

RAM

RFC SECTOR UPDATE 2010

Sailing forward after
the storm

February 2011



RAM Ratings Lanka
Wholly owned by
RAM Holdings Berhad

No. 09, Arthur's Place,
Colombo 4
Sri Lanka

T +94 112 553089
+94 112 503551
F +94 112 553090
E ram@ram.com.lk
W www.ram.com.lk

RAM

Company Contact:

Adrian Perera
MBA, FCMA (UK), FCCA, FCMA, MCPM, AIB
Chief Executive Officer
(94) 11 2596099
adrian@ram.com.lk

Analyst Contact:

Prashani Illangasekera
M.Sc (Fin), BA
Assistant Manager
(94) 11 2553089
prashani@ram.com.lk

Senila Jawfer
Senior Analyst
(94) 11 2503551
senila@ram.com.lk

Website: www.ram.com.lk

Summary

The registered-finance-company (“RFC”) sector has been gradually recovering from the weakened economic climate that prevailed in 2008 and 2009, and the confidence crisis triggered by the fall of an unregulated finance company. As opposed to the previous financial year, FYE 31 March 2010 (“FY Mar 2010”), and the ensuing 6 months ended 30 September 2010, RFCs’ showed an acceleration in loan growth across the industry, supported by the opportunities of the post-war era and the more favourable macroeconomic conditions. The expansion in the loan base has resulted in the moderation of liquidity and capitalisation levels; however, these levels are adequate. Asset quality remains weaker than that of banks, as the sector caters to a high-risk segment; nevertheless, there has been increasing awareness among most RFCs to improve asset quality. Meanwhile, the sector has benefitted from the falling interest rate scenario that has increased margins due to deposits repricing faster than loans. With regard to the latter, lending by RFCs is generally long-term in nature at fixed interest rates, with hire-purchase and leases making up 64.73% of the industry’s loan portfolio as at end-September 2010. The broader margins, coupled with loan expansion and lower provisioning charges, have resulted in improving performance.

Going forward, asset quality is expected to improve amid the more favourable economic conditions. In addition, RFCs have taken steps to reduce the incidence of bad loans and rein in bad debts; together with the improving macroeconomic conditions, these steps are expected to aid asset quality improvement. In line with the improving asset quality and opportunities for RFCs following the post-war era and the easing of interest rates, performance is expected to ameliorate as well. The improving profitability is expected to increase capitalisation levels, going forward. In addition, RFCs’ compliance with the regulatory listing requirements by June 2011 would also provide greater access to funds, thereby boosting capital levels. Meanwhile, the liquidity levels are expected to moderate but remain adequate as RFCs seek to expand their loan portfolios.

On a separate note, transparency and corporate governance are expected to see improvements. The more frequent quarterly financial reporting required by the Colombo Stock Exchange (“CSE”) and the proposed amendments to the Finance Business Act are expected to enhance the transparency and corporate governance of each player in the sector. The propositions include strengthening the regulatory aspects of the business, providing the Central Bank of Sri Lanka (“CBSL”) with greater authority to regulate RFCs and increased public disclosure by RFCs.

The RFC sector represents a small proportion of the Sri Lankan financial sector; as at end-December 2009, it constituted 3.30% of the total assets of the financial system and currently comprises 36 players in the sector with a total of 412 branches (as at end-December 2010). The sector has always played a crucial role in the development of the small and medium enterprise (“SME”) sector in the country as well as the growth of the micro-finance sector. RFCs have been involved in the provision of essentially hire purchase (“HP”) and leases, of which vehicle financing is their forte. However, the sector faces competition in the provision of these products from the banks. With the government increasing its emphasis on facilitating the flow of funds to the underserved sectors of the economy and with a law to regulate the micro-finance institutions to be enacted, the SME segment has become increasingly attractive to the banks. Nevertheless, we opine that the convenience in obtaining loans from the RFC sector and the less stringent underwriting would continue to appeal to the high risk segment.

The sector's performance showed moderate improvement in FY Mar 2010, driven by recovering macroeconomic fundamentals and better business sentiments. Margins are expected to broaden for the sector as the funding costs continue to ease and there has been an increasing trend towards high-yielding 3-wheeler financing and pawn-broking, as is the case for the RFCs in our portfolio. Meanwhile, tax savings such as the easing of the financial value-added tax ("VAT") based on the new budget are expected to render higher profits for the sector. That said, aggressive branch expansion of RFCs could take a toll on profits over the medium term as new branches grapple to break even amidst intensified competition.

The industry's asset quality indicators weakened in FY Mar 2010. However we believe these indicators remain skewed by the weak asset quality of a few large, troubled RFCs. Meanwhile, we note an increasing awareness among RFCs with regard to asset quality; as such, some players have made initiatives to curtail lending to high-delinquency segments and boost recoveries. These initiatives are expected to pay off in the long term together with the improving macroeconomic conditions.

The capital adequacy ratios among the more established and sound RFCs moderated in FY Mar 2010 and 1H FY Mar 2011, on the back of resumed lending. However, as smaller RFCs infused capital to adhere to the minimum core capital regulatory requirement of LKR 200 million, capital adequacy levels for these companies ameliorated. The regulation requiring RFCs to list by June 2011 is expected to strengthen capitalisation levels further, going forward, for those who list by way of an initial public offering and the increased access to public funds thereafter.

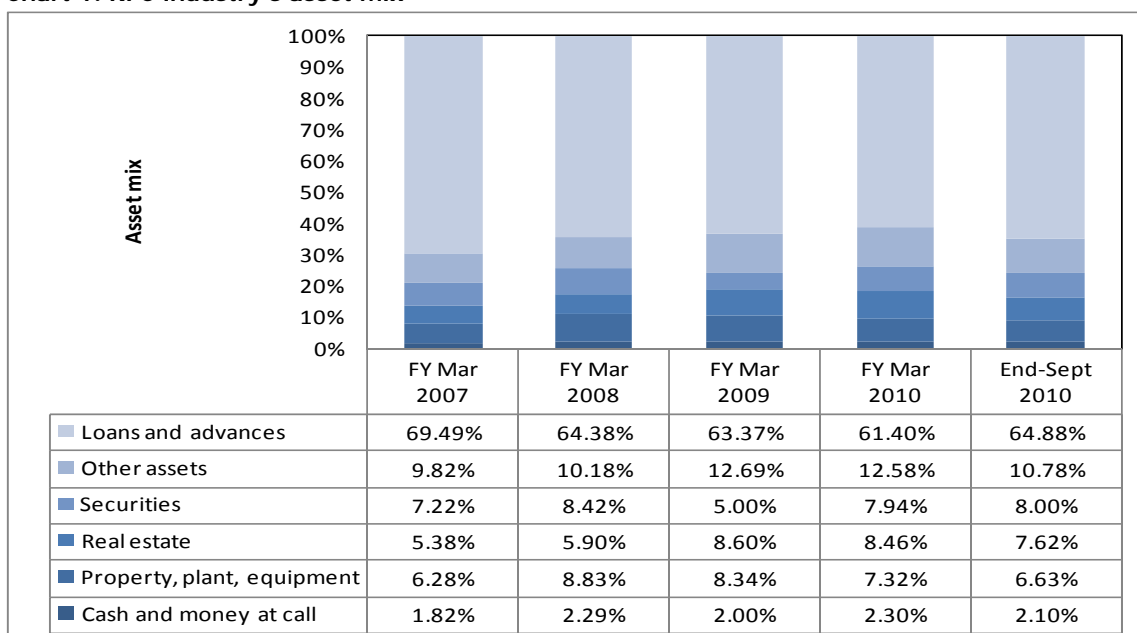
Most of the RFCs in our portfolio have been able to maintain the minimum statutory liquid asset ratio of 10% as per CBSL regulations, and most companies that had curtailed lending last year had recorded liquidity ratios well above the regulatory minimum. However, as lending resumed, liquidity levels moderated. This is expected to continue into the future as companies seek to expand their loan portfolios. Deposits, on the other hand, remained the main funding source and demonstrated growth despite the run on deposits in FY Mar 2009. The industry is still exposed to funding risks due to the inherent mismatches in its long-term investments and shorter-tenured deposits. In this regard, its increased access to long-term banking lines will help mitigate these risks.

Asset Quality

Asset mix remains dominated by loan assets, but some shift to securities seen

The RFC industry assets grew 13.37% year-on-year (“y-o-y”) in fiscal 2010, before growing by another 9.47% in 1H FY Mar 2011. The asset mix reflected a more liquid stance compared with FY Mar 2009, owing to RFCs preserving liquidity in the first half of FY Mar 2010 following the run on deposits in 2009. Towards September 2010, the asset mix saw an increasing exposure to securities comprising both investments in government securities and equity (refer to Chart 1), the latter being a result of the vibrant stock market and the declining interest rate environment. Meanwhile, exposure to real estate had reduced compared to last year. Considering the market risk and the liquidity risk associated with real estate, this is viewed positively. As RFCs resume lending amid the better economic sentiments, we expect the exposure to credit assets to increase going forward.

Chart 1: RFC industry’s asset mix



Source: CBSL

Loan growth picked up pace

Although we noted that some RFCs curtailed lending, certain well-capitalised RFCs continued to lend. As a result of this the industry loan portfolio expanded by 12.67% in FY Mar 2010, at a faster pace compared with a y-o-y 10.45% growth in FY Mar 2009. The loan portfolio expanded further by 15.75% in 1H FY Mar 2011. Loan book expansion continued to be driven by HP and leasing and, to some extent, pawn-broking, owing to the gradually reviving economic environment and the easing of interest rates that spurred demand.

Increasing trend towards pawn-broking and 3-wheeler financing

In FY Mar 2010, we witnessed an increasing trend towards high-yielding pawn-broking and 3-wheeler financing for RFCs in our portfolio. The increasing interest in pawn-broking had been spurred by the higher lending rates that they could command and the increasing awareness with regard to bad debts. Moreover, rising gold prices and quick disbursement of pawning

advances make pawning attractive to customers, giving rise to increased demand for the service. As these advances are fully collateralised against gold, the CBSL does not require them to be classified as non-performing loans (“NPLs”). While micro-finance is a risky proposition given that these loans are given to the low-income segment, most RFCs employ group lending, which involves a cross guarantee between borrowers in the group. Therefore, the incidence of new NPLs is very low, owing to the social stigma associated with defaults in rural communities. Within the HP portfolio, vehicle financing makes up the largest proportion for most RFCs, while within the leasing segment there has been an increasing preference towards 3-wheelers owing to the low delinquencies in this segment.

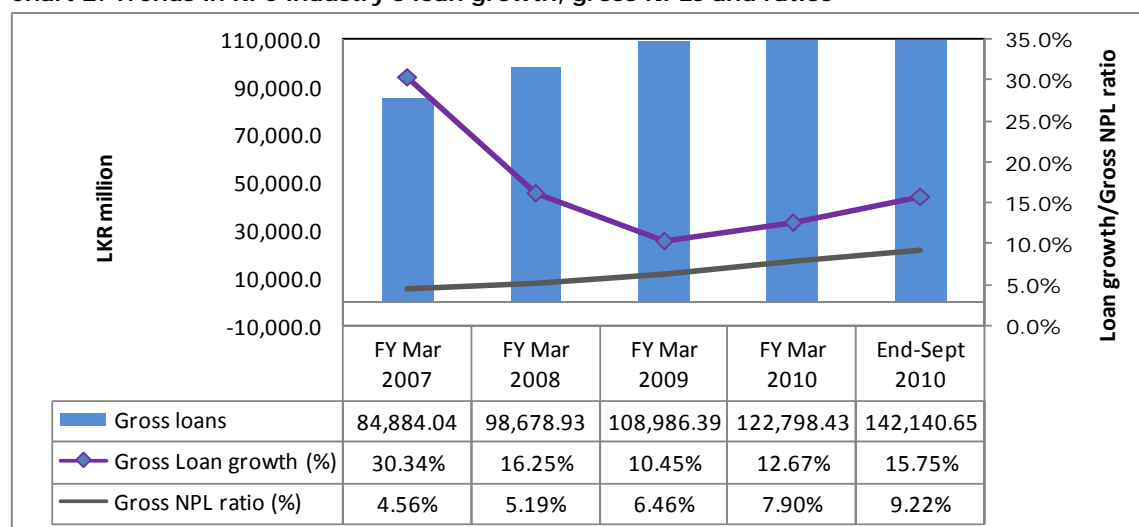
Leasing and micro-financing to see growth, HP demand expected to be steady

While growth from HP is likely to be steady going forward, the new budget provisions such as VAT removal on lease financing for certain vehicles and the increased emphasis on the contribution by rural areas to economic growth are likely to encourage growth in leases and micro-finance. We opine that RFCs catering to micro-finance and pawn-broking are likely to see an improvement in credit concentration risk. The smaller loans will have a minimal impact on an RFC’s capital buffer, in the event the loan cannot be recovered. However, micro-finance customers may be more sensitive to an economic downturn.

Asset quality expected to ameliorate

Meanwhile, the industry’s gross NPL ratio continued to deteriorate from 6.46% as at end-March 2009 to 7.90% as at end-March 2010. There was further deterioration to 9.22% by end-September 2010. This ratio reflects the proportion of loans that have been in arrears for a period of 6 months or more, unlike banks which report on a 3-month basis. We opine that this ratio has been skewed by the deteriorating NPLs of certain troubled RFCs. If the NPLs of these RFCs are excluded, the gross NPL ratio of the industry had been approximately 7.0% as at September 2010. In order to reduce the incidence of new bad debts, most RFCs have refrained from lending to high-defaulting segments with greater emphasis on low delinquency sectors such as 3-wheeler financing. Going forward, we opine that these efforts and improved macroeconomic conditions would aid asset quality improvement.

Chart 2: Trends in RFC industry’s loan growth, gross NPLs and ratios



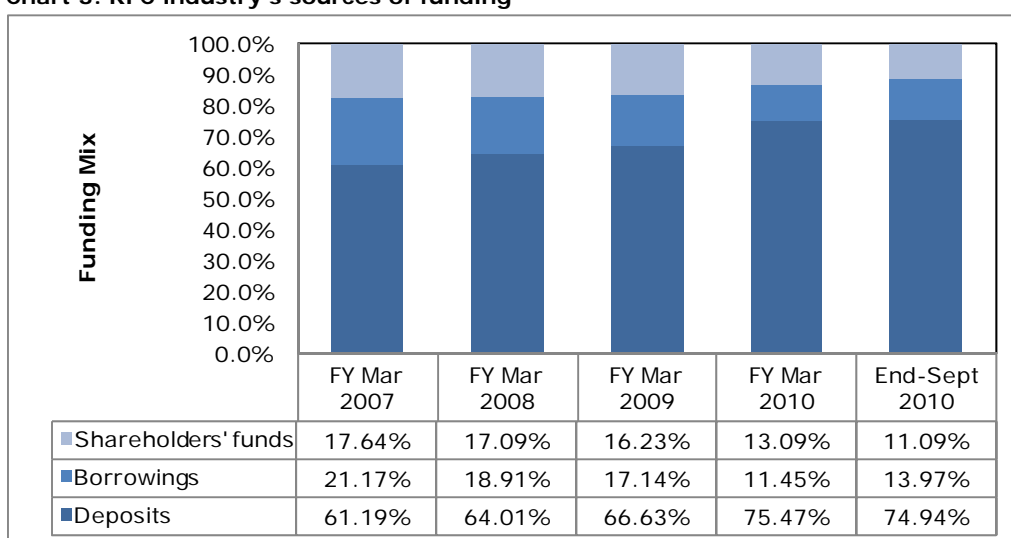
Source: CBSL

Funding and Liquidity

Deposits remain principal funding source

The bulk of the industry's funding requirements continue to stem from public deposits, which accounted for about 75.46% of its total funding needs as at end-FY March 2010. Other borrowings (primarily consisting of bank loans) and capital accounted for 11.45% and 13.09% respectively (refer to Chart 3). Despite the run on deposits in the latter part of FY Mar 2009, the sector remains the main source of funding and continues to grow, albeit at a slower pace compared with pre-crisis levels. That said, the limited branch network and weak franchise of smaller players has posed a challenge within the sector for the garnering of deposits.

Chart 3: RFC industry's sources of funding

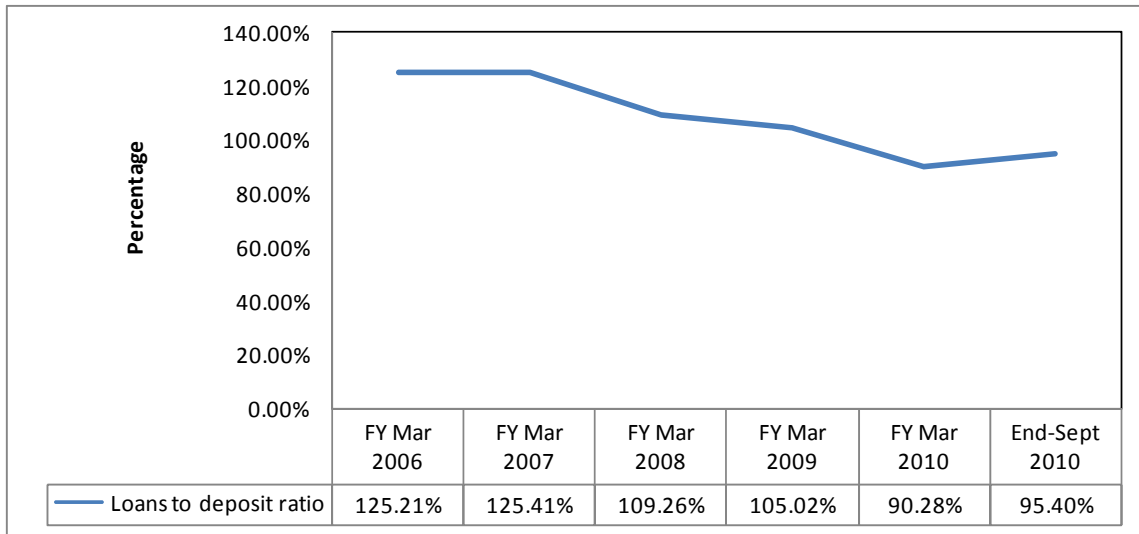


Source: CBSL

Deposits grew at faster pace as investor confidence returned

As expected, deposits increased at a faster rate of 27.78% y-o-y to LKR 125.59 billion in FY Mar 2010 on the back of regained confidence of the investors and as deposits continued to be more attractive than other investment avenues. It increased by a further 18.94% by end-September 2010. Reflective of the fight to preserve liquidity, the industry's loans-to-deposit ratio declined from 105.02% as at end-FY Mar 2009 to 90.28% as at end-FY Mar 2010. While this ratio had picked up towards end-September 2010 as most RFCs sought to expand their loan portfolios (refer to Chart 4), it remains below levels seen prior to the RFC crisis.

Chart 4: Loans-to-deposits ratio of the RFC sector



Source: CBSL

Branch expansion and deposit insurance scheme to boost deposit-taking

The opening of the north and the east regions of Sri Lanka after the end-of the 30-year ethnic conflict provided RFCs with the opportunity to expand their networks, widening their access to deposits. Additionally, the deposit insurance scheme put in place by the regulator in order to enhance public confidence through protection of interests of small depositors, implemented in October 2010, is also likely aid the garnering of deposits.

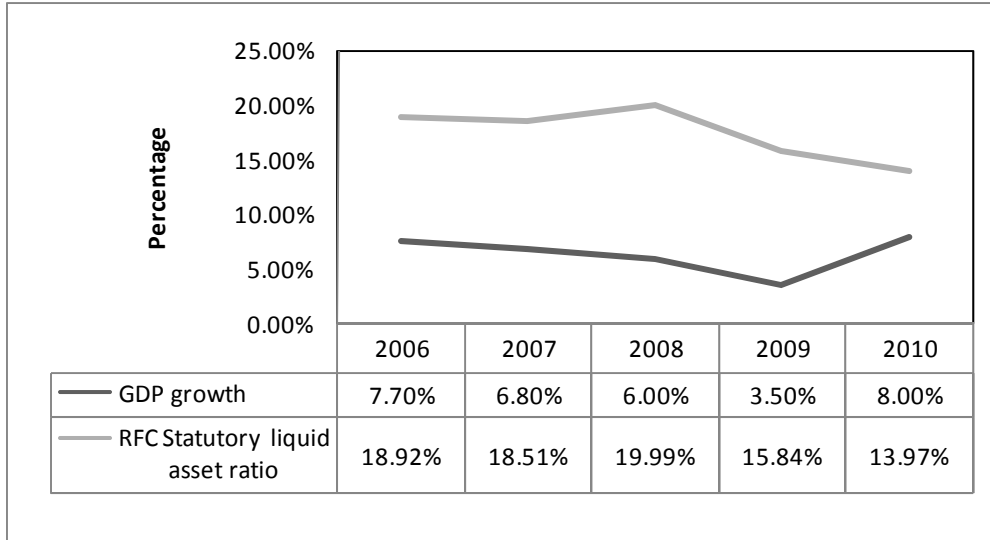
Liquidity levels moderated as lending resumed...

RAM Ratings Lanka estimates the industry’s statutory liquid asset ratio to have reduced to 13.97% as at end-September 2010 from 15.62% as at end-FY Mar 2010 on the back of resumed lending as economic conditions improved (refer to Chart 5). In FY Mar 2009, we noted that as GDP growth slowed down the estimated industry statutory liquid asset ratio had also declined owing to the run on deposits. By end-September 2010, the ratio moderated further as lending resumed amid a more conducive economic environment (refer to Chart 5). The ratio is expected to stabilise above the regulatory minimum of 10% as RFCs pursue loan expansion.

... but still adequate

Most of the RFCs in our portfolio have been able to maintain the minimum statutory liquid asset ratio of 10% as per CBSL regulations, and most companies that had curtailed lending last year had recorded liquidity ratios well above the regulatory minimum. As industry players pursue loan expansion, liquidity levels are expected to moderate further. With regard to funding, while banks are currently flushed with liquidity, we opine that the larger and more established RFCs have better access to funds while the smaller players face difficulties in trying to secure such facilities. The industry is still exposed to funding risks due to the inherent mismatches in its long-term investments and shorter-tenured deposits. In this regard, its increased access to long-term banking lines will help mitigate these risks.

Chart 5: Industry's statutory liquid-asset ratio vs GDP growth



Source: CBSL and RAM Ratings Lanka's estimates of statutory liquid-asset ratio

Capital

Losses from some large troubled RFCs skew ratio on net NPLs to shareholders' funds

The industry's net NPL (i.e after provisions) to shareholders' funds ratio, which indicates the industry's capital cushion, had deteriorated from 19.24% as at end-FY Mar 2009 to 26.69% as at end-FY Mar 2010 (end-September 2010: 35.99%), in line with the weakening NPLs and capital erosion through losses. That said, we note that the industry losses eroding the capital cushion are due to losses from a few large troubled RFCs.

Capitalisation levels expected to increase

Furthermore, the capital adequacy levels of most players stayed above regulatory minimums and we see considerable improvement with regards to the RFCs' adherence to the minimum core capital requirement of LKR 200 million. Moreover, as RFCs are required to get listed by June 2011, the proceeds from those RFCs which get listed through an initial public offering would also help to increase capitalisation levels. Furthermore, listed RFCs would have an increased access to funds when the need arises. Currently, only 8 out of 36 RFCs are listed on the Colombo Stock Exchange. On a separate note, most RFCs still use the Basel I framework which does not capture certain risks that RFCs are exposed to, such as market risks and additional operational risks which have been addressed in detail in BASEL II.

Profitability

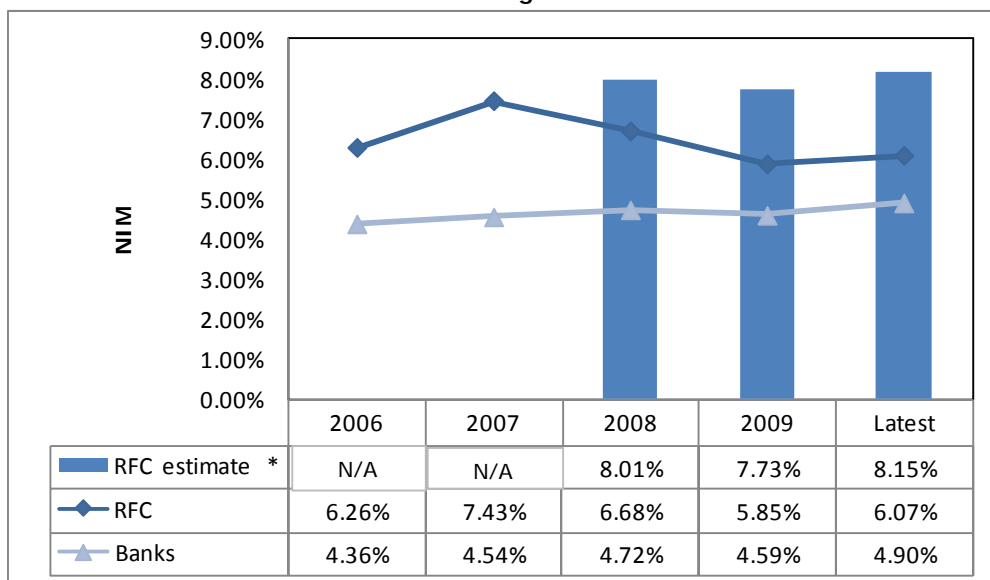
Broader net interest margins

The profitability of the sector showed improvement as deposits repriced faster compared with the lending rates amid the falling interest rate environment. This is due to a high proportion of fixed-rate lending in the RFCs' loan portfolios; about 64% of the industry's loan assets comprise lease and HP. We note that the shift to higher-yielding products like pawn-broking and 3-wheeler leasing had also contributed; its net interest margin ("NIM") broadened to 7.95% in 1H FY Mar 2011 (FY Mar 2010: 6.07%). The broader NIMs boosted profits on the back of reduced provisions. While we expect the positive momentum to be maintained going forward in cognisance of the opportunities that lie ahead for RFCs with the gradual revival of the economy and the easing interest rates, we also recognised the increased competition for the sector as a whole.

NIMs higher, more volatile than those of banks

As banks increase services to the sub-prime segment, it may pose a threat to the current high margins enjoyed by the RFC segment (refer to Chart 6). Nevertheless, the convenience in obtaining a loan from the RFC segment due to the less stringent underwriting procedures would continue to appeal to the high risk segment. The sector's NIMs are wider compared with those of the banking sector owing to the higher yields from catering to a high-risk segment, but this is offset by the higher delinquencies. Also, the RFC's sector's NIMs have displayed more volatility than the banking sector, owing to the wider gap in the asset-liability maturity mismatch ("ALMM") in the shorter maturity buckets. As such, the banks re-price both lending and deposit rates faster, rendering more stable NIMs compared with RFCs.

Chart 6: NIM trends - RFC sector vs banking sector



Source: CBSL

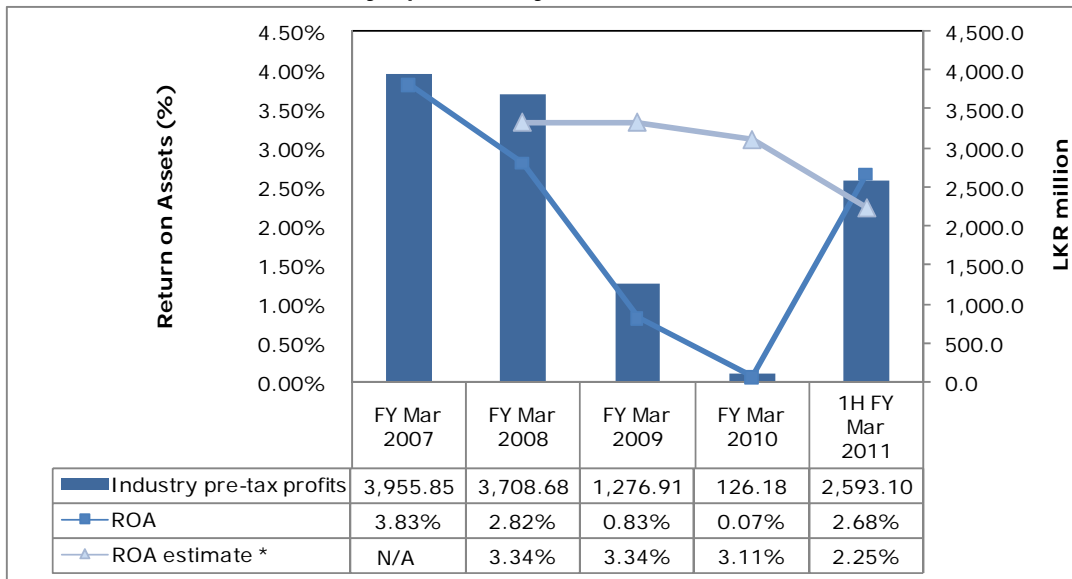
*NIM exclusive of substantial net interest income losses from certain RFCs

Overall profitability to continue improving

The combination of wider NIMs and lesser provisioning has trickled down to an increase in pre-tax profits which amounted to LKR 2.59 billion (FY Mar 2010: LKR 126.18 million), translating into a return on assets ("ROA") ratio of 2.68% in 1H FY Mar 2011 (refer to Chart

7). The industry pre-tax profits adjusted for losses from a few large troubled RFCs, resulted in an estimated ROA of 3% over the same period. Going forward, the ROA and return on equity ("ROE") are expected to ameliorate on the back of financial VAT savings as per the new budget provision (financial VAT has been reduced from 22% to 12%). That said, the higher costs incurred as RFCs expand their branch networks may take a toll on profits. It typically takes at least one-and-a-half years for new branches to break even. In the meantime, it's noteworthy that a few companies in the sector continued to record losses, while some with high dealings in real estate have been inflated by recognising the entire profits prior to the actual receipt of funds. We opine that this is not a prudent way to recognise income.

Chart 7: Trends in RFC industry's profitability



Source: CBSL

*ROA exclusive of substantial losses from certain RFCs

Corporate Governance

Increased emphasis on corporate governance by regulator

Since the loss of confidence among the public, brought about by the failure of a few large RFCs, the regulator has placed an increased emphasis on corporate governance. However, the level of adherence to practices imposed varies among the players. We note that a few players have yet to set up committees governing risk management, such as the integrated risk management and the audit committees. The number of independent non-executive directors should be at least one-fourth of the total number as stated by the regulator; we observe that this has not been adhered to by family-owned entities. However, we opine that the close monitoring of corporate governance by the regulator will eventually rectify the issues at hand.

New propositions to improve transparency and corporate governance

Furthermore, the proposed Finance Business Act provides CBSL with greater authority to regulate RFCs. This would result in increased adherence to corporate governance by RFCs. It also requires greater disclosure from RFCs and this would improve transparency as well. In this context, we understand that the adoption of SLAS 44 Financial Instruments Presentation and SLAS 45 Financial Instruments Recognition and Measurement in the near future will improve transparency and bring about more prudent accounting treatment. All RFCs are required to list a minimum of 10% of their shares by June 2011; the more frequent quarterly financial reporting required by the CSE is expected to improve transparency and corporate governance.

Financial Summary-RFC Industry

	Un-audited					
BALANCE SHEET (Rs. Million)	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
ASSETS						
Cash & Money At Call	1,636.39	2,124.49	3,347.75	3,261.22	4,252.02	4,240.17
Deposits & Placements With Financial Institutions	1,330.22	2,462.66	2,934.63	5,839.31	3,447.30	3,022.79
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00	0.00
Securities						
Dealing Securities	7,108.72	8,120.21	11,699.50	7,304.33	13,253.30	14,347.92
Investment Securities	415.41	327.55	584.92	847.03	1,413.81	1,821.88
Gross Loans & Advances	65,126.92	84,884.04	98,678.93	108,986.39	122,798.43	142,140.65
Interest-In-Suspense	0.00	984.18	1,542.46	1,947.76	2,665.55	2,730.25
General Loan Loss Reserves	0.00	740.22	861.38	1,516.24	3,083.42	2,727.62
Specific Loan Loss Reserves	2,588.56	1,865.28	2,334.00	2,305.77	3,676.30	5,527.00
Net Loans & Advances	62,538.35	81,294.37	93,941.10	103,216.62	113,373.16	131,155.78
Investments in Subsidiaries/Associates	1,469.06	1,774.01	1,863.99	1,323.14	2,046.75	1,993.00
Investment Land and Properties	8,996.56	6,298.52	8,607.08	14,004.97	15,617.96	15,394.41
Other Assets	0.00	7,247.15	10,052.66	13,503.09	17,735.10	16,773.73
Property, Plant and Equipment	6,213.11	7,343.32	12,877.74	13,576.52	13,518.98	13,402.57
TOTAL ASSETS	89,707.83	116,992.26	145,909.36	162,876.24	184,658.38	202,152.25
LIABILITIES						
Customer Deposits						
Savings	0.00	999.19	1,995.98	2,401.89	3,568.00	4,387.12
Fixed	49,944.82	62,876.99	83,029.37	95,114.18	121,187.56	132,217.39
NIDs	0.00	945.78	956.08	763.57	829.46	874.44
Interbank Deposits	0.00	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	968.18	1,824.23	1,529.97	2,752.83	3,302.03
Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00	0.00
Other Borrowing	14,609.80	22,424.88	25,400.03	25,283.64	19,055.75	25,632.52
Subordinated Debt & Hybrid Capital	2,469.10	241.32	315.01	242.74	50.00	50.00
Other Liabilities	9,160.93	9,843.44	9,435.52	13,606.94	15,435.40	15,346.91
TOTAL LIABILITIES	76,184.64	98,299.78	122,956.23	138,942.93	162,879.00	181,810.39
Paid-up Capital	2,143.63	3,906.76	4,920.59	5,961.12	8,211.34	8,913.35
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	8,317.99	8,467.01	12,291.50	14,018.13	15,460.72	16,010.13
Statutory General Reserve	1,600.77	1,627.75	2,064.43	2,432.84	2,774.99	2,995.45
Retained Profits/(Loss)	1,460.79	4,690.97	3,676.62	1,521.22	(4,667.68)	(7,577.08)
Total Shareholders' Funds	13,523.18	18,692.49	22,953.13	23,933.31	21,779.38	20,341.86
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	89,707.83	116,992.26	145,909.36	162,876.24	184,658.38	202,152.25
COMMITMENTS & CONTINGENCIES	0.00	0.00	0.00	0.00	0.00	0.00
TIER 1 CAPITAL	NA	13,122.26	15,333.06	17,431.77	NA	NA
CAPITAL BASE	NA	14,732.86	18,106.13	20,165.17	NA	NA

Source: CBSL

Financial Summary-RFC Industry

INCOME STATEMENT (Rs. Million)	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Interest Income	11,691.61	17,388.45	24,093.19	31,465.39	33,850.13	18,047.00
Less: Amortisation Of Premium/(Accretion Of Discount)	0.00	0.00	0.00	0.00	0.00	0.00
Less: Net Interest Suspended	0.00	0.00	0.00	0.00	0.00	0.00
Less: Interest Expense	6,767.19	9,704.63	15,313.94	22,429.97	23,307.64	10,356.59
Net Interest Income	4,924.43	7,683.82	8,779.25	9,035.42	10,542.49	7,690.41
Non-Interest Income	3,312.99	3,457.19	4,410.48	4,019.45	3,026.26	2,119.98
Gross Income	8,237.42	11,141.01	13,189.73	13,054.87	13,568.75	9,810.39
Personnel Expenses	1,967.06	2,617.58	3,142.65	3,529.56	4,156.14	2,490.43
Other Non-Interest Expenses	2,532.98	3,827.46	5,622.15	6,774.10	7,153.71	4,379.98
Loan Loss Provisions	577.54	740.13	716.26	1,445.47	2,132.72	346.89
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	3,159.83	3,955.85	3,708.68	1,305.74	126.18	2,593.10
Taxation	576.97	561.53	825.86	994.19	1,509.06	1,602.48
Profit After Tax	2,582.86	3,394.32	2,882.81	311.55	(1,382.88)	990.62
Extraordinary Items	181.01	0.00	0.00	0.00	0.00	0.00
Prior Year Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00	0.00	0.00
Transfer To Statutory Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Transfer To Other Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Dividend	0.00	0.00	0.00	0.00	0.00	0.00
Retained Profit For The Year	2,763.87	3,394.32	2,882.81	311.55	(1,382.88)	990.62

Source: CBSL

Financial Summary-RFC Industry

KEY RATIOS (%)	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Profitability						
Net Interest Margin	6.26%	7.43%	6.68%	5.85%	6.07%	7.95%
Non-Interest Income Margin	4.21%	3.35%	3.36%	2.60%	1.74%	2.19%
Cost To Income	54.63%	57.85%	66.45%	78.93%	83.35%	70.03%
Return On Assets	4.02%	3.83%	2.82%	0.85%	0.07%	2.68%
Return On Equity	26.91%	24.56%	17.81%	5.57%	0.55%	24.06%
Dividend Payout	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Asset Quality						
Gross NPL Ratio	5.66%	4.56%	5.19%	6.46%	7.90%	9.22%
Net NPL Ratio	1.76%	2.39%	2.85%	4.40%	4.99%	5.47%
Specific Loan Loss Provisions For Current Year	0.98%	0.80%	0.78%	1.34%	1.86%	0.53%
Gross NPL Coverage	70.21%	68.13%	63.41%	55.31%	71.23%	64.25%
Loan Loss Reserve Coverage	3.97%	3.11%	3.29%	3.57%	5.63%	5.92%
General Loan Loss Reserve Coverage	0.00%	0.90%	0.91%	1.45%	2.65%	2.04%
Liquidity & Funding						
Liquid Asset Ratio	19.47%	18.60%	19.78%	15.49%	16.49%	15.33%
Statutory Liquid Asset Ratio	18.92%	18.51%	19.99%	15.84%	15.62%	13.97%
Customer Deposits To Total Interest Bearing Funds	74.52%	73.28%	75.74%	78.41%	85.17%	82.59%
Loans To Deposits Ratio	125.21%	125.41%	109.26%	105.02%	90.28%	95.40%
Loans To Stable Funds Ratio	85.83%	82.31%	76.63%	75.96%	72.33%	75.32%
Capital Adequacy						
Shareholders' Funds To Total Assets	15.07%	15.98%	15.73%	14.69%	11.79%	10.06%
Tier 1 Risk Weighted Capital Adequacy Ratio	NA	13.23%	12.98%	12.63%	NA	NA
Overall Risk Weighted Capital Adequacy Ratio	NA	14.85%	15.33%	14.61%	NA	NA
Internal Rate Of Capital Generation	23.69%	22.07%	13.84%	2.64%	(4.09%)	10.57%

Note :

* annualised

NA = Not available / Not applicable

Source: CBSL

Published by RAM Ratings (Lanka) Ltd
Reproduction or transmission in any form is prohibited except by
permission from RAM Ratings Lanka.
© Copyright 2009 by RAM Ratings Lanka

RAM Ratings (Lanka) Ltd
No. 9, Arthur's Place
Colombo 4
Sri Lanka
Tel: +94 112 553089 Fax: +94 112 553090
E-mail: ram@ram.com.lk Website: www.ram.com.lk

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings' credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.