



RATINGS

CREDIT RATING RATIONALE

FINANCIAL INSTITUTIONS – SRI LANKA

A wholly owned subsidiary of RAM Holdings Berhad – an affiliate of Standard & Poor's

Bartleet Finance Limited – Rating Review

Financial Institution

Ratings:

Long-term: BBB- [Reaffirmed]
Short-term: P3 [Reaffirmed]

Rating Outlook:

Stable

Strengths:

- Good franchise of Bartleet Group
- Good monitoring and recovery efforts

Weaknesses:

- Hefty overheads
- Limited branch network
- Lacks asset-liability management

Principal Activities:

Finance company engaged in leasing, hire-purchase, retail loans and acceptance of public funds

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Summary

RAM Ratings has reaffirmed the long- and short- term ratings of Bartleet Finance Limited ("BFL" or "the Company"), at BBB-(with a stable outlook) and P3, respectively. The ratings are premised on BFL's improved asset quality, albeit constrained by the Company's moderate financial performance, funding and capital.

BFL is a relatively small player, accounting for only 1.98% of the asset base of the registered finance companies ("RFC") industry as at FYE 31 March 2008 ("end-FY Mar 2008"). BFL is part of the Bartleet Group, which has evolved into a conglomerate over its 100 year history. Further, BFL completed 25 years in November 2008.

Despite its limited geographical reach (with 6 branches outside Colombo) and the deteriorating economic conditions, the Company has exhibited aggressive growth. BFL's asset base expanded 33.86% in FY Mar 2008 (industry: 24.28%), spurred on by heavy lending. Meanwhile, its gross non-performing-loan ("NPL") ratio ameliorated from 4.44% (industry: 4.46%) as at end-FY Mar 2007 to 3.21% (industry: 6.54%) as at end-FY Mar 2008, supported by write-offs and improved recovery efforts. Moreover, provisions exceeded gross NPLs, resulting in an NPL coverage of 109.32% as at end-FY Mar 2008 (end-FY Mar 2007: 118.54%). However, the Company now follows the Central Bank's Direction 3 with regard to provisioning; going forward, loan-loss provisions are expected to moderate but still remain better than the industry average. Furthermore, as the Company has been expanding its loan portfolio amid deteriorating economic conditions, RAM Ratings opines that its asset quality will wane over the medium term, but remain better than the industry's due to BFL's tight monitoring regime.

In the meantime, the Company's expanding loan base had helped augment its interest income by 33.32% in FY Mar 2008. Nonetheless, interest expenses outpaced income, surging 74.75% and crimping its net interest margin ("NIM") to 12.07% as at end-FY Mar 2008 (end-FY Mar 2007: 14.38%). Furthermore, inflationary pressures and heavy expenditure on promotional activities were reflected in a deteriorating cost-to-income ratio of 79.12% (end-FY Mar 2007: 67.01%). The hefty overheads eroded BFL's profits, which dipped from LKR 64.65 million to LKR 61.84 million over the year. In tandem with this, its returns on assets ("ROA") and returns on equity ("ROE") weakened to 2.42% (end-FY Mar 2007: 3.13%) and 19.40% (end-FY Mar 2007: 23.32%), respectively.

The Company's promotional activities helped augment its deposit base by 48.10% in FY Mar 2008. As such, BFL's funding levels are considered moderate. Moreover, external borrowings as a portion of total funding improved to 9.44% as at end-FY Mar 2008 (end-FY Mar 2007: 13.21%). BFL's statutory liquid-asset ratio, which stood at 18.92% as at end-FY Mar 2008, was above the regulatory

minimum of 15%. However, RAM Ratings observes the widening asset-liability maturity gap in the “less than 1 year” bucket. As such, our concerns hinge on the lack of a formal asset-liability management process.

Elsewhere, BFL’s overall risk-weighted capital-adequacy ratio (“RWCAR”) slipped to 13.99% as at end-FY Mar 2008 (end-FY Mar 2007: 15.71%), due to the expansion of its loan base. Nonetheless, this was still above the regulatory minimum of 10%. On the other hand, the Company’s weakening performance and hefty dividend payouts affected its internal capital generation (FY Mar 2008: 11.53%; FY Mar 2007: 16.70%). On a more positive note however, provisions exceeded gross NPLs, thereby providing a cushion against possible deterioration in asset quality.

Outlook

The stable outlook on the long-term rating reflects RAM Ratings’ expectations that BFL’s asset quality will come under pressure, but remain better than the industry average, with the bulk of its funding still sourced from deposits. In addition, the Company’s adequate NPL provisioning is expected to provide a cushion against any spike in loan defaults.

However, the ratings could be revised downwards if BFL’s financial performance deteriorates notably, its short-term negative liquidity gap widens in the absence of any contingency lines, and its gross NPLs weaken beyond industry levels.

Although an upward revision of the ratings is unlikely in the medium term, it could materialise if the Company’s performance improves while consistently maintaining its asset quality over a period of 3 years. Furthermore, a formal asset-liability management process should be adopted, and systems and controls instituted to identify and mitigate both internal and external risks.

Corporate Profile

BFL completed 25 years in operation, in November 2008. As an RFC, it comes under the regulatory ambit of the Central Bank of Sri Lanka (“Central Bank”) and is licensed under the Finance Companies Act No. 78 of 1988, and the Finance Leasing Act No. 56 of 2000.

The Company, headquartered in Colombo, has 6 branches with a total staff strength of around 165 employees. Moving forward, the Company will open a branch in Kandy by January 2009.

While leasing and hire-purchase (“HP”) still remain the Company’s mainstay, it also has a diverse loan portfolio, which includes pledge loans, cheque discounting, and letters of credit. In terms of funding, it accepts public deposits.

Ownership

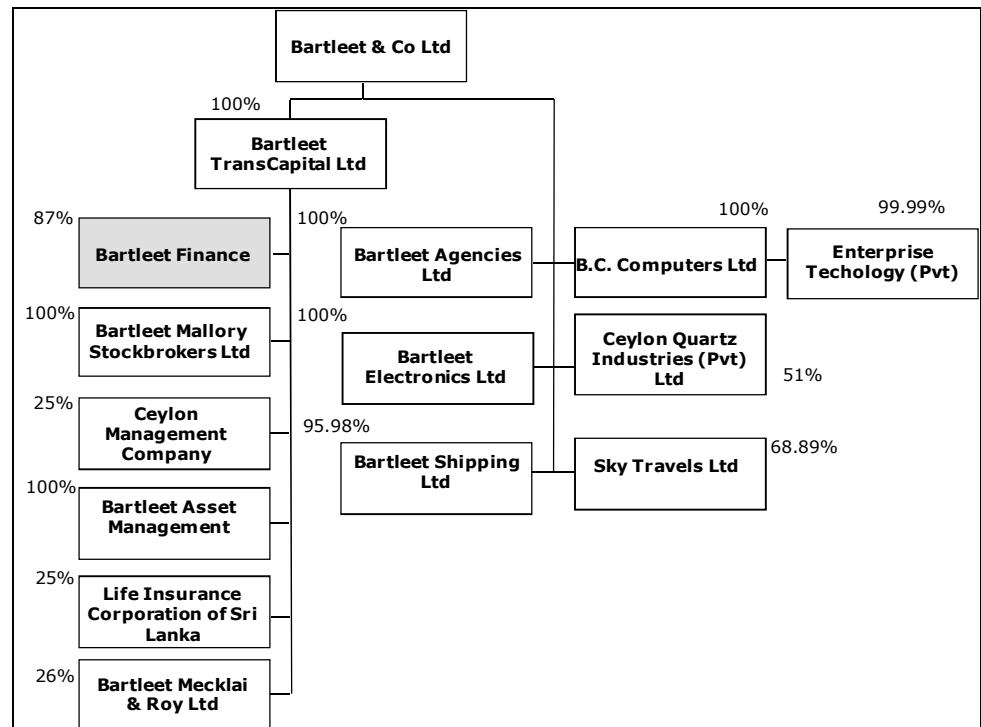
BFL is a subsidiary of Bartleet TransCapital Ltd (“BTCL”), which was incorporated in September 2004 and is the financial-services arm of the Bartleet Group (refer to Chart 1). BFL had previously been a direct subsidiary of Bartleet & Company Limited (“BCL”), prior to a reorganisation in 2005. BCL, having started as a tea-brokering company in 1904, has evolved into a conglomerate with interests in information technology, commodity brokering, financial services, trading and plantation services.

**Subsidiary of
respected
conglomerate**

Reputable and experienced owners

BCL became a fully owned local enterprise in 1958; the Chairman and Managing Director at that time was Mr Mallory Wijesinghe. The Company is now under the ownership of the Wijesinghe family, with Mr Eraj Wijesinghe chairing the Board. Mr Wijesinghe is a prominent business personality; he had previously been the Chairman of the Colombo Stock Exchange and had also been a board member of the Financial Sector Reforms Committee. In addition, he had served on the boards of the Bank of Ceylon and BCC Lanka Limited, as well as Merchant Bank of Sri Lanka (RAM Ratings AA-/P1) and United Motors Lanka Limited.

Chart 1: Bartleet Group structure



Management & Strategies

The management team of BFL is still led by the Managing Director (“MD”), Mr Susantha Fernando. Mr Fernando, who has been with the Company since its founding, is mainly supported by 2 other directors, Mr Susantha De Alwis and Mr Buwaneka Subasinghe.

BFL continues to place emphasis on monitoring and recovery. Despite the difficult economic conditions, the Company has been expanding aggressively, and intends to stay on this path over the medium term. However, RAM Ratings considers maintaining both, asset quality and loan growth, would be a challenge. As such, the Company’s robust monitoring and recovery procedures will be tested. Meanwhile, a separate legal division has been formulated to improve recovery efforts. This is under the direct purview of Mr Susantha De Alwis, who also oversees collections and recoveries. The Company also conducts weekly meetings to monitor its portfolio and recovery efforts. The weekly arrears report is monitored closely, and forms the basis for recoveries. In tandem with this, recoveries officers are also monitored to ensure that they achieve their targets.

In the last year, BFL has invested heavily in its information technology (“IT”) infrastructure. Plans to connect its branches to the central office in Colombo are being gradually implemented. The Company has already purchased a server and has also upgraded the existing machines in this regard. Furthermore, the

Focused on monitoring and recoveries

Heavy investments in IT

Real-estate exposure to remain small

services of an IT consultant have been enlisted, to enhance the current software. Going forward, the management expects to further harness IT to streamline BFL's operations.

Meanwhile, BFL is still involved in real-estate, albeit in a limited way. The Company intends to keep its real-estate exposure small, at between 1% and 2% of its asset base. As such, RAM Ratings is not overly concerned.

Corporate Governance

The Company's Board consists of 8 members and is chaired by Mr Eraj Wijesinghe, who is also a member of the board of BTCL, the parent. The board of BTCL, which is chaired by Deshamanya AS Jayawardena, consists of 6 members, 4 of whom also hold positions on the Board of BFL. The Board meets monthly to review the progress of the Company. A group-level finance committee supervises audit-related issues; apart from this committee, the Company lacks any formal working group to monitor internal controls. This, along with the absence of a credit committee, remains a concern to RAM Ratings.

On another note, BFL's loans and advances to related parties amounted to LKR 4.47 million as at end-FY Mar 2008, representing only 1.33% of its capital funds.

Asset Quality

Adequate asset quality

BFL's asset quality is deemed adequate in light of its effective monitoring and recovery efforts, and its ameliorating gross NPL ratio. The Company continued its heavy write-offs in FY Mar 2008, as a result of which its gross NPL ratio improved from 4.44% as at end-FY Mar 2007 to 3.21% as at end-FY Mar 2008.

Aggressive growth in asset base...

The Company's balance sheet recorded a year-on-year ("y-o-y") growth of 33.86% in FY Mar 2008, surpassing the industry's 24.28%. In real terms, its asset base had augmented LKR 739.03 million during the year - the highest growth in the last 5 years. This had been fuelled by aggressive loan growth; net loans and advances expanded 26.81% or LKR 448.39 million the same year. Concurrently, the Company's portfolio of cash and securities swelled 53.97%, following investments in government securities worth LKR 119.43 million. Going forward, RAM Ratings expects BFL's loan growth to tone down amid the more challenging economic scenario.

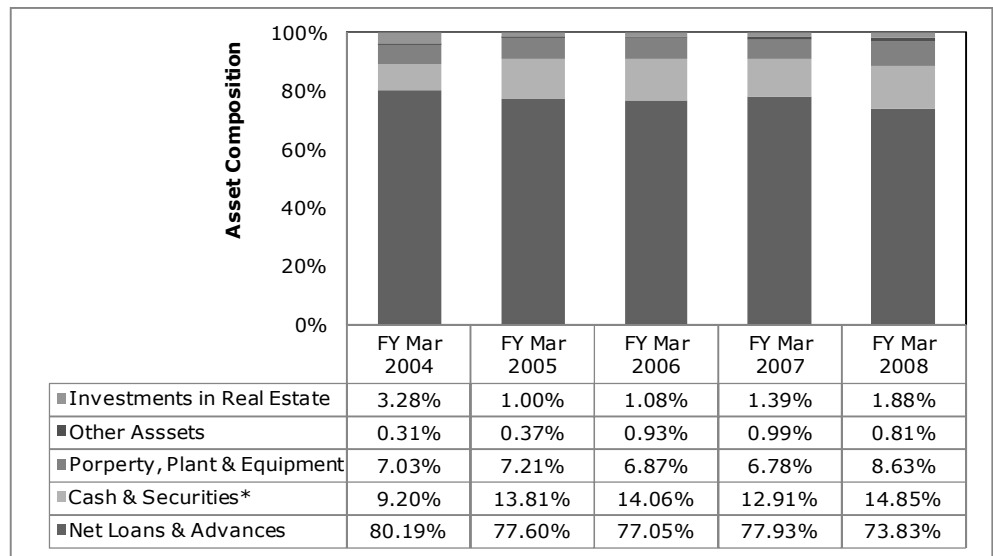
... but composition still unchanged

Even though its balance sheet had experienced buoyant growth, BFL's asset composition remained relatively unchanged. Loans and advances continued to dominate its asset base, making up 73.83% as at end-FY Mar 2008 (end-FY Mar 2007: 77.93%). Meanwhile, cash and securities (14.85%), real-estate investments (1.88%), property and equipment (8.63%), and other assets (0.81%) took up the remainder (refer to Chart 2) as at the same date. Investments in quoted and unquoted shares remained minimal - 1.43% of BFL's assets.

HP segment drives growth

Better asset quality due to write-offs and recoveries

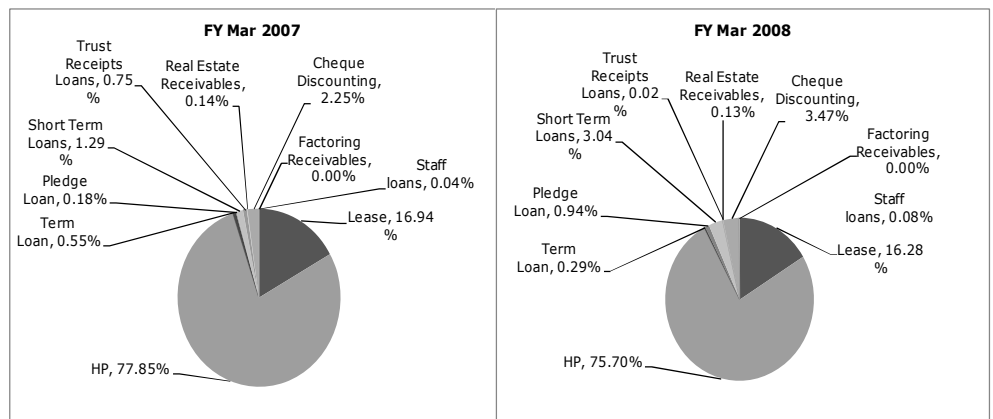
Chart 2: BFL's asset composition



* Includes dealing and investment securities

The growth in BFL's lending portfolio, which expanded by LKR 448.39 million in FY Mar 2008, continued to be driven by HP, which appreciated by LKR 302.84 million. Despite this, the composition of its loan portfolio remained unchanged as other loan segments had also grown in tandem. HP advances, however, still comprised the bulk of the Company's portfolio (75.70%) as at end-FY Mar 2008 (refer to Chart 3). Leases came in second, taking up 16.28%, while short-term loans increased their share from 1.29% as at end-FY Mar 2007 to 3.04% as at end-FY Mar 2008. Furthermore, loan concentration remained low, as advances greater than 5% of shareholders' funds only consisted of 7.00% of BFL's net loans. Going forward, RAM Ratings opines that HP will continue dominating the Company's loan portfolio, followed by leases.

Chart 3: BFL's loan composition



The default rate of the expanding HP segment remained relatively steady, at 1.90% as at end-FY Mar 2008 (end-FY Mar 2007: 1.89%). Furthermore, BFL's gross NPL ratio had improved to 3.21% for the same period (end-FY Mar 2007: 4.44%), on the back of continued heavy write-offs, effective collection and recovery efforts, and an expanding loan base. Meanwhile, the default rate on leases also improved, to 1.81% as at end-FY Mar 2008 from 4.54% a year earlier, as a result of the write-offs. The Company's gross NPL ratio remained

better than the industry average of 6.54% and also its peers' 4.59% as at the same date (refer to Chart 4). In absolute terms, its gross NPLs declined to LKR 71.78 million (end-FY Mar 2007: LKR 79.71 million). The incidence of new NPLs¹ improved to 1.71% as at end-FY Mar 2008, from 3.51% a year earlier (refer to Table 1). Going forward, however, RAM Ratings expects BFL's asset quality to wane in light of the challenging macroeconomic conditions.

Chart 4: BFL's gross NPL vs the industry and its peers

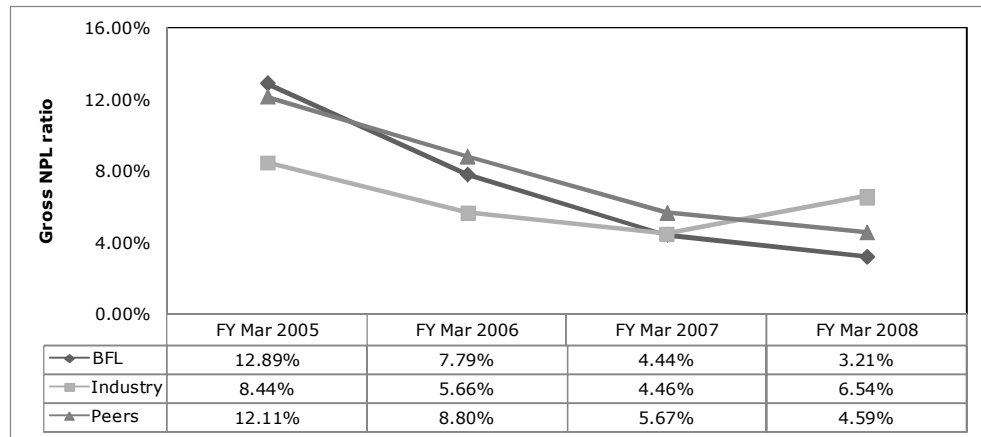


Table 1: Summary of BFL's NPL movements

	FY MAR 2006	FY MAR 2007	FY MAR 2008
Brought Forward	185.68	122.18	79.71
Add:			
New NPL	22.61	62.71	50.88
Less:			
Rescheduled	(0.84)	(2.98)	(0.79)
Write-off	(56.88)	(32.76)	(31.32)
Recoveries	(28.39)	(69.42)	(26.70)
Carried Forward	122.18	79.71	71.78

Write-offs mainly from loans granted over last 2-5 years

Loans written-off during FY Mar 2008 amounted to LKR 37.96 million – including loss on disposal of repossessed stock. RAM Ratings notes that 53.05% of the write-offs were for loans disbursed during 2003 and 2004. Moreover, 40.47% of the write-offs were for loans granted in 2005 and 2006 - a period of prolific growth. The remaining (6.47%) write-offs were for loans granted prior to 2002. In the case of leases and HP, the loans written off had already been provided for more than 2 years. In addition, the bulk of the loans (87.91%) written off had an outstanding balance of less than LKR 1 million each.

Standard evaluation process

The low-denomination loans reflect the Company's portfolio mix, which mainly consists of individuals and small and medium-sized enterprises. As such, BFL's loan-evaluation process entails minimal formal documentation; a large part of the assessment procedure depends on qualitative factors. The Company has a prescribed credit-evaluation process, in line with industry norms; this includes a background check on the borrowers, obtaining their credit history from the Credit Information Bureau, and independent valuations by registered valuers.

¹ New NPL incidence ratio = (New NPLs – Rescheduled NPLs) / (Average gross loans)

Effective monitoring and recovery procedures

We note that BFL's evaluation process is supported by an effective monitoring and recovery team. Recovery efforts are reviewed on a weekly basis, keeping close tabs on the NPLs. Going forward, however, RAM Ratings expects monitoring and recovery to be stressed as the Company has expanded rapidly amid a deteriorating economic environment.

Healthy provisioning

In line with RAM Ratings' expectations, the Company's provisioning level weakened in FY Mar 2008, but yet remained healthy. Gross NPL coverage thinned from 118.54% as at end-FY Mar 2007 to 109.32% as at end-FY Mar 2008. The Company, which had followed Direction 1² on loan-loss provisioning, has adopted the Central Bank's new Direction 3². Although the new Direction provides the Company with an option to deduct the value of seized vehicles when arriving at provisioning, BFL has not opted for this; RAM Ratings considers this prudent basis of provisioning more positively. However, we expect provisioning levels to dip further owing to BFL's weakening asset quality, albeit still healthy in comparison to the industry.

Real-estate investments remain negligible

BFL's real-estate investments remained modest in FY Mar 2008, accounting for only 1.88% of its total assets (end-FY Mar 2007: 1.39%). However, RAM Ratings notes that the Company expects to increase its investments in real estate, although still remain nominal.

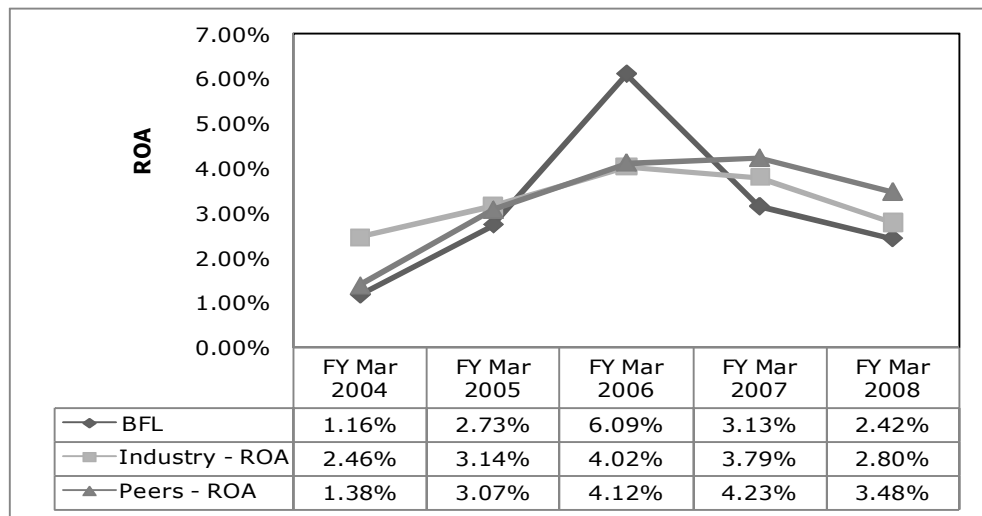
Overall, BFL has expanded aggressively amidst the deteriorating economic conditions. Prospectively, RAM Ratings expects recovery efforts to be challenging while its asset quality is likely to weaken, albeit still better than industry average.

Performance**Moderate performance**

Despite its better-than-industry NIM, the Company's performance is considered moderate due to contracting margins and hefty overheads. Its NIM of 12.07% as at end-FY Mar 2008 was superior to the industry average of 6.63%. Nonetheless, hefty overheads, as reflected by a high cost-to-income ratio of 79.12% (industry: 66.33%), had eroded BFL's profitability. Consequently, its ROA deteriorated to 2.42%, somewhat weaker than the industry average of 2.80% (refer to Chart 5).

² Refer page 15 for Central Bank regulations

Chart 5: BFL's ROA vs the industry and its peers



Interest-earning assets: major source of income assets

BFL continues to derive a major portion of income from interest-bearing sources, which accounted for 89.97% of its gross income in FY Mar 2008. Income from HP made up 64.04% of interest income for the same period, followed by lease income (12.48%). In addition, overdue interest made a significant contribution to interest income (10.54%). RAM Ratings expects BFL's income composition to remain unchanged over the short to medium term, as the Company intends to focus on loan products.

Rising interest income...

BFL's expanding loan base had helped augment its interest income by 33.32% or LKR 169.25 million in FY Mar 2008. In line with this, the Company's ratio on interest income against interest-bearing assets improved to 29.61% (end-FY Mar 2007: 27.07%).

...outpaced by soaring interest expenses

Meanwhile, interest expenses surged 74.75% or LKR 157.96 million in FY Mar 2008; the bulk of these expenses stemmed from fixed deposits (81.54%). As a result of rising interest rate environment, the majority of the deposits have shorter tenures and hence are re-priced faster. This exposes the Company to interest-rate risk (as discussed in Funding & Liquidity). In tandem with this, BFL's ratio on interest expenses over interest-bearing funds worsened to 19.00% as at end-FY Mar 2008 (end-FY Mar 2007: 13.33%). As such, its interest differential³ contracted to 10.62%, compared to 13.74% a year earlier (refer to Table 2).

Table 2: BFL's interest income and expense yields

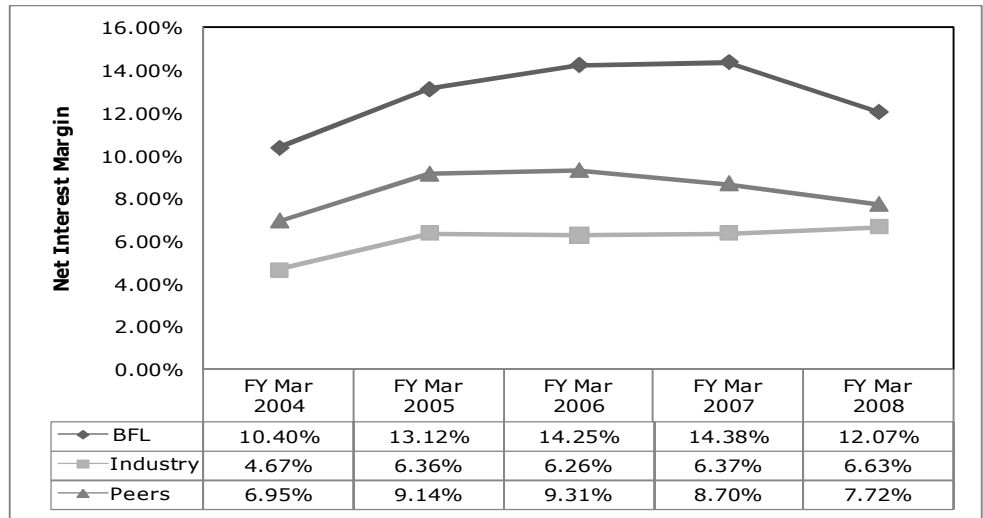
	FY Mar 2004	FY Mar 2005	FY Mar 2006	FY Mar 2007	FY Mar 2008
Interest Income/Interest Earning Assets (av.)	25.03%	26.40%	26.68%	27.07%	29.61%
Interest Expense/Interest Bearing Funding (av.)	14.33%	13.31%	12.81%	13.33%	19.00%
Interest Differential	10.70%	13.09%	13.88%	13.74%	10.62%

Weakening NIM, but still better than industry's

Contracting interest differentials weakened the Company's NIM, which was squeezed from 14.38% as at end-FY Mar 2007 to 12.07% as at end-FY Mar 2008. However, this was still superior to the industry average of 6.63% (refer to Chart 6). Going forward, RAM Rating expects BFL's NIM to wane as interest expenses continue climbing amid the high interest rate environment, but remain better than the industry averages.

³ Interest differential = Interest income over interest-earning assets – Interest expense over interest-bearing funds

Chart 6: BFL's NIM vs the industry and its peers



Non-interest income derived from primary activities

On another note, BFL’s non-interest income climbed up 20.58% to LKR 34.33 million in FY Mar 2008 (FY Mar 2007: LKR 28.47 million). Insurance commission amounted to LKR 7.23 million while service charges came up to LKR 14.82 million. On the other hand, income from real-estate sales declined LKR 3.26 million to LKR 2.16 million, contributing only 6.26% of its non-interest income (FY Mar 2007: 19.29%). After the completion of the Company’s Kalutara office complex by April 2009, BFL will also be able to benefit from rental income in future.

Hefty overheads erode profits

Overall, the Company’s gross income improved LKR 17.15 million in FY Mar 2008. Nonetheless, this was offset by hefty overheads which eroded profits - its pre-tax profit dipped by 4.34% to LKR 61.84 million. BFL’s cost-to-income ratio deteriorated from 67.01% in FY Mar 2007 to 79.12% in FY Mar 2008. Overheads had been driven up by increased expenditure on promotional activities with regard to the Company’s 25th anniversary, as well as its deposit and credit products. Promotional expenditure amounted to LKR 53.03 million (19.58% of total overheads) in FY Mar 2008 (FY Mar 2007: LKR 24.06 million, 11.04% of total overheads); advertising expenses tripled from LKR 9.16 million to LKR 28.80 million. We note that inflation had also contributed to the elevated outflows. Meanwhile, personnel expenses accounted for 26.61% of BFL’s overheads as at end-FY Mar 2008 (end-FY Mar 2007: 28.58%). RAM Ratings views the Company’s deteriorating cost-to-income ratio with concern. Prospectively, we expect this ratio to remain moderate as inflation is seen to continue unabated.

In the meantime, provisions were reduced by LKR 32.98 million, supported by BFL’s effective monitoring and recovery efforts. However, this failed to make a positive impact on profits, which were also squeezed by taxes amounting to LKR 12.75 million in FY Mar 2008. As a result, BFL’s profit after tax fell 24.05% to LKR 49.10 million.

Going forward, RAM Rating expects BFL’s performance to remain suppressed by hefty overheads and contracting margins.

Moderate liquidity and funding levels

Deposits - main source of funding

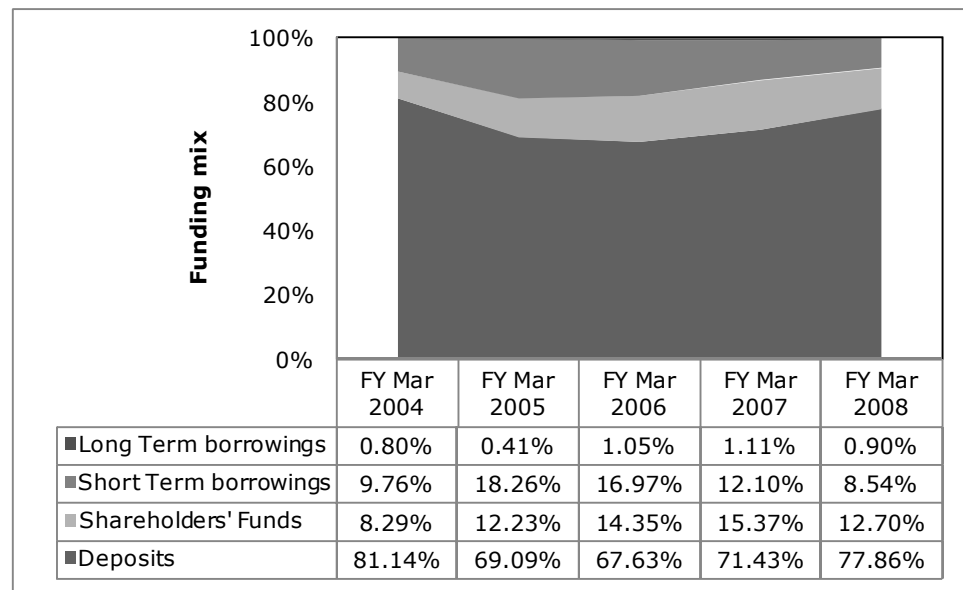
Accentuated need for asset-liability management

Funding & Liquidity

BFL’s funding and liquidity levels remained moderate in FY Mar 2008. The Company’s deposit base broadened 48.10% while the ratio of external borrowings against its funding base improved to 9.44% as at end-FY Mar 2008 (end-FY Mar 2007: 13.21%). Furthermore, the Company’s statutory liquid-asset ratio ascended from 17.64% (end-FY Mar 2007) to 18.92% (end-FY Mar 2008). Even so, RAM Ratings’ concern continues to hinge on the lack of a formal asset-liability management process.

Meanwhile, public deposits remained BFL’s chief source of funding. Promotional activities had helped augment its deposit base, which gained 48.10% y-o-y to LKR 2.07 billion as at end-FY Mar 2008. Deposits took up the lion’s share of its funding (77.86%), followed by shareholders’ funds (12.70%), short-term loans (8.54%) and long-term borrowing (0.90%) (refer to Chart 7). Notably, the Company’s deposit base remained fairly diversified, with its top 20 depositors accounting for only 13.65% of its total deposits. RAM Ratings opines that BFL’s funding mix will remain unchanged over the short to medium term, as the Company focuses on attracting public deposits.

Chart 7: BFL's funding mix



In relation to the above, we note that the bulk of its deposits had shorter tenures, therefore exposing BFL to significant interest-rate and liquidity risks. This was reflected in the Company’s widening asset-liability mismatch in the “less than 1 year” bucket (refer to Table 3). RAM Ratings reiterates the need for a formal asset-liability management process in this context. Meanwhile, BFL has limited stand-by credit lines; it has a LKR 60 million overdraft facility from Seylan Bank.

Table 3: BFL's maturity statement on assets and liabilities

Maturity Bucket	FY Mar 2008				FY Mar 2007			
	Interest Earning Assets	Interest Bearing Liabilities	Gap	Cumulative Gap	Interest Earning Assets	Interest Bearing Liabilities	Gap	Cumulative Gap
Less than 1 Year	658.18	1,633.21	(975.03)	(975.03)	172.07	881.18	(709.10)	(709.10)
1 to 3 Years	1,201.06	574.02	627.04	(347.99)	953.03	514.79	438.24	(270.87)
More than 3 Years	675.44	0.00	675.44	327.45	575.91	0.00	575.91	305.04
Total	2,534.68	2,207.23	327.45		1,701.01	1,395.97	305.04	

Prospectively, RAM Ratings expects BFL's funding and liquidity positions to remain moderate, given the Company's funding strategy and the lack of a formal asset-liability management system.

Capital Adequacy

Moderate capital levels

Overall, RAM Ratings considers BFL's capital adequacy to be moderate. Even though its NPLs had been fully provided for, its statutory capital-adequacy ratio had waned somewhat to 13.15% as at end-FY Mar 2008. In addition, the Company's moderate financial performance and generous dividends had also suppressed its internal capital generation.

Capital adequacy weakened but above statutory requirement

As a result of its expanding loan base, BFL's tier-1 RWCAR and overall RWCAR waned to 13.15% (end-FY Mar 2007: 14.64%) and 13.99% (end-FY Mar 2007: 15.71%), respectively, as at end-FY Mar 2008. However, these were above the corresponding statutory requirements of 5% and 10%.

Prudent provisioning measures

Meanwhile, BFL's provisioning is deemed prudent as it had provided in excess of its gross NPLs. As such, its net NPL-to-shareholders' funds ratio stood at -1.98% as at end-FY Mar 2008, compared to -4.92% a year earlier. RAM Ratings views this positively, as it provides an additional cushion against any deterioration in asset quality. Nonetheless, the negative net NPL ratio is seen as a temporary occurrence owing to the heavy provisions made in FY Mar 2006. Moving forward, BFL's net NPL-to-shareholders' funds ratio is expected to weaken, albeit remain at comfortable levels.

Weak internal capital generation

The Company's internal capital generation weakened to 11.53% as at end-FY Mar 2008 (end-FY Mar 2007: 16.70%), as a result of the high overheads and thinning margins. We note that its internal capital generation had been further hampered by generous dividends (dividend payout ratio: 25.15%).

Going forward, RAM Ratings expects BFL's capitalisation to remain moderate due to weak internal capital generation. The Company has in fact approved a rights issue of LKR 6 million, which has been put on hold because of the tough economic climate.

Industry Overview

Sri Lanka's gross domestic product ("GDP") is estimated to have expanded by 7.00% in the second quarter of 2008, compared to 6.4% in the previous corresponding period. While the growth of the agriculture and services sectors had accelerated during this span, the industrial sector's pace had slowed down (refer to Table 4).

The enhanced performance of the agriculture sector had been driven by increased production levels, supported by favourable weather conditions and prices as well as more land for cultivation. The deceleration of the industrial sector, on the other hand, had been mainly due to the slowdown in the manufacturing sub-sector, particularly within the textiles, garments and leather industries. Meanwhile, the expansion in services was underscored by the transport and communication sub-sectors even while banking, insurance and real estate had lost momentum.

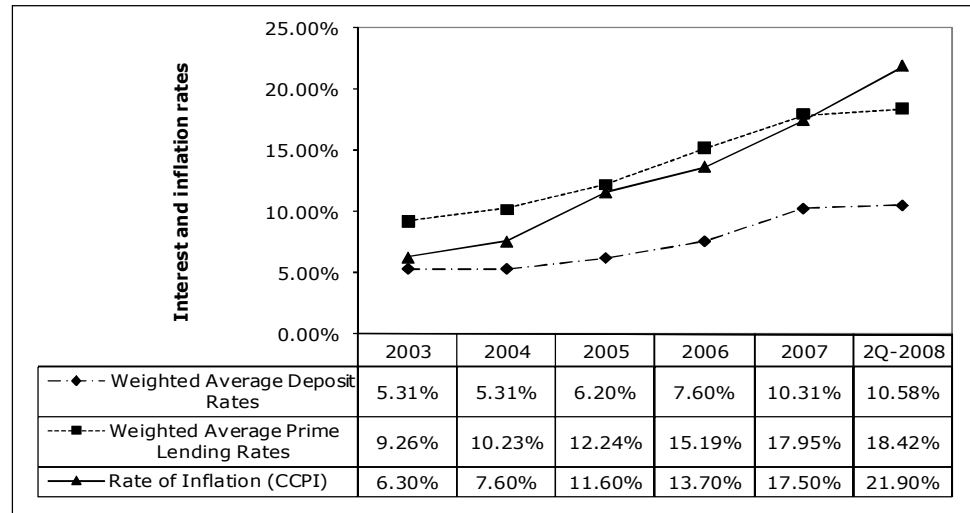
Table 4: Overall and sectoral GDP growth

At constant 2002 prices	2Q 2007	2Q 2008
Agriculture	3.7%	7.4%
Industry	7.5%	6.9%
Services	6.5%	6.9%
Total	6.4%	7.0%

In the meantime, the rate of inflation has remained high; despite the implementation of the Central Bank's tight monetary policies in the first half of 2008, the Colombo Consumer Price Index ("CCPI") still trended upwards in the period. The CCPI, which hit an all-time high of 28.2% in June 2008, has now shown signs of deceleration - indicating that the monetary measures are yielding results, albeit with a lag effect. Looking ahead, inflation is expected to remain significant, but is likely to moderate somewhat owing to the easing international oil prices.

Concurrently, interest rates too are expected to remain elevated amid the inflationary pressures (refer to Chart 8), fuelled by the government's domestic borrowings to bridge the expanding national budget deficit. Meanwhile, the widening gap is mainly attributable to the increase in defence and non-productive recurrent expenditure.

Chart 8: Trends in interest and inflation rates



Amid this environment of high inflation and lofty interest rates, the asset quality of the RFC sector has deteriorated significantly. RFCs’ inherent exposure to the sub-prime sector increases the industry’s vulnerability to economic vagaries. On this note, rising loan delinquencies had weakened the industry’s average gross NPL ratio from 4.46% as at end-FY Mar 2007 to 6.54% as at end-FY Mar 2008. In an attempt to curb rising NPLs, RFCs have curtailed lending and adopted consolidation strategies, which have resulted in an industry-wide deceleration in portfolio growth. Consequently, the industry’s loan growth almost halved from 33.07% y-o-y in FY Mar 2007 to 16.00% y-o-y in FY Mar 2008. To minimise exposure to credit risks, RFCs are introducing short-term, small-denomination loans while minimising their exposures by increasing borrowers’ contributions. These strategies are expected to curtail RFCs’ exposures to interest-rate and credit risks.

In tandem with the above, monitoring and recovery efforts have become more stringent. Most RFCs now take action to repossess collateral (mostly vehicles) as soon as debt servicing exceeds 3 months in arrears. Therefore, RAM Ratings notes an accumulation of seized vehicle stocks. In this respect, the quality of collateral takes centre stage vis-a-vis recouping outstanding advances.

In addition, competition from commercial banks has also increased, as they too have ventured into the vehicle-financing business, which is the key business segment of RFCs. This highlights the inherent product-concentration risk in the RFC business model.

Against this backdrop, RAM Ratings observes a shift in RFCs’ asset mix, from lending to other non-interest-earning business pursuits such as trading in real estate. However, our concerns hinge on the weakening property market; the high yields offered on financial assets are diverting investments from real assets, hence subduing demand for real estate and heightening market risk. Moreover, investments in real estate expose RFCs to liquidity risk; this is because real-estate stocks are less liquid, render cashflow unpredictable and incur holding costs. As such, real-estate assets introduce myriad risks to financial institutions.

On the funding side, the deposit structure has tilted towards shorter tenures as depositors seek to take advantage of the volatile interest-rate environment. Consequently, many RFCs face a widening negative liquidity gap in the short term. As such, deposit franchise and asset-liability management become crucial. Although RFCs are now allowed to offer savings accounts, they are still at a

disadvantage as they lack the infrastructure vis-à-vis branches and automated teller machines to effectively compete against commercial banks. Moreover, market liquidity has waned due to the Central Bank's tight monetary policy, thereby potentially restricting institutional funding. All these factors have elevated the liquidity and interest-rate risks of RFCs.

The weakening economic climate is weighing down the financial performance of the RFC sector as a whole. Consequently, the industry's ROA declined from 3.79% as at end-FY Mar 2007 to 2.80% as at end-FY Mar 2008; this trend is expected to persist over the medium term. While the environment of lofty interest rates is squeezing interest margins at one end, mounting inflationary pressure is pushing up overheads at the other. Furthermore, rising delinquencies are narrowing portfolio yields and increasing pressure on bottom lines via heftier provisioning. RAM Ratings further notes that RFCs involved in housing and real-estate development tend to recognise trading profits upfront; this clouds profit comparisons with other RFCs, which offer only financing products.

Capitalisation-wise, although the RFC industry's overall risk-weighted capital adequacy has improved slightly, rising defaults have weakened the industry's ratio on net NPLs to shareholders' funds, from 10.48% (end-FY Mar 2007) to 18.08% (end-FY Mar 2008). In addition, we note that some of the smaller RFCs have been unable to comply with the Central Bank's minimum core-capital requirement of LKR 200 million, and may face regulatory action.

On a separate note, the Central Bank has enforced a *Direction on Corporate Governance of Finance Companies*, which will come into effect on 1 January 2009. As per transitional provision, however, a 3-year extension has been granted for full compliance. These directions are envisaged to instil more discipline vis-a-vis board responsibility and overall risk management of RFCs.

Relevant Central Bank Directions Applicable to Registered Finance Companies

<p>Liquid assets</p>	<p>Every finance company must have a minimum holding of liquid assets at any given time. Liquid assets mean:</p> <ol style="list-style-type: none"> a) Cash in hand. b) Balances in a current or deposit account in a commercial bank, free from any banker’s lien or charge. c) Sri Lankan Government Treasury Bills, free from any charge or lien. d) Sri Lankan Government Securities maturing within 1 year and free from any charge or lien. e) Central Bank securities maturing within 1 year and free from any charge or lien. f) Cash balance, if any, maintained with the Central Bank. <p>The minimum limits are as follows:</p> <ol style="list-style-type: none"> 1. For time deposits, 15% of outstanding deposits. 2. For certificates of deposits, 15% of the face value of the certificates. 3. For savings deposits, 20% of the outstanding deposits. <p>The companies should maintain the liquid assets in the form of (c), (d) and (e) above, equivalent to 10% of its average month-end deposit liabilities of the preceding financial year.</p>
<p>Provision of bad and doubtful debts</p>	<p>Every finance company had been required to follow either one of the following directions on provisioning for bad and doubtful debts until 1 April 2007:</p> <p><u>Direction No. 1 of 1991</u></p> <p>Bad and doubtful debts provided for under this direction are subject to a minimum of:</p> <ol style="list-style-type: none"> (a) 50% of all advances in arrears for a period of 7 to 12 months. (b) 100% of all advances in arrears for 13 months or more. <p>A company may deduct the value of land and buildings held as collateral for a particular advance, in arriving at the provision figure under both (a) and (b) above, subject to the following conditions:</p> <ol style="list-style-type: none"> 1. The value so deducted should not exceed the value decided by a professional valuer at the time of granting the advance. 2. In the case of residential properties occupied by the borrower or a tenant, there should be an agreement to grant vacant possession in the event of the sale of such property. <p><u>Direction No. 2 of 1991</u></p> <p>Bad and doubtful debts provided for under this direction are subject to a minimum of:</p> <ol style="list-style-type: none"> (a) 50% of all advances in arrears for a period of 12 to 24 months. (b) 100% of all advances in arrears for more than 24 months. <p>A new directive came into effect on 1 April 2007 (Direction No. 3 of 2006); this is very similar to Direction 1. However, Direction 3 requires all finance companies to follow a more stringent formula in the calculation of collateral value that is deductible for provisioning purposes.</p>

	<p>With effect from 1 April 2007, Direction No. 3 of 2006 will be applicable to every RFC and will replace Directions 1 and 2.</p> <p><u>Direction No. 3 of 2006</u></p> <p>Bad and doubtful debts provided for under this direction are subject to a minimum of:</p> <ul style="list-style-type: none"> (a) 50% of all advances in arrears for a period of 6 to 12 months. (b) 100% of all advances in arrears for 13 months or more. <p>A finance company may deduct the value of the following items held as collateral in arriving at the amount of provisioning;</p> <ol style="list-style-type: none"> 1. Sri Lankan Government securities, free from any lien or charge. 2. Central Bank securities, free from any lien or charge. 3. Time deposits in a licensed commercial bank, specialised bank or RFC, free from any lien or charge. 4. Bank guarantees. 5. With regard to repossessed vehicles and machinery, 80% of the valuation obtained in the preceding 6 months and by an approved valuer. 6. With regard to mortgaged land and buildings that are held as collateral, if the accommodation has been in arrears for a period of: <ol style="list-style-type: none"> a) 6-36 months, 100% of the value is deductible b) 37-60 months, 80% of the value is deductible c) 61-120 months, 50% of the value is deductible d) more than 120 months, 0% of the value is deductible
<p>Capital adequacy</p>	<p>Every finance company must maintain a minimum total risk-weighted capital-adequacy ratio of 10% in relation to its risk-weighted assets. The constituents of the capital are divided into:</p> <ul style="list-style-type: none"> (a) Tier I - Core Capital <p>This represents permanent shareholders' equity and reserves created or increased by appropriation of retained earnings or other surpluses, including share premiums, retained profits and other reserves. The core-capital ratio should constitute not less than 50%, i.e. this has to be at least half, of the total risk-weighted capital-adequacy ratio.</p> <ul style="list-style-type: none"> (b) Tier II - Supplementary Capital <p>Represents revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as hybrid capital instruments and unsecured subordinated debts. Supplementary capital should not exceed 100% of the core capital.</p> <p>The Central Bank also issues guidelines from time to time, to be used in computing total risk-weighted assets.</p>
<p>Single-borrower limit</p>	<p>In the case of an individual borrower, the maximum of a single advance or the aggregate of advances granted to, and the aggregate outstanding at any time on advances granted to, should not exceed 15% of the capital funds of the finance company.</p> <p>This limit is 20% for any group of corporate or unincorporated borrowers with common directors or common partners or common proprietors.</p> <p>Capital funds generally mean paid-up capital and permanent free reserves, and may include unsecured debentures and other loan stocks if approved by the Monetary Board.</p>

<p>Minimum core-capital requirement</p>	<p>Every finance company must at all times maintain an unimpaired core capital of LKR 200 million. However, companies that could not meet this requirement by February 2006 had been granted a 30-month extension, subject to the following:</p> <p>(a) A finance company with a core capital of less than LKR 100 million must:</p> <ol style="list-style-type: none"> 1. enhance its core capital to at least LKR 100 million by February 2007; and 2. bring the remaining LKR 100 million or the deficit up to the core-capital requirement of LKR 200 million by July 2008. <p>(b) A finance company with a core capital of between LKR 100 million and LKR 200 million must bring in:</p> <ol style="list-style-type: none"> 1. at least 50% of the deficient amount to meet the core-capital requirement of LKR 200 million by February 2007; and 2. the balance of the deficient amount up to the core capital requirement of LKR 200 million by July 2008.
<p>Investments</p>	<p>A finance company must not invest in the shares of any company</p> <p>(a) In excess of 5% of its capital funds, provided that such investment does not exceed 40% of the issued share capital of the investee company</p> <p>(b) In aggregate, in excess of 25% of the capital funds of the finance company</p> <p>Capital funds generally mean paid-up capital and permanent free reserves, and may include unsecured debentures and other loan stocks if approved by the Monetary Board.</p>

Corporate Information

Date of Incorporation:	30 November 1983		
Commencement of Business:	1983		
Major Shareholders:	M/s Bartleet TransCapital Ltd	87%	
	Mr SFH Fernando	3%	
	Mr Mallory Eraj Wijesinghe	2%	
	Mr Percy Abeywardena	2%	
	Europa Finance & Investment (Pvt) Ltd	2%	
Directors:	Mr M Eraj Wijesinghe	Chairman	
	Mr Susantha Fernando	Managing Director	
	Mr Sunil Wijesinghe	Director	
	Deshabandu JFA Soza	Director	
	Dr PN Thenabadu	Director	
	Mr DLH Ganlath	Director	
	Mr Buwaneka Subasinghe	Director	
	Mr Susantha de Alwis	Director	
Auditor:	BDO Burah Hathy		
Listing:	Not listed		
Key Management:	Mr M Eraj Wijesinghe	Chairman	
	Mr Susantha Fernando	Managing Director	
	Mr Sampath Nishantha	General Manager	
	Mr Ajith Edhirisinghe	Assistant General Manager	
	Mr Samantha Perera	Assistant General Manager - Finance	
	Mr Nishantha Perera	Assistant General Manager - Admin. & IT	
	Mr Sanjeewa Seneviratne	Assistant General Manger - Fixed Deposits	
Major Subsidiaries and Associates:	None		
Capital History:			
	Year	Remarks	Cumulative Total (LKR million)
			(LKR million)
	1983	Ordinary shares issued	1.5
	1986	Rights issue	2.0
	1987	Rights issue	3.0
	1988	Rights issue	0.5
	1998	Bonus issue	7.0
	2003	Rights issue	15.5
	2004	Rights issue	1.1
	2005	Rights issue	30.6

Financial Summary - Company

BALANCE SHEET (LKR Million)	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	30-Jun-08
ASSETS					
Cash & Money At Call	10.66	99.35	95.33	113.69	56.99
Deposits & Placements With Financial Institutions	85.30	16.35	1.22	8.25	8.46
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00
Securities					
Dealing Securities	76.19	121.22	147.75	267.18	331.00
Investment Securities	29.57	36.41	37.57	44.85	32.74
Gross Loans & Advances	1,254.60	1,596.70	1,802.86	2,243.65	2,370.57
Interest-In-Suspense	0.19	10.28	7.36	8.14	8.91
General Loan Loss Reserves	0.00	0.00	0.00	0.00	0.00
Specific Loan Loss Reserves	121.14	88.74	94.49	78.47	86.95
Net Loans & Advances	1,133.27	1,497.68	1,701.01	2,157.04	2,274.70
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Investment Land and Properties	14.60	21.09	30.30	54.94	59.75
Other Assets	5.43	18.14	21.50	23.54	44.99
Property, Plant and Equipment	105.30	133.58	148.01	252.22	280.82
TOTAL ASSETS	1,460.32	1,943.81	2,182.69	2,921.72	3,089.46
LIABILITIES					
Customer Deposits					
Savings	0.00	0.00	0.00	0.00	0.00
Fixed	918.53	1,197.29	1,395.97	2,067.45	2,256.82
NIDs	0.00	0.00	0.00	0.00	0.00
Interbank Deposits	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	0.00	0.00	0.00	0.00
Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00
Other Borrowing	248.28	318.96	258.12	250.71	210.75
Subordinated Debt & Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Other Liabilities	130.93	173.53	228.30	266.40	259.70
TOTAL LIABILITIES	1,297.74	1,689.79	1,882.38	2,584.55	2,727.27
Paid-up Capital	61.20	61.20	61.20	61.20	61.20
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	55.40	55.40	111.40	111.40	111.40
Statutory General Reserve	18.33	39.07	70.00	81.39	70.00
Retained Profits/(Loss)	27.65	98.35	57.70	83.17	119.58
Total Shareholders' Funds	162.58	254.03	300.31	337.17	362.19
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	1,460.32	1,943.81	2,182.69	2,921.72	3,089.46
COMMITMENTS & CONTINGENCIES	187.00	180.00	190.00	142.00	0.00
TIER 1 CAPITAL	156.54	201.88	284.35	325.29	320.79
CAPITAL BASE	178.35	222.58	305.05	345.99	341.49

Financial Summary - Company

INCOME STATEMENT (LKR Million)	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	30-Jun-08
Interest Income	298.78	414.37	508.00	677.25	198.31
Less: Amortisation Of Premium/(Accretion Of Dis	0.00	0.00	0.00	0.00	0.00
Less: Net Interest Suspended	0.00	0.00	0.00	0.00	0.00
Less: Interest Expense	134.85	171.79	211.30	369.27	130.78
Net Interest Income	163.93	242.58	296.69	307.98	67.53
Non-Interest Income	15.66	21.52	28.47	34.33	12.72
Gross Income	179.59	264.10	325.16	342.31	80.25
Personnel Expenses	37.74	40.94	62.27	72.06	33.76
Other Non-Interest Expenses	59.27	90.94	155.63	198.77	25.85
Loan Loss Provisions	48.47	28.54	42.62	9.64	3.40
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	34.12	103.68	64.65	61.84	17.24
Taxation	0.00	0.00	0.00	12.75	0.00
Profit After Tax	34.12	103.68	64.65	49.10	17.24
Extraordinary Items	0.00	0.00	0.00	0.00	0.00
Prior Year Adjustments	0.00	0.00	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00	0.00
Transfer To Statutory Reserves	0.00	20.74	30.93	11.39	0.00
Transfer To Other Reserves	1.71	0.00	56.00	0.00	0.00
Dividend	6.12	12.24	18.36	12.35	12.35
Retained Profit For The Year	26.29	70.71	(40.65)	25.35	4.89

Financial Ratios - Company

KEY RATIOS (%)	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	30-Jun-08
Profitability					
Net Interest Margin	13.12%	14.25%	14.38%	12.07%	8.99% *
Non-Interest Income Margin	1.25%	1.26%	1.38%	1.35%	1.69%
Cost To Income	54.02%	49.94%	67.01%	79.12%	74.28%
Return On Assets	2.73%	6.09%	3.13%	2.42%	2.29% *
Return On Equity	28.39%	49.78%	23.32%	19.40%	19.32% *
Dividend Payout	17.94%	11.81%	28.40%	25.15%	71.64%
Asset Quality					
Gross NPL Ratio	12.89%	7.79%	4.44%	3.21%	3.55%
Net NPL Ratio	3.58%	2.33%	(0.87%)	(0.31%)	(0.13%)
Specific Loan Loss Provisions For Current Year	4.49%	2.00%	2.74%	1.08%	1.11%
Gross NPL Coverage	74.92%	71.77%	118.54%	109.32%	103.65%
Loan Loss Reserve Coverage	9.66%	5.59%	5.26%	3.51%	3.68%
Liquidity & Funding					
Statutory Liquid Asset Ratio	18.74%	19.95%	17.64%	18.92%	17.57%
Customer Deposits To Total Interest Bearing Func	78.72%	78.96%	84.40%	89.18%	91.46%
Loans To Deposits Ratio	123.38%	125.09%	121.85%	104.33%	100.79%
Loans To Stable Funds Ratio	92.58%	91.51%	94.17%	89.76%	89.24%
Capital Adequacy					
Shareholders' Funds To Total Assets	11.13%	13.07%	13.76%	11.54%	11.72%
Tier 1 Risk Weighted Capital Adequacy Ratio	11.75%	11.94%	14.64%	13.15%	12.07%
Overall Risk Weighted Capital Adequacy Ratio	13.39%	13.17%	15.71%	13.99%	12.85%
Internal Rate Of Capital Generation	23.29%	43.90%	16.70%	11.53%	5.48% *

Note :

* annualised

NA = Not available

Financial Ratios - Company

Ratio Definition:-	
Net Interest Margin	Net Interest Income/Total Average Assets
Non-Interest Income Margin	Non-Interest Income/Total Average Assets
Cost To Income	Personnel & Other Non-Interest Expenses/Net Interest Income & Non-Interest Income
Return On Assets	Pre-Tax Profits/Total Average Assets
Return On Equity	Pre-Tax Profits/Average Shareholders' Funds
Dividend Payout	Dividends/Profit After Tax
Gross NPL Ratio	(Total Non-Performing Loans - Interest-In-Suspense)/(Gross Loans - Interest-In-Suspense)
Net NPL Ratio	(Total Non-Performing Loans - Specific Loan Loss Reserves - Interest-In-Suspense)/(Gross Loans - Specific Loan Loss Reserves - Interest-In-Suspense)
3-months Past Due	3-months Past Due Loans/(Gross Loans - Interest-in-Suspense)
Specific Loan Loss Provisions For Current Year	Specific Loan Loss Provisions(P&L)/Average Gross Loans
Gross NPL Coverage	General & Specific Loan Loss Reserves (B/S)/(Total Non-Performing Loans - Interest-In-Suspense)
Loan Loss Reserve Coverage	General & Specific Loan Loss Reserves (B/S)/(Gross Loans - Interest-In-Suspense)
General Loan Loss Reserve Coverage	General Loan Loss Reserves/(Gross Loans - Interest-In-Suspense - Specific Loan Loss Reserves)
Liquid Asset Ratio	Liquid Assets/Customer Deposits & Short-Term Funds
Statutory Liquid Asset Ratio	Statutory Liquid Assets/Customer Deposits
Loans To Deposits	Net Loans/Customer Deposits
Loans To Stable Funds	Net Loans/(Shareholders' Funds + Total Interest Bearing Funds + General Loan Loss Reserves - Interbank Funding - Fixed Assets - Investments in Subsidiaries/Associates)
Short-Term Funds	Interbank Deposits + Bills & Acceptances + Securities Sold Under Repos
Liquid Assets	Cash & Short-Term Funds + Securities Purchased Under Repos + Deposits & Placements With Financial Institutions + Quoted Securities
Statutory Liquid Assets	Cash & Short-Term Funds + Securities Purchased Under Repos + Deposits & Placements With Financial Institutions + Government Securities and Treasury Bills
Total Interest Bearing Funding	Customer Deposits + Interbank + Bills & Acceptances + Securities Sold Under Repos + Borrowing + Supplementary Capital
Internal Rate Of Capital Generation	Profit After Tax + Extraordinary Income - Dividend + General Loan Loss Provision/Average Shareholders' Funds

RAM RATINGS' CREDIT RATING DEFINITIONS (FINANCIAL INSTITUTIONS)

RAM Ratings' rating of a financial institution is an assessment and current opinion on the strength and performance of the rated institution.

LONG-TERM RATINGS

AAA	Financial institutions rated in this category are adjudged to offer the highest safety for timely payments of financial obligations. This level of rating indicates entities with strong balance sheets, favourable credit profiles and consistent records of above-average profitability. Their capacities for timely payments of contractual financial obligations are unlikely to be impacted seriously by any foreseeable changes in economic conditions.
AA+ AA AA-	Financial institutions rated in this category are adjudged to offer high safety for timely payments of financial obligations. This level of rating indicates entities with sound credit profiles and without significant problems. Entities rated in this category are, however, considered to be somewhat more vulnerable to adverse changes in economic conditions than those entities rated in the highest category. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
A+ A A-	Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates entities with adequate credit profiles, but which possess one or more problem areas, giving rise to the possibility of future riskiness. Entities rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
BBB+ BBB BBB-	Financial institutions rated in this category are adjudged to offer only a moderate degree of safety for timely payments of financial obligations. This level of rating indicates entities which have been significantly under-performing in some areas. These entities are, however, considered to have the capability to overcome such problems in the short term, though adverse changes in economic conditions could impair their ability to make timely payments of financial obligations. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
BB+ BB BB-	Financial institutions rated in this category are adjudged to lack key protection factors, which could result in inadequate safety for timely payments of financial obligations. This level of rating indicates that the entities may need certain favourable economic changes in order to meet financial obligations in a timely fashion. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
B+ B B-	Financial institutions rated in this category are adjudged to be of high risk. Timely payments of financial obligations are impaired by serious problems which the entities face. Whilst entities rated in this category might be currently meeting obligations on time, continuance of this would depend upon favourable economic conditions or some degree of external support. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
C+ C C-	Financial institutions rated in this category are adjudged to be of very high risk in relation to timely payments of financial obligations. This level of rating indicates entities with very serious problems and, unless external support is provided, they would be unable to meet their financial obligations in a timely fashion. The signs plus (+), flat and minus (-) indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively.
D	Financial institutions rated in this category are either currently in default or expected to be in default, whether or not formally declared. This level of rating indicates that the entities are unlikely to meet maturing financial obligations, which calls for immediate external support of a high order.

SHORT-TERM RATINGS

- P1** Financial institutions in this category have superior capacities for timely payments of obligations.
- P2** Financial institutions in this category have strong capacities for timely payments of obligations.
- P3** Financial institutions in this category have adequate capacities for timely payments of obligations. The ability to honour the obligations is more vulnerable to adverse changes in business, economic or financial conditions.
- NP** Financial institutions in this category have doubtful capacities for timely payments of obligations.

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