



LRA reaffirms BBB₂/L2 ratings to Alliance Finance Limited

LRA has reaffirmed Alliance Finance Co Ltd's ("the Company" or "Alliance") respective long- and short-term financial institution ratings at BBB₂ (with a stable outlook) and L2. The ratings are supported by the Company's improving asset quality and performance, as well as adequate capitalisation. On the other hand, the ratings are moderated by the Company's softening funding structure.

Alliance, with a 50-year history, has clearly established itself as a stable finance company. During the period under review, the Company successfully improved its asset quality by beefing up monitoring and collections, as reflected by the higher quantum of non-performing loans ("NPLs") (on a 6-month classification basis) that had turned performing, and low incidences of new NPLs. These, together with NPL write-offs, eased the Company's absolute NPL level and gross NPL ratio; its absolute NPLs reduced from Rs 127.00 million as at the end of FYE 31 March 2005 ("FY Mar 2005") to Rs 95.06 million as at end-FY Mar 2006. Its gross NPL ratio ameliorated from 8.94% as at end-FY Mar 2005 (industry: 8.44%) to 4.72% as at end-FY Mar 2006 (industry: 5.85%). Concurrently, the Company maintained its provisioning levels and fully cushioned its NPLs.

Alliance's profitability indicators improved in FY Mar 2006 following the upturn in its gross income. The Company's heightened gross income pushed its return on assets ("ROA") and return on equity ("ROE") to 3.06% and 24.28%, respectively, as at end-FY Mar 2006. In comparison to the industry, however, Alliance's performance remained depressed by its hefty overheads and losses stemming from its start-up trading business. Meanwhile, the industry's ROA and ROE stood at a respective 4.02% and 26.91% as at the same date.

In recent years, Alliance has increasingly turned to bank borrowings for its funding needs; about 25% of the Company's funding stemmed from banking lines as at end-FY Mar 2006. In this context, LRA views a diverse pool of public deposits to offer greater stability than a high concentration on bank loans. While Alliance's amount of bank borrowings as a proportion of its total interest bearing liabilities is not at a critical level yet, LRA will continue to monitor the Company's funding structure.

Alliance's Tier-I capital remained largely unchanged as at end-FY Mar 2006, while its overall capital adequacy had increased. The Company's risk-weighted capital-adequacy ratio ("RWCAR") climbed up from 10.34% as at end-FY Mar 2005 to 15.12% as at end-FY Mar 2006, as a result of property revaluation. Given Alliance's write-offs and over provisioning for its NPLs, we believe the Company's capitalisation levels are sufficient to absorb its usual levels of bad debts, while meeting its planned asset growth.

LRA is a domestic credit rating agency licensed by the Securities and Exchange Commission of Sri Lanka. LRA is a 100%-owned subsidiary of Rating Agency Malaysia Berhad ("RAM"), Malaysia's premier rating agency. RAM is also an affiliate of Standard & Poor's, the world's largest rating agency.

Press Release
17/07/2007

LRA is backed by a 40-strong team of analysts at RAM, which has rated almost all the financial institutions in Malaysia and more than 1,000 debt issues by corporates, statutory organisations and subsidiaries of foreign multinationals. These issuers are involved in the leading sectors of the Malaysian economy, which share some similarities with the potential growth sectors in Sri Lanka. In particular, LRA can leverage on RAM's fortes in the ratings of financial institutions, asset-backed securities and Islamic debt securities.

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