Lanka Rating Agency

Rating Report

Alliance Finance Co PLC – Listed, Rated, Unsecured, Senior Social Bonds - 5 years

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
05-Aug-2026	BBB	Stable	Initial	-
09-May-2025	BBB	Stable	Preliminary	-

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 ~17.4% 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 assigned rating to social bonds reflect their unsecured but senior nature where the bondholders will rank pari passu with other senior unsecured creditors of the Company, ahead of subordinated debt and equity holders in the event of liquidation.

The rating remains sensitive to changes in the entity rating of the Company coupled with 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 Co PLC – Listed, Rated, Unsecured, Senior Social Bonds - 5 years
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Aug-24)
Related Research	Sector Study | Leasing & Finance Companies(Apr-26)
Rating Analysts	Imran Iqbal | imran@lra.com.lk | +94 114 500099

Issuer Profile

Profile Alliance Finance Company PLC ("AFCPLC" or "the Company"), incorporated in 1956 and listed on the Colombo Stock Exchange (CSE) since 1959, is Sri Lanka's oldest finance company with ~70 years of operations. The Company adopted the Triple Bottom Line (TBL) philosophy in 2012 and primarily offers deposits, loans, gold loans, leasing, vehicle trading, and hiring services.

Ownership Mr. R. K. E. P. De Silva is the largest shareholder with a ~36.87% stake and serves as the Deputy Chairman (DC) and Managing Director (MD). A Board member since 1990, he is a Fellow of the Institute of Credit Management and holds directorships across several companies. The sponsors have demonstrated their willingness to provide capital support, if required

Governance The Board comprises ~9 directors, including three Executive Directors (EDs), ~3 Independent Non-Executive Directors (INEDs), and ~3 Non-Independent Non-Executive Directors (NINED), chaired by Mrs. G. S. Tamara Dharmakirti-Herath since 2020. Supported by ~6 Board sub-committees, the Board possesses extensive expertise across finance, Non-Banking Financial Institutions (NBFIs), law, healthcare, and strategic management. Deloitte issued an unqualified audit opinion on the FY26 financial statements.

Management AFCPLC's Board of Directors (BoDs) oversees six 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 and 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. 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. AFCPLC has formed 7 management committees to run the operations smoothly in the Company. The software solutions of AFCPLC comprise mainly of the following, Finacle Core banking and Lime 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. 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 Executive Risk Management Committee (ERMC) provides management-level oversight and escalates material risks to the Board Integrated Risk Management Committee (BIRMC).

Business Risk 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 ~4.1% (FY25: ~8.6%) in FY26. 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. AFCPLC's net loans and advances accounts for 3.2% (FY25: ~4.0%) of the loans and advances in the sector in FY26. 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. The Company's PAT increased by ~17.50% to LKR 2.0bn (FY25: 1.7bn) in FY26. This increase is mainly due to trickledown effect of higher NII and an increase in the 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.

Financial 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. 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. The Company's funding mix saw a shift in FY26 with borrowings constituting ~50.8% (FY25: ~43.4%) 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. 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.

Instrument Rating Considerations

About The Instrument AFCPLC issued listed, rated, unsecured, senior social bonds on 21st August 2025. The preliminary instrument rating was done in May 2025. The social bonds have two types: Type A and Type B. Type A has a tenure of 4 years with a 4-year fixed interest rate of ~11.15% payable annually (p.a.) while Type B has a tenure of 5 years with a 5-year fixed interest rate of ~11.40% p.a. The amount of the social bonds was LKR~2.0bn, however it was oversubscribed by LKR~472.6mn. The Company has deployed LKR~500mn in micro finance while the remaining has been allocated for Micro, Small, & Medium Entreprises (MSME) segment.

Relative Seniority/Subordination Of Instrument The rights of the Social Bond Holders with respect to payment of the principal sum and accrued interest due thereon upon a winding-up of the Company ranks after all the claims of secured creditors and preferential claims under any statutes governing the Company but equal and pari passu with all other unsecured creditors of the Company, but in priority to and over the rights of any subordinated debt holders, preference and ordinary shareholders.

Credit Enhancement N/A

Lanka Rating Agency

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

LRA

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 9MFY25 (LKR)
Listed high yield ,Social bond	2,000,000,000 (fully all	4 & 5 Years	N/A	N/A	N/A	Hatton National Bank PLC	

Name of Issuer	Alliance Finance Company PLC
Issue Date	Date of Allotment: 28th August 2025 (per CSE Basis of Allotment Letter, SSP Corporate Services, 27 Aug 2025)
Maturity	Type A matures 28 Aug 2029 (4 yrs); Type B matures 28 Aug 2030 (5 yrs)
Coupon Basis	Annual
Repayment	Annually and capital at maturity
Option	N/A

Alliance Finance Company PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR				YYYY-MM-DD	LKR		
Type A - 04 Years (Fixed 11.15% p.a.)								
Year 1 Coupon	1,273,490,000		2026-08-27	11.15%	27-08-2026			1,273,490,000
Year 2 Coupon	1,273,490,000		2027-08-27	11.15%	27-08-2027			1,273,490,000
Year 3 Coupon	1,273,490,000		2028-08-27	11.15%	27-08-2028			1,273,490,000
Year 4 Coupon + Redemption	1,273,490,000	1,273,490,000	2029-08-27	11.15%	27/08/2029	-1,273,490,000		
Type A Total		**1,273,490,000**						
Type B - 05 Years (Fixed 11.40% p.a.)								
Year 1 Coupon	726,510,000		2026-08-27	11.40%	27/08/2026			726,510,000
Year 2 Coupon	726,510,000		2027-08-27	11.40%	27/08/2027			726,510,000
Year 3 Coupon	726,510,000		2028-08-27	11.40%	27/08/2028			726,510,000
Year 4 Coupon	726,510,000		2029-08-27	11.40%	27/08/2029			726,510,000
Year 4 Coupon + Redemption	726,510,000	726,510,000	2030-08-27	11.40%	27/08/2030	-726,510,000		
		726,510,000						