

# Innovation

“Innovation and Trust are two concepts that go hand in hand at Alliance Finance Company PLC. These two words have been woven into the corporate psyche of the Company. It speaks volumes on who we are, what we do, and how we do things. It is about thinking outside the box and going the extra mile to adapt our financial & transport solutions to better serve our customers. These unique and innovative solutions have been at the forefront at Alliance Finance. It is the engine that has driven the Company for the past 53 years. Trust is the glue that has held the Company together over these years. It is the belief that Alliance Finance will always keep its focus on its customers and never let them down. We truly are Built on Trust, and Powered by Innovation.”

# Trust



Built on

# Trust

Powered by

# Innovation▶

## Chairman's Review

On behalf of the Board of Directors of Alliance Finance Company PLC, it gives me great pleasure to present to you the Annual Report and Financial Statements of your Company for the financial year ended 31st March 2009.

This year we have taken a new direction in reporting our annual performance. We have taken a broader approach to reporting with improvements to transparency and disclosure requirements.

The year under review was an extremely turbulent one for both the global and the local economy. It was a year which witnessed the collapse of global financial markets as well as some of the world's largest financial institutions. It was an unprecedented crisis that affected nearly all of the economies around the world.



The crisis began during the middle of 2007. It was rooted in the US sub-prime mortgage market and fuelled by poor oversight by the US Federal Reserve and other regulatory bodies. The fundamental weaknesses intensified and became a full-blown crisis in the third quarter of the year 2008 following the collapse of Lehman Brothers.

To date, world Governments have injected over US\$ 2 Trillion into the system in an attempt to regain stability. Some of the effects of the crisis have been the sharp fall in stock values around the world, the collapse or take-over of large financial institutions, the freezing of credit markets and millions of workers being laid off as companies tried desperately to cope with steep declines in demand for goods and services. According to the International Monetary Fund (IMF) global economic growth dropped to 3.1% from 5.1% in 2007. The forecast for the full-year 2009 is even gloomier with a further contraction to minus 1.4%.

The global economic crisis affected the developing world and Sri Lanka at a time when it had barely recovered from global food and fuel price escalations during the middle of 2008. Being export-driven, Sri Lanka's economy inevitably suffered. Exports fell to 6.5% from 12.5% the previous year.

Added to the global woes, during that same period the country was engaged in battling a terrorist insurgency in the North-East of the country that badly affected economic growth. Inflation hit an all-time high of 28.2% and interest rates remained high during the year. All these factors affected the country's economy.

Consequently, for the full year 2008, growth was estimated at 6%, down from 6.8% in 2007. Though the agricultural sector performed well, growing at 7.5% compared to 3.4% in 2007, the industrial and services sectors performed badly. Industrial growth was at 5.9% (7.6% in 2007) and the services sector at 5.6% (7.1% in 2007).

Even more alarming was the economic performance for the first quarter of 2009. Growth dropped further to a low of 1.5%. The Central Bank forecasts economic growth for 2009 to be between 3.5% and 4.5%.

The macroeconomic conditions had a direct impact on the financial services industry in Sri Lanka. With a downturn in Sri Lanka's own housing bubble, many finance institutions with large housing portfolios were negatively affected. In an effort to stabilize the financial markets and also to boost the investor confidence, the Central Bank intervened and took management control of some of the troubled institutions. This was a most trying time for the industry. The financially sound members of the industry among whom Alliance Finance is proud to count itself in have managed to weather the storm largely because of their ability to retain the confidence of the investing public. Nevertheless, the operating environment in the industry has been made that much more difficult and challenging because of uncertainty, rampant inflation, and high interest rates.

## Chairman's Review (Contd...)

Given these conditions, I am delighted that your Company performed most creditably. That in itself, considering the circumstances, is a noteworthy achievement. During the year under review, total income increased by 38% to Rs.1.33 Billion. Profit before loan losses and provisions increased by 13% to Rs.112.4 Million. The volatile and deteriorating economic conditions made it prudent to increase the provision for loan losses to Rs.35.5 Million. Consequently, the Operating Profit before Tax for the year was Rs.70.6 Million and Net Profit for the year was Rs.61.5 Million. Although overall profit for the year was less than in 2007/08, our results are nonetheless noteworthy in the light of the prevailing macroeconomic environment.

The Directors have transferred Rs.12.4 million to the Reserve Fund as required by section 3 (b) of the Central Bank, Finance Companies (Capital Fund) Direction No.1 of 2003. It was decided by the Board of Directors to transfer Rs.22 million to Retained Earnings from the Development Reserve in March 2009 to mitigate any losses that may arise in the next financial year due to the adverse economic conditions experienced in the year under review. The Reserves including Retained Earnings stand at Rs.700.46 million at the close of the financial year.

A dividend of Rs.3.50 per share has been recommended by the Board of Directors. This represents 35% on par value. The declared dividend is tax free in the hands of the shareholders.

There has been an improvement in macroeconomic conditions in the first quarter of the financial year, mainly due to the cessation of military operations in the North-East. The immense sense of relief that followed the end of hostilities has been palpable, as was the optimism for a bright future. The Central Bank's prudent steps to bring down inflation and interest rates are most laudable. Despite early signs of a global recovery, it may be in order to strike a cautionary note against Sri Lanka embarking on an immediate and ultra aggressive surge in economic activity as there are still many negative factors hovering over the global economy and by implication, over our own economy.

During the year, the Board and Management Team have been working tirelessly to exhaustively evaluate the Company's business portfolio and readjust it to make it more streamlined, fundamentally sound, profitable and growth oriented. I believe the Company is well prepared to reap the benefits of high growth in the next few years.

On behalf of the Directors, I would like to convey a sincere thank you to our depositors for their trust and confidence in us. I would also like to thank our customers for their continued patronage and support.

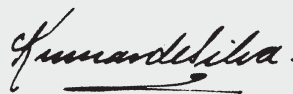
The Board and I would like to express our appreciation and thanks to the Governor and staff of the Central Bank of Sri Lanka for the support and assistance extended to us and to the industry.

I thank all our dedicated employees, at every level, for their contribution to the year's achievements. Without you and your efforts, our achievements would not have been possible. I am extremely grateful to my Joint Managing Director, Mr. Romani de Silva and our Finance Director, Mr. Rohan Perera for their vision and drive, in steering the Company through the current turbulence, and for taking our Company to the next level.

I am extremely grateful to the members of our Advisory Council, our Auditors Messrs HLB Edirisinghe & Co., our Internal Auditors Messrs Nihal Hettiarachchi & Co., our Lawyers, Bankers and secretaries for all the advice, support and services provided.

I would especially like to thank my colleagues on the Board of Directors. Your guidance and advice during the year has been invaluable and much appreciated. I would like to say a special thank you to Mr.J.F.R. de Saram and Mr.Romani de Silva who completed 50 and 25 years respectively with Alliance Finance Company. My heartfelt thanks to both of you.

Finally, my sincere thanks to you our shareholders for the trust and support extended to us.



**Pratap Kumar de Silva**  
Chairman and Joint Managing Director

# Message from the Deputy Chairman/Jt. Managing Director on Sustainability

Sustainable development and corporate responsibility have always been at the very heart of Alliance Finance Company PLC's actions and aspirations. They are what makes Alliance Finance special. For the past 53 years, sustainability has been uppermost in our business planning, and corporate responsibility our guiding principle - whether it be in providing financing for an entrepreneur to purchase a 3-wheeler or in safeguarding a customer's deposits for use at retirement.

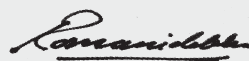
To us, sustainable development means the same as it does when applied to using the country's natural resources - meeting the needs of the present without compromising the ability of future generations to meet their own needs. Sustainability implies acting responsibly toward all our stakeholders - from shareholders and customers to the country's natural environment and the community that we operate in. This approach is often referred to as the "Triple-P Bottom Line" where social (People) environmental (Planet) and economic performance (Profit) are finely balanced to achieve positive long-term results.

This year we have taken a much broader approach in reporting sustainability. We have used the Triple-P concept as the basis and have reported our progress and challenges in three broad areas; People, Planet and Profit.

Corporate responsibility is an on-going process that requires care, continuous monitoring and a willingness to improve

performance. We at Alliance Finance are constantly evaluating performance and results to ensure that future generations have the ability and resources to meet their needs.

In conclusion I would like to thank our staff for their wholehearted commitment to our endeavour to make this country a better place to live in.



**Romani de Silva**  
Deputy Chairman and Joint Managing Director



# Planet

Like **Trust**, when the resources of our planet have been abused, they will never be the same. But with imagination, **Innovation** and determination, we can make the world a better place.

## Fact Box

*Alliance Finance Company is a Participating Credit Institution of the World Bank for Renewable Energy for Rural Economic Development (RERED)*

