuer	Alliance Finance Company PLC
Issue Date	17th February 2025
Maturity	20.02.2028
Coupon Basis	Semi Annually
Repayment	At Maturity
Option	N/A

Alliance Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding
	LKR				YYYY-MM-DD	LKR
Type A					**Fixed**	
20.02.2028	1 Billion	After 3 Years	20th February and 20th August	10.75%	10.75%	1 Billion
Type B				**Floating**	**Floating**	