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**CAPITAL ALLIANCE INCOME FUND
COLOMBO 2**

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31ST MARCH 2026**



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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CAPITAL ALLIANCE INCOME FUND

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial Statements of Capital Alliance Income Fund ("the Fund"), which comprise the statement of financial position as at 31st March 2026, and the statement of profit or loss and other comprehensive income, the statement of movement in unitholders' fund and the statement of cash flows for the year then ended, and notes to the Financial Statements including a summary of material accounting policy information as set out on pages 05 to 22.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Fund as at 31st March 2026, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Fund Management Company and the Trustee for the Financial Statements

Capital Alliance Investments Limited ("the Management") and the Trustee of the Fund ("the Trustee") are responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Trustee is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Partners : Sujeewa Rajapakse FCA, ACCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA.
F. Sarah Z. Afker FCA, FCMA (UK), CGMA, MCSI (UK). Dinusha C. Rajapakse FCA, LLB (Hons)(Colombo), CTA, Attorney at Law.
Nirosha Vadiwel Bsc (Acc.), FCA, ACMA. R. D. Chamika N. Wijesinghe FCA, BBA (Acc.) Sp. H. M. R. Thilina Ranaweera FCA, BBMgt (Acc.) Sp.

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As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosure in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

These Financial Statements also comply with the requirements of Rule 50 of the Collective Investment Scheme Code (CIS Code) issued by the Securities and Exchange Commission of Sri Lanka in terms of Section 183 of the Securities and Exchange Commission Act No. 19 of 2021 and the Trust Deed.

BDO Partners

CHARTERED ACCOUNTANTS

Colombo

30th July 2026

NV/kp

CAPITAL ALLIANCE INCOME FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2026

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	Notes	2025/2026 Rs.	2024/2025 Rs.
Investment income			
Interest income	4	110,686,585	214,659,592
Total investment income		110,686,585	214,659,592
 Other income		 741,981	 743,031
 Expenses			
Management fees		(7,352,206)	(7,960,150)
Trustee fees		(1,911,574)	(2,069,639)
Custodian fees		(290,463)	(289,864)
Bank charges		(83,556)	(323,835)
Audit fees		(55,024)	(33,425)
Other expenses		(35,000)	(44,969)
Impairment reversal / (charge) of financial assets at amortised cost and other receivables		57,933,646	(32,286,797)
Total operating expenses		48,205,823	(43,008,679)
 Profit before tax		 159,634,389	 172,393,944
 Income tax expense	5	 -	 -
 Net profit after tax for the year		 159,634,389	 172,393,944
 Other comprehensive income		 -	 -
 Total comprehensive income for the year		 159,634,389	 172,393,944
 Increase in net assets attributable to unitholders		 159,634,389	 172,393,944

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 22 form an integral part of these Financial Statements.

Colombo
30th July 2026



CAPITAL ALLIANCE INCOME FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH 2026

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	Notes	As at 31.03.2026 Rs.	As at 31.03.2025 Rs.
Assets			
Cash and cash equivalents	6	41,936,067	4,188,996
Financial assets at amortised cost	7	7,829,463,459	1,091,629,126
Other receivables	8	999,449	814,900
Income tax receivable	9	-	-
Total assets		7,872,398,975	1,096,633,022
Liabilities			
Accrued expenses	10	3,002,829	1,775,162
Total liabilities		3,002,829	1,775,162
Net assets		7,869,396,146	1,094,857,860
Unitholders' fund			
Net assets attributable to unitholders		7,869,396,146	1,094,857,860

The accounting policies and notes on pages 05 to 22 form an integral part of these Financial Statements.

The Board of Directors of the Management Company and the Trustee are responsible for the preparation and presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards.

The Financial Statements were approved by the Management Company and the Trustee on 30th July 2026

Signed for and on behalf of the Management Company by:



Director
Mr. K P Mannakkara
Capital Alliance Investments Limited
Management Company

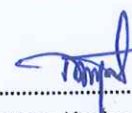


Director
Ms. H. M. S. Perera
Capital Alliance Investments Limited
Management Company

Signed for and on behalf of the Trustee by:



Hatton National Bank PLC
Trustee



Hatton National Bank PLC
Trustee

Colombo
30th July 2026



CAPITAL ALLIANCE INCOME FUND
STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND
FOR THE YEAR ENDED 31ST MARCH 2026

	2025/2026 Rs.	2024/2025 Rs.
Unitholders' fund as at the beginning of the year	1,094,857,860	742,566,415
Increase in net assets attributable to unitholders	159,634,389	172,393,944
Creation of units	9,650,479,898	2,578,574,933
Redemption of units	(3,035,576,001)	(2,398,677,432)
Net increase due to unitholders' transactions	6,614,903,897	179,897,501
Unitholders' fund as at the end of the year	<u>7,869,396,146</u>	<u>1,094,857,860</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 22 form an integral part of these Financial Statements.

Colombo
30th July 2026



CAPITAL ALLIANCE INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH 2026

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	2025/2026 Rs.	2024/2025 Rs.
Cash flows from operating activities		
Interest received	74,104,592	208,040,109
Other income received	741,981	743,031
Management fees, Trustee fees and Custodian fees paid	(7,928,801)	(10,097,175)
Net increase/(decrease) in other receivables	48,613,135	(34,134,380)
Other expenses (paid)/reversals	(122,140)	56,118
Net investment in treasury bills/bonds repurchase agreements	(6,673,925,000)	(267,974,000)
Net investment in fixed deposits	(98,629,006)	(201,370,993)
Net uplift of commercial papers	223,331,031	67,210,487
Net (investment in)/uplift of trust certificates	(142,893,403)	53,416,206
Net cash used in operating activities	(6,576,707,611)	(184,110,597)
Cash flows from financing activities		
Cash received on creation of units	9,650,030,683	2,578,574,933
Cash paid on redemption of units	(3,035,576,001)	(2,398,677,432)
Net cash generated from financing activities	6,614,454,682	179,897,501
Net increase/(decrease) in cash and cash equivalents	37,747,071	(4,213,096)
Cash and cash equivalents as at the beginning of the year (Note A)	4,188,996	8,402,092
Cash and cash equivalents as at the end of the year (Note B)	41,936,067	4,188,996
As at the beginning of the year		Note A
Cash and cash equivalents	4,188,996	8,402,092
	4,188,996	8,402,092
As at the end of the year		Note B
Cash and cash equivalents	41,936,067	4,188,996
	41,936,067	4,188,996

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 22 form an integral part of these Financial Statements.

Colombo
30th July 2026



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION**1.1 General information**

Capital Alliance Income Fund is an open-ended Unit Trust Fund approved by the Securities and Exchange Commission of Sri Lanka. The Fund was launched on 10th March 2014.

The Fund is managed by Capital Alliance Investments Limited which is incorporated and domiciled in Sri Lanka. The registered office of the Management Company was previously located at Level 05, "Millennium House", 46/58, Nawam Mawatha, Colombo 02. During the year, the Company changed its registered office to Level 06, M2M Veranda Offices, No. 34, W. A. D. Ramanayake Mawatha, Colombo 02. The Trustee of the Fund is Hatton National Bank PLC whose place of business is at "HNB Towers", No. 479, T. B. Jayah Mawatha (Darley Road), Colombo 10.

1.2 Operating activities

The investment objective of the Fund is to optimise the income and mitigate the medium to long-term levels of risk.

1.3 Date of authorisation for issue

The Financial Statements of the Fund for the year ended 31st March 2026 were authorised for issue by the Management Company and the Trustee on 30th July 2026.

2. PREPARATION OF FINANCIAL STATEMENTS**2.1 Basis of preparation**

The Financial Statements have been prepared on the historical cost basis unless otherwise indicated and the Financial Statements are presented in Sri Lankan rupees. The statement of financial position has been presented on a liquidity basis.

2.2 Statement of compliance

The Financial Statements which comprise the statement of financial position as at 31st March 2026, statement of profit or loss and other comprehensive income, statement of movement in unitholders' fund and statement of cash flows for the year then ended, and a summary of material accounting policy information and other explanatory information have been prepared and presented in accordance with Sri Lanka Accounting Standards and the requirements of the Unit Trust Deed and Collective Investment Scheme Code (CIS Code 2022) of the Securities and Exchange Commission of Sri Lanka.

2.3 Basis of measurement

The Financial Statements have been prepared on the historical cost convention with the exception of certain assets and liabilities at fair value.

2.4 Functional and presentation currency

The Financial Statements have been presented in Sri Lankan Rupees, the Fund's functional and presentation currency, which is the primary economic environment in which the Fund operates.

2.5 Materiality aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

2.6 Going Concern

These Financial Statements are prepared on the assumption that the Fund is a going concern i.e. as continuing in operation into a foreseeable future. It is, therefore, assumed that the Fund has neither the intention nor the necessity of liquidation.

2.7 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In the selection and application of the Fund's accounting policies, which are described below, the Fund Management Company is required to make judgments and assumptions and use assumptions in measuring items reported in the Financial Statements. These estimates are based on management's knowledge of current facts and circumstances, and assumptions based on such knowledge and expectations of future events. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revision affects only that year, or the year of the revision and future years as well, if the revision affects both the current and the future years.

The management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value.

Management uses its judgment in determining the appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates.

Determination of Fair Value and Fair Value Hierarchy

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

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** techniques which use inputs other than quoted prices included within Level 1, that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3:** techniques which use inputs that are not based on observable market data

2.8 Changes in Accounting Standards

No significant impact resulted on the Financial Statements of the Fund due to changes in accounting standards and disclosures during the year and Standards Issued but that were not yet effective.



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

2.9 Summary of material accounting policy information**2.9.1 Financial instruments****2.9.1.1 Initial recognition**

Financial assets and liabilities are initially recognised on the trade date, i.e the date that the Fund becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally, established by regulations or convention in the marketplace.

2.9.1.2 Initial measurement of financial instrument

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Fund measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the statement of profit or loss.

2.9.1.3 Measurement categories of financial assets and liabilities

The Fund classifies all of its financial assets in the following measurement categories.

- those to be measured at amortised cost
- those to be measured at fair value through profit or loss

Financial liabilities of the Fund are measured at amortised cost, and include all financial liabilities, other than those measured at fair value through profit or loss. The financial liabilities of the Fund include accrued expenses and other payables.

2.9.1.4 Subsequent measurement**Amortised cost**

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise to cash flows that are solely the payments of principal and interest on the principal amount outstanding.

Debt instruments at amortised cost in the statement of financial position comprise investments in treasury bill repurchase agreements, fixed deposits, commercial papers, and trust certificates. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in realised gain/(loss) on debt instruments held at amortised cost.

Fair value through profit or loss:

A financial asset is measured at fair value through profit or loss if:

- (a) its contractual terms do not give rise to cash flows on specified dates that are solely the payments of principal and interest on the principal amount outstanding,
or
- (b) it is not held within a business model whose objective is either to collect contractual cash flows, or to both collect the contractual cash flows and sell,
or



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

- (c) at initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognising their gains and losses on different bases.

A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises. As of 31st March 2026, the Fund has no such investments.

2.9.1.5 Financial liabilities**a) Initial recognition and measurement**

The Fund determines the classification of its financial liabilities at initial recognition.

The Fund's financial liabilities comprise accrued expenses and other payables in the Statement of Financial Position.

b) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss and other comprehensive income statement when the liabilities are derecognised as well as through the EIR amortisation process.

2.9.1.6 Impairment

The Fund assesses on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instruments not held at fair value through profit or loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, are discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures from which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Fund uses the ratings from either Fitch Rating Lanka Limited or Lanka Rating Agency Limited as applicable to determine the significant deterioration in credit risk and to estimate the ECLs.

Consistent with the policies of the Fund, investments when rated below BBB- are considered as non-investment grade investments and the Fund considers such investments as having incurred significantly deteriorated credit risk. Such investments are considered for lifetime ECL calculation.



CAPITAL ALLIANCE INCOME FUND**MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS**

Further, movements within the ratings of the investment grade stipulate significant deterioration of credit risk. Significant deterioration is measured through a two notch downgrade of the external credit rating of the counterparty since the origination of the instrument.

For debt instruments at amortised cost issued by the Sovereign, the Fund applies the low-risk simplification.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the financial assets.

Written off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

2.9.1.7 Derecognition

A financial asset is recognised when,

- 1) the rights to receive cash flows from the asset have expired,
- 2) the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
 - the Fund has transferred substantially all the risks and rewards of the asset or
 - the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

2.9.1.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is currently an enforceable legal right to offset the recognised amounts, and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.9.2 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at bank.

2.9.3 Income tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Until 31st March 2018, the Fund was liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No. 10 of 2006. Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective from 01st April 2018, an eligible Unit Trust is not liable for income tax on any income which is a pass through to its unitholders. Accordingly, after 31st March 2018, the Fund has considered all income as being a pass through its unitholders.

2.9.4 Recognition of income

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

MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

Interest Income

For all the financial instruments measured at amortised cost, interest income is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts the 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.

2.9.5 Expenses

The Management, the Trustee and the Custodian fees of the Fund as per the Trust Deed are as follows.

Management fee	- 0.50% p.a of Net Asset Value of the Fund.
Trustee fee	- 0.13% p.a. of Net Asset Value (NAV) of the Fund.
Custodian fee	- Rs. 20,000/- per month plus the applicable government tax.

2.9.6 Unitholders' funds and net assets attributable to unitholders

Unitholders' funds have been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to unitholders as at the reporting date.

Units can be issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund as described in the Trust Deed and directives issued by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue. Income not distributed is included in net assets attributable to unitholders.

3. FINANCIAL RISK MANAGEMENT

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to credit risk, market risk, liquidity risk and economic risk.

Financial instruments of the Fund comprise repurchase agreements against Treasury Bills/Bonds, fixed deposits, commercial papers and trust certificates.

The Management Company is responsible for identifying and controlling the risk that arise from these financial instruments. The Management Company agrees to policies for managing each of the risks identified below. The risks are measured using a method that reflects the expected impact on the statement of profit or loss and other comprehensive Income and Statement of Financial Position of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures as at the reporting date, measured on this basis, is disclosed below.

The Management Company also monitors information about the total fair value of financial instruments exposed to various risks, as well as the compliance with established investment mandate limits. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept, with additional emphasis on selected industries. This information is prepared and reported to relevant parties within the Management Company on a regular basis as deemed appropriate, including the Fund Management Company, other key management, Risk and Investment Committees and ultimately the Trustees of the Fund.



CAPITAL ALLIANCE INCOME FUND

MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

Concentration of risk arises when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions.

3.1 Credit risk

Credit risk is the risk that the counterparty to the financial instruments will fail to discharge an obligation and cause the Fund to incur a financial loss of interest and/or principal. The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities, cash and cash equivalents and other receivables.

Capital Alliance Income Fund's investments are fixed deposit, commercial paper, Trust certificate, Government securities and repurchase agreement against the government security.

3.1.1 Debt securities

The credit risk exposure on these instruments is not deemed to be significant. It is the Fund's policy to enter into financial instruments with reputable counterparties with high credit quality.

The Fund invests in debt securities which are low risk, medium risk and high risk investments. An analysis of debt securities by rating is set out in the table below.

	31 st March 2026	31 st March 2025
	Rs.	Rs.
Risk rating		
Low risk	7,356,036,400	568,464,978
Medium risk	-	226,569,743
High risk	473,544,785	305,848,094
Total	7,829,581,185.85	1,100,882,815

The credit ratings of the counterparties with which the Fund places investments are as set out below:

Counterparty	Credit Rating	Rating Agency
People's Leasing & Finance PLC	A	Lanka Rating Agency
Central Finance & Company PLC	A	Fitch Rating Agency
LOLC Finance PLC	A+	Lanka Rating Agency
Mercantile Investment and Finance PLC	BBB-	Fitch Rating Agency
Asia Asset Finance PLC	A+	Fitch Rating Agency
LB Finance PLC	A-	Lanka Rating Agency
Citizen Development & Finance PLC	BBB	Fitch Rating Agency
HNB Finance PLC	A	Fitch Rating Agency
Hatton National Bank PLC	AA-	Fitch Rating Agency
Vallibel Finance PLC	A-	Lanka Rating Agency

MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

3.1.2 Cash and cash equivalents

All counterparties have the following ratings as determined by the Fitch Rating Agency. However, in accordance with the Fund's policy, the investment manager monitors the Fund's credit position on a daily basis, to maintain credit risk at a minimum level.

Hatton National Bank PLC	-	AA-
People's Leasing and Finance PLC	-	A
Sanasa Development Bank PLC	-	BB+

3.1.3 Credit risk by class of financial assets

	12-Month expected credit losses	Life time expected credit losses not credit impaired	Life time expected credit losses credit impaired	Total
As at 31 st March 2026	Rs.	Rs.	Rs.	Rs.
Financial assets				
Financial assets at amortised cost	7,829,463,459	-	-	7,829,463,459
Other receivables	999,449	-	-	999,449
Cash and cash equivalents	41,936,067	-	-	41,936,067
	7,872,398,975	-	-	7,872,398,975

	12-Month expected credit losses	Life time expected credit losses not credit impaired	Life time expected credit losses credit impaired	Total
As at 31 st March 2025	Rs.	Rs.	Rs.	Rs.
Financial assets				
Financial assets at amortised cost	1,091,629,126	-	-	1,091,629,126
Other receivables	814,900	-	48,797,685	49,612,585
Cash and cash equivalents	4,188,996	-	-	4,188,996
	1,096,633,022	-	48,797,685	1,145,430,707

There is no difference in the net exposure to the credit risk and the maximum exposure to the credit risk for the above financial assets.



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

3.2 Market risk

Market risk represents the risk that the value of the Fund's investment portfolios will fluctuate as a result of changes in market prices.

This risk is managed by ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. As such, unitholders can manage this risk through their choices of which investment portfolios to participate in.

The Fund uses a range of different fund arrangements for investment assets. Where a unitholder has invested in more than one investment portfolio, this reduces the impact of a particular manager underperforming. Within the underlying investment portfolio, diversification is achieved at a number of levels. The diversified portfolios are invested across a range of investment sectors. Within each sector of the diversified portfolios, the Fund managers invest in a variety of securities.

3.2.1 Cash flow and fair value interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk. The Fund's interest bearing financial assets are exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using the sensitivity analysis.

The Fund's policy is to hold all its net assets attributable to unitholders invested in debt securities. The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorised by the earlier contractual re-pricing on maturity dates.

As at 31 st March 2026	Floating interest Rs.	Fixed interest Rs.	Non-interest Rs.	Total Rs.
Financial assets				
Cash and cash equivalents	Nil	98,309	41,837,758	41,936,067
Financial assets at amortised cost	204,494,992	7,624,968,467	Nil	7,829,463,459
Other receivables	Nil	Nil	999,449	999,449
Total exposure	204,494,992	7,625,066,776	42,837,207	7,872,398,975

As at 31 st March 2025	Floating interest Rs.	Fixed interest Rs.	Non-interest Rs.	Total Rs.
Financial assets				
Cash and cash equivalents	Nil	93,557	4,095,439	4,188,996
Financial assets at amortised cost	179,210,682	921,672,133	Nil	1,100,882,815
Other receivables	Nil	Nil	814,900	814,900
Total exposure	179,210,682	921,765,690	4,910,339	1,105,886,711



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

3.3 Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders' interest rate risk and other price risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical level of changes in interest rates, historical correlation of the Fund's investment with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in performances and correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	31.03.2026		31.03.2025	
	Increases/ (decreases) on profit before tax Rs.	Increases/ (decreases) on amounts attributable to unitholders Rs.	Increases/ (decreases) on profit before tax Rs.	Increases/ (decreases) on amounts attributable to unitholders Rs.
Change in interest rate of the Fund's investment in trading securities existing as of reporting date:				
+1%	78,294,635	78,294,635	10,916,291	10,916,291
-1%	(78,294,635)	(78,294,635)	(10,916,291)	(10,916,291)

3.4 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet its obligation to pay unitholders.

Due to the nature of a unit trust, it is unlikely that a significant number of unitholders would exit at the same time. However, to control the liquidity risk, the Fund invests in financial instruments which are readily convertible into cash under normal market conditions. In addition, the Fund invests within established limits to ensure that there is no concentration of risk.

The Management Company ensures that a minimum liquidity level of 3% of the total NAV of the Fund is available in cash or near cash form at any given time as required by the Unit Trust Code, reducing the liquidity risk to its investors.

In addition, the Security and Exchange Commission and the Fund require additional number of business days' notice to the Fund from large investors redeeming over 3% of the Fund and the Fund is also permitted to borrow up to 15% of the deposited property for redemption payouts. No such borrowings have arisen during the year.



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

The table below analyses the Fund's non-derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

31 st March 2026	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	More than One year Rs.	Total Rs.
Financial Assets					
Financial assets at amortised cost	7,032,369,828	546,966,217	101,073,811	222,414,438	7,902,824,294
Other receivables	999,449	-	-	-	999,449
Cash and cash equivalents	41,936,067	-	-	-	41,936,067
	7,075,305,344	546,966,217	101,073,811	222,414,438	7,945,759,810

Financial Liabilities

Management fee	1,853,249	-	-	-	1,853,249
Trustee fee	481,845	-	-	-	481,845
Custodian fee	24,669	-	-	-	24,669
Audit fee	490,421	-	-	-	490,421
Other fees	80,816	-	-	-	80,816
Payable on unit creations	71,829	-	-	-	71,829
	3,002,828	-	-	-	3,002,828

31 st March 2025	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	More than One year Rs.	Total Rs.
Financial Assets					
Financial assets at amortised cost	432,198,751	221,190,296	145,252,738	270,696,170	1,069,337,955
Other receivables	814, 900	-	-	-	814, 900
Cash and cash equivalents	4,188,996	-	-	-	4,188,996
	437,202,647	221,190,296	145,252,738	270,696,170	1,074,341,851

Financial Liabilities

Management fee	563,216	-	-	-	563,216
Trustee fee	146,436	-	-	-	146,436
Custodian fee	24,669	-	-	-	24,669
Audit fee	473,981	-	-	-	473,981
Other fees	45,816	-	-	-	45,816
Payable on unit creations	521,044	-	-	-	521,044
	1,775,162	-	-	-	1,775,162

The contractual amounts disclosed in this analysis are gross undiscounted cash flows, and therefore, may not agree with the carrying amounts in the statement of financial position.



MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

3.5 Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding that net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Management Company. Under the terms of the Unit Trust Code, the Management Company has the discretion to reject an application for units and to defer redemption of units if the exercise of such discretion is in the best interests of unitholders.

The disclosures of unitholders' fund are as follows.

The movement in the Unitholders' Fund as at 31st March

I. In terms of Value	2026	2025
	Rs.	Rs.
Unitholders' funds as at 01 st April	1,094,857,860	742,566,415
Creations during the year	9,650,479,898	2,578,574,933
Redemptions during the year	(3,035,576,001)	(2,398,677,432)
Increase in net assets attributable to unitholders	159,634,389	172,393,944
Unitholders' funds as at 31 st March	7,869,396,146	1,094,857,860
II. In terms of number of units		
Opening number of units as at 01 st April	29,402,626	23,094,274
Unit creations during the year	239,264,545	74,488,488
Unit redemptions during the year	(76,098,148)	(68,180,137)
Closing number of units as at 31 st March	192,569,023	29,402,625

As stipulated within the Trust Deed, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.



	2025/2026 Rs.	2024/2025 Rs.
4. INTEREST INCOME		
Treasury bills/bonds re-purchase agreements	31,579,341	49,214,944
Trust certificates	45,192,360	122,931,093
Commercial papers	1,583,200	29,852,530
Fixed deposits	32,331,684	12,661,025
	<u>110,686,585</u>	<u>214,659,592</u>

5. INCOME TAX EXPENSE

From 01st April 2018, no income tax has not been recognised in the Financial Statements as the Fund has considered all income as being passed through to its unitholders.

	As at 31.03.2026 Rs.	As at 31.03.2025 Rs.
6. CASH AND CASH EQUIVALENTS		
Hatton National Bank PLC - Current account	41,837,758	4,095,439
People's Leasing and Finance PLC - Savings account	69,024	65,061
Sanasa Development Bank PLC - Savings account	29,285	28,496
	<u>41,936,067</u>	<u>4,188,996</u>

As at 31.03.2026		As at 31.03.2025	
Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.

7. FINANCIAL ASSETS AT AMORTISED COST

Treasury Bond/Treasury bills- repurchase agreements	7.1	7,030,925,414	7,030,925,414	355,867,720	355,867,720
Fixed deposits	7.2	325,110,986	325,110,986	212,597,258	212,597,258
Commercial papers	7.3	-	-	226,569,743	226,569,743
Trust certificates	7.4	473,544,786	473,544,786	305,848,094	305,848,094
Less: Impairment	7.5.1	(117,727)	(117,727)	(9,253,689)	(9,253,689)
		<u>7,829,463,459</u>	<u>7,829,463,459</u>	<u>1,091,629,126</u>	<u>1,091,629,126</u>

As at 31.03.2026		As at 31.03.2025	
Carrying value Rs.	Holdings as a % of net asset value	Carrying value Rs.	Holdings as a % of net asset value

7.1 Treasury Bond/ Treasury bills - repurchase agreements

HNB Securities Ltd	-	-	355,867,720	33%
Hatton National Bank PLC	7,030,925,414	90%	-	-
	<u>7,030,925,414</u>	<u>90%</u>	<u>355,867,720</u>	<u>33%</u>



	As at 31.03.2026		As at 31.03.2025	
	Carrying value Rs.	Holdings as a % of net asset value	Carrying value Rs.	Holdings as a % of net asset value
7. FINANCIAL ASSETS AT AMORTISED COST (CONTD.)				
7.2 Fixed deposits				
LOLC Finance PLC	108,488,356	1%	108,959,932	10%
Commercial Credit & Finance PLC	-	-	103,637,326	9%
People's Leasing & Finance PLC	108,493,041	1%	-	-
Central Finance Company PLC	108,129,589	1%	-	-
	<u>325,110,986</u>	<u>3%</u>	<u>212,597,258</u>	<u>19%</u>
7.3 Commercial papers				
Asiri Hospital Holdings PLC	-	-	78,006,811	7%
First Capital Holdings PLC	-	-	148,562,932	14%
	<u>-</u>	<u>-</u>	<u>226,569,743</u>	<u>21%</u>
7.4 Trust certificates				
Mercantile Investment and Finance PLC	115,166,072	1%	102,696,446	9%
Richard Pieris Finance Limited	-	-	101,947,777	9%
Vallibel Finance PLC	101,073,811	1%	101,203,871	9%
Asia Asset Finance PLC	109,891,370	1%	-	-
LB Finance PLC	43,958,519	1%	-	-
Citizen Development Business Finance PLC	103,455,014	1%	-	-
	<u>473,544,786</u>	<u>5%</u>	<u>305,848,094</u>	<u>27%</u>
	<u><u>7,829,581,186</u></u>	<u><u>98%</u></u>	<u><u>1,100,882,815</u></u>	<u><u>100%</u></u>

		As at 31.03.2026 Rs.	As at 31.03.2025 Rs.
7.5 Movement of impairment - financial assets at amortised cost			
Opening balance as at the beginning of the year		9,253,689	25,764,577
Reversal to the income statement		(9,135,962)	(16,510,888)
Closing balance as at the end of the year	7.6.1	<u>117,727</u>	<u>9,253,689</u>
7.6 The breakdown of the provision for impairment is provided below.			
Financial assets at amortised cost	7.6.1	117,727	9,253,689
Other receivables	7.6.2	-	48,797,685
		<u>117,727</u>	<u>58,051,374</u>



		As at 31.03.2026 Rs.	As at 31.03.2025 Rs.
8. OTHER RECEIVABLES			
Miscellaneous		999,449	814,900
From Fixed Income Investment I (Pvt) Ltd - Commercial Papers	8.1	-	48,797,685
Less: Past due Provision as per SLFRS 09	7.6.2	-	(48,797,685)
		<u>999,449</u>	<u>814,900</u>

8.1 Receivable from Fixed Income Investment I (Pvt) Ltd - Commercial Papers

Fixed Income Investment I (Pvt) Ltd (Subsidiary of Ultimate Parent Company of the Management Company) acted as the agent to collect the proceeds from selected Commercial Papers. The receivable balance of Commercial Papers from Fixed Income Investment I (Pvt) Ltd amounting to LKR 48,797,685/- was fully recovered during the period ended 31st March 2026.

	As at 31.03.2026 Rs.	As at 31.03.2025 Rs.
8.2 Movement of impairment provision during the year		
Opening balance as at the beginning of the year	58,051,374	25,764,577
(Reversal)/charge to the income statement	(57,933,647)	32,286,797
Closing balance as at the end of the year	<u>117,727</u>	<u>58,051,374</u>

9. INCOME TAX RECEIVABLE

Income tax	2,765,580	2,765,580
Provision for doubtful income tax	(2,765,580)	(2,765,580)
	<u>-</u>	<u>-</u>

10. ACCRUED EXPENSES

Management fee	1,853,249	563,216
Trustee fee	481,845	146,436
Custodian fee	24,669	24,669
Audit fee	490,421	473,981
Other fees	80,816	45,816
Payable on unit creations	71,829	521,044
	<u>3,002,829</u>	<u>1,775,162</u>

Payable on unit creation amounting to Rs. 71,829/- represents amounts payable in respect of unit creations for which cash has been received from investors after the cut off time at the year end date and units were created subsequent to the reporting date.

11. CONTINGENT LIABILITY AND CONTINGENT ASSETS

11.1. Contingent liabilities

There were no contingent liabilities as at the reporting date.

11.2 Contingent assets

There were no contingent assets as at the reporting date.

12. EVENTS AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments or disclosure in these Financial Statements.

13. CAPITAL COMMITMENTS

The Fund does not have significant capital commitments as at the reporting date.





14 ASSETS PLEDGED

There were no assets pledged as securities as at the reporting date.

15. UNITS IN ISSUE AND UNIT PRICE

Units in issue as at 31st March 2026 are 192,569,022.52 (2025 - 29,402,625.76) and the unit price as at this date is Rs.40.6836 (2025 - Rs. 36.9994).

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

Accordingly, the following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value.

Assets	Liabilities
Cash and cash equivalents	Accrued expenses
Financial assets at amortised cost	
Other receivables	

17. RELATED PARTY DISCLOSURE

17.1 Responsible entity

The responsible entities of Capital Alliance Income Fund are Capital Alliance Investments Limited ("the Management Company") and Hatton National Bank PLC ("the Trustee").

17.2 Key management personnel

Key management personnel includes the persons who were Directors of Capital Alliance Investments Limited at any time during the financial year.

i) Directors

Ms. H. M. S. Perera

Dr. M. De Zoysa

Mr. K. P. Mannakkara

ii) Other key management personnel

Other KMPs include the persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

17.3 Key management personnel compensation

Key management personnel are paid by Capital Alliance Investments Limited. Payments made from the Fund to Capital Alliance Investments Limited do not include any amounts directly attributable to the compensation of key management personnel.

17.4 Other transactions within the Fund

Apart from those details disclosed in Note 17.5, 17.6 and 17.7, key management persons have not entered into any other transactions involving the Fund during the financial year.

17. RELATED PARTY DISCLOSURE (CONTD.)

17.5 Key Management personal unitholding and related party unitholding

The key management personal of capital alliance investment limited and related parties have held the following units in the Fund.

Name of related party	Relationship	As at 31st March 2026		As at 31st March 2025	
		No. of Units held	Value of investment	No. of Units held	Value of investment
Mr. K.P. Mannakkara	Director of Capital Alliance Investments Limited - Management Company	79	3,208	79	2,918
Dr. M. De Zoysa	Director of Capital Alliance Investments Limited - Management Company	507,669	20,653,801	-	-
Capital Alliance Investments Limited	Management Company	11,251	457,722	982,350	36,346,353
Capital Alliance Holdings Limited	Ultimate Parent company of the Managing Company	738,884	30,060,441	1,483,909	54,903,724
Capital Alliance Securities (Private) Limited	A Subsidiary of Parent of the Management Company	51	2,067	209,839	7,763,932
Capital Alliance Quantitative Equity Fund	A fund managed by the Capital Alliance Investment Limited - Management Company	14,753,651	600,231,636	-	-

17.6 Other transactions with related parties and amounts due

The fees were charged by the Management Company and Trustee for services provided during the year and the balances outstanding from such dues as at year end are as disclosed below:

	Charge for the year ended		Balance as at:	
	2025/2026	2024/2025	31.03.2026	31.03.2025
Fund Management fee	7,352,206	7,960,150	1,853,249	563,216
Trustee fees	1,911,574	2,069,639	481,845	146,436
Custodian fees	290,463	289,864	24,669	24,669
The Bank balance held at Hatton National Bank PLC			41,837,758	4,095,439

In addition to the above, certain administrative expenses were borne by the Management Company.

17.7 Other transactions with related parties

Investments in Treasury bill/bond repurchase agreements, Treasury bond and trust certificates have been made in the ordinary course of operations with the following related parties. The resulting investment income and outstanding investment balances are given below.

	Investment income during the year		Balance as at:	
	2025/2026 Rs.	2024/2025 Rs.	31.03.2026 Rs.	31.03.2025 Rs.
Investments in treasury bills/ bonds repurchase agreements with Capital Alliance PLC - (Subsidiary of Ultimate Parent Company of the Management Company)	937,318	15,187,906		



17. RELATED PARTY DISCLOSURE (CONTD...)	Investment income during the year		Balance as at	
	2025/2026 Rs.	2024/2025 Rs.	31.03.2026 Rs.	31.03.2025 Rs.
17.7 Other transactions with related parties (Contd...)				
Investments in trust certificates with Fixed Income Investment I (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	-	46,285,001	-	-
Investments in trust certificates with Fixed Income Investment II (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	-	39,987,134	-	-
Investments in trust certificates with Fixed Income Investment III (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	-	6,502,979	-	-
Investments in trust certificates with Fixed Income Investment V (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	-	10,850,632	-	-

Fixed Income Investment III and V (Pvt) Limiteds amalgamated to Fixed Income Investment II (Pvt) Limited, w.e.f. 14th January 2025.

Fixed Income Investment I (Pvt) Ltd (Subsidiary of Ultimate Parent Company of the Management Company) acted as the agent to collect the proceeds from selected Commercial Papers. The receivable balance of Commercial Papers from Fixed Income Investment I (Pvt) Ltd amounting to LKR 48,797,685/- was fully recovered during the period ended 31st March 2026. However, the provision was only partially reversed during the period and the remaining was reversed subsequently, in the month of April 2026 as given in Note 8.1

18. RECONCILIATION BETWEEN THE NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE PUBLISHED NET ASSET VALUE

	As at 31.03.2026 Rs.	As at 31.03.2025 Rs.
Net asset value as per Financial Statements	7,869,396,146	1,094,857,860
Reversal of impairment provision	(35,444,787)	(7,417,437)
Under provision adjustment of audit fee	440,556	440,556
Published net asset value	7,834,391,915	1,087,880,979
Number of units outstanding	192,569,022.52	29,402,625.76
Published net asset value per unit	40.6836	36.9994
Net Asset per unit as per Financial Statements	40.8653	37.2367

19. COMPARATIVE INFORMATION

The accounting policies have been consistently applied by the Fund and are consistent with those of the previous year. The previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation/classification.

