

RAM

RATINGS

CREDIT RATING RATIONALE

FINANCIAL INSTITUTIONS – SRI LANKA

A wholly owned subsidiary of RAM Holdings Berhad

CENTRAL INVESTMENTS AND FINANCE
LIMITED – Rating Review**Financial Institution****Ratings:**

Long-term: C-[Downgraded]

Short-term: NP [Reaffirmed]

Rating Outlook:

Stable

Previous Ratings:

Long-term: B+

Short-term: NP

Weaknesses:

- Significant exposure to real estate
- Concentration risk in real-estate investments
- Hefty overheads
- Fragile funding and liquidity positions

Last Rating Action:

March 2009

Principal Activities:

Finance company engaged in hire-purchase, leasing, trade loans, real estate and accepting public deposits

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Summary

RAM Ratings Lanka has downgraded the long-term financial institution rating of Central Investments and Finance Limited ("CIFL" or "the Company"), from B+ to C-; the short-term rating remains at NP. The downgrade reflects the Company's severe liquidity pressure and the acute deterioration in its asset quality as well as financial performance.

The outlook on the long-term ratings was revised to negative from stable in March 2009, based on CIFL's increased exposure to real estate, which had exerted pressure on its liquidity position and capital adequacy. The Company's financial performance had also been deteriorating, depressed by hefty overheads and slumping real-estate sales.

CIFL is a small registered finance company ("RFC"), accounting for 1.36% of the industry's assets as at end-March 2009. Following a rights issue in FYE 31 March 2009 ("FY Mar 2009"), the Company's liquidity position had improved. With the unravelling of the RFC crisis, however, CIFL's liquidity position had again been strained. By April 2009, the situation had worsened significantly, as the Company could not cope with withdrawal pressures because most of its investments were in real estate, which did not generate any cashflow. In an effort to ease the liquidity stress, CIFL had negotiated with its depositors to renew their deposits; in some cases, the depositors had been given houses as settlement.

Meanwhile, CIFL has continued increasing its investments in real estate, which made up 64.86% of its asset base as at end-September 2009. We note that the Company's real-estate investments are concentrated in a single housing project located in Homagama. The project is a joint venture with Aspic Homes Limited ("Aspic Homes"), a sister company. By end-September 2009, the Company - together with Aspic Homes - had embarked on another real-estate project. These 2 projects account for an aggregate 95.38% of CIFL's real-estate investments. We view these ventures with concern as short-term public deposits are being used to fund long-term real-estate projects.

CIFL's gross non-performing-loan ("NPL") ratio worsened to 19.15% as at end-September 2009 (end-March 2008: 6.33%), as the Company had diverted its focus on to grappling with the liquidity crisis. Its deteriorating loan portfolio and illiquid real-estate investments render CIFL's asset quality feeble.

As interest-bearing deposits had been channelled to real-estate assets, CIFL's net interest margin ("NIM") had sunk further into the red, from -2.36% as at end-FY Mar 2008 to -8.07% as at end-September 2009. We note that profits from real-estate investments have been propping up its financial performance. However, we also observe that Aspic Homes has not been able to make the

requisite payments to CIFL, owing to project overruns and weak real-estate sales. Heavy overheads have also taken a toll on CIFL's financial performance; the Company's cost-to-income ratio spiked up from 74.62% as at end-FY Mar 2008 to 139.98% as at end-September 2009. CIFL suffered a pre-tax loss of LKR 17.68 million in 1H FY Mar 2010. The poor performance had also eroded the Company's capital, which contracted from LKR 256.35 million to LKR 246.91 million over the 6-month span.

Corporate Profile

CIFL is an RFC incorporated in 1966 under the Companies Act No. 1988. It comes under the purview of the Central Bank of Sri Lanka. The Company is now part of the Aspic Group, after having been taken over by Aspic Corporation Limited ("Aspic") in 2004.

CIFL is headquartered in Colombo, with 2 branches and 2 service centres. The management intends to extend the Company's geographical reach by opening 3 branches in the northern and eastern parts of the country. Meanwhile, CIFL continues to be involved in hire-purchase ("HP") financing, finance leasing, mortgage loans and real-estate trading; it recently ventured into micro financing. The Company also accepts public deposits.

Ownership

CIFL is now majority-owned (74.59%) by Aspic, which is chaired by Mr Deepthi Perera. Aspic is an investment-holding company with interests in various sectors, e.g. aqua-culture, mining, and real estate. Besides CIFL, Aspic also has investments in 2 other RFCs - Industrial Finance Limited ("IFL") and Next Finance Limited ("Next").

Management & Strategies

The management of CIFL is now headed by Mr Deepthi Perera, the chairman of Aspic. He is assisted by the Company's newly appointed chief executive officer ("CEO"), Mr Jayantha Wickremaratne, who had previously been the chief operating officer ("COO"). Some of CIFL's senior management had resigned after the Company faced severe liquidity shortages during the RFC crisis in early 2009.

Amid the RFC debacle, Mr Perera stepped in April 2009 and introduced several cost-cutting measures, to arrest the deteriorating situation in CIFL. The Company had shifted its head office to a location with lower rent. Meanwhile, salaries have also been slashed by 30% for lower-level staff and 50% for senior management. In addition, fuel limits have been reduced while the Company has given up several leased vehicles.

To attract depositors, Mr Perera has designed a new asset-backed deposit scheme, which is expected to be launched by 2010. The new concept is aimed at giving the Company a competitive edge over other RFCs. Meanwhile, Aspic Homes will transfer land to CIFL Green Limited, a newly formed associate company of CIFL, as consideration for the Company's investment in Aspic Homes vis-a-vis the Homagama housing project. This project has been plagued by overruns and poor sales, and Aspic Homes has not been able to repay CIFL on a

Taken over by Aspic Group in 2004

Limited geographical reach

Chairman of Aspic heads CIFL management

Implemented measures to curtail overheads

New product – asset-backed deposit scheme

Ventured into micro-financing

regular basis. When a deposit is made with the Company, it will be backed by land for the same amount. Upon renewal, the depositor will have the option of either redeeming the deposit or taking over the land. Although this product enhances the depositor's recoverability prospects, it remains untested and could introduce legal risks as ownership of land would still be with CIFL Green. RAM Ratings Lanka will closely monitor developments in this regard.

Elsewhere, CIFL has also ventured into micro-financing by acquiring the portfolio of a failed Ceylinco-related micro-financing institution. Going forward, the management intends to expand the Company's micro-financing portfolio as defaults in this segment have been minimal. Micro-financing will mainly involve lending to the agricultural sector, where small groups of about 5 members are formed, with each member guaranteeing the other. The credit limit of the group will be gradually increased, based on its repayment record. The Company also plans to tie up with suppliers of agricultural input, to provide funding. In addition, the use of a global positioning system has been proposed to identify the location of members who, in most cases, would be in remote areas, spread over a large geographical area.

Prospectively, Mr Perera will implement a 5-year corporate plan that is currently being prepared by him. With the cessation of the civil war, the management is also poised to expand the Company's reach to the northern and eastern regions of the country.

Corporate Governance

CIFL's 6-member board met on a monthly basis in 2009. The board is supported by the credit, compliance, audit and risk-management committees.

Board supported by 4 committees

CIFL had invested LKR 707.40 million in Aspic Homes as at end-June 2009; this relates to a housing project in Homagama. We view this with concern as CIFL is channelling public deposits to related parties for property-development projects. The venture, meanwhile, has been plagued by escalating costs and poor sales; as a result, Aspic Homes has not been able to make timely payments to CIFL. Going forward, Aspic Homes intends to settle the outstanding amount by transferring some of its land to CIFL.

Asset Quality***Feeble asset quality***

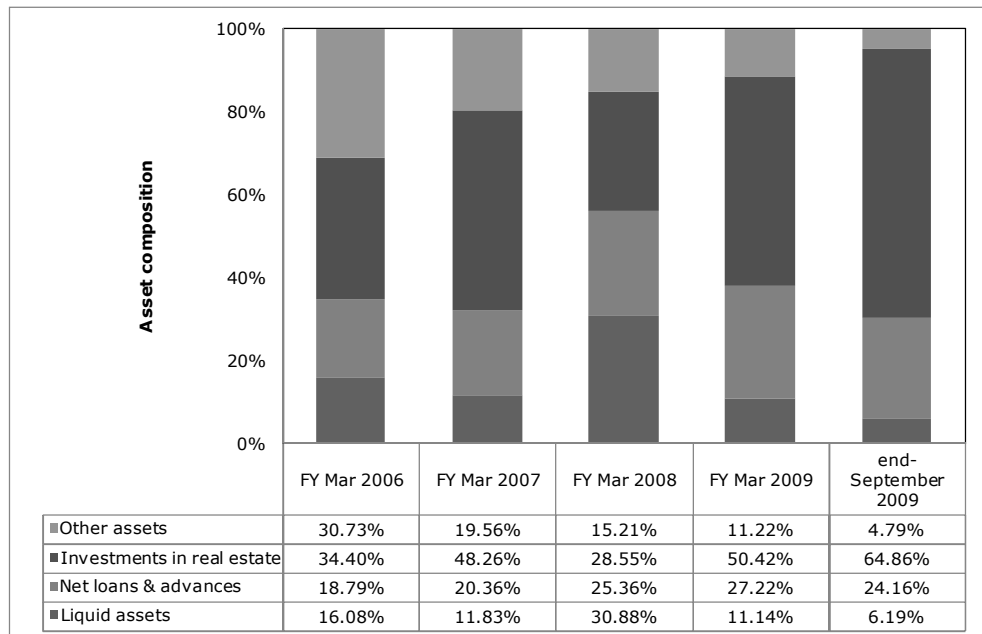
Significant exposure to illiquid real-estate investments and the consequent concentration risk, together with the deteriorating health of its loan portfolio, render CIFL's asset quality feeble. The Company's exposure to real estate accounted for 64.86% of CIFL's assets as at end-September 2009; bulk of these investments were locked in 2 locations. Furthermore, the Company's gross NPL ratio has deteriorated as the management has been more focused on dealing with the liquidity crisis rather than monitoring its loan portfolio.

Illiquid assets dominate asset base

As at end-September 2009, illiquid real-estate assets continued dominating CIFL's asset base, with a 64.86%-share (refer to Chart 1). These investments are concentrated in 2 projects, which together constitute 95.38% of the Company's real-estate assets as at the same date; loans and advances were the second-largest asset class (24.16%). Meanwhile, the Company's cash reserves dwindled from LKR 114.57 million as at end-FY Mar 2009 to LKR 19.03 million as at end-September 2009, following a run on deposits earlier in the year as a

result of the RFC crisis. Although liquid assets now take up only 6.19% of CIFL’s asset base, most of these assets are locked in fixed deposits placed with non-investment-grade financial institutions, which have also been experiencing liquidity pressures. Consequently, the Company has run into difficulties while trying to withdraw its investments.

Chart 1: CIFL's asset composition



Concentration risks in real-estate investments

CIFL’s liquidity pressures have been exacerbated by its sizeable investments in real estate. A single investment in Homagama alone accounts for 75.34% of its total property assets; this is a joint-venture project with Aspic Homes. The Homagama housing project has been hit by poor sales as a result of the bleak economic landscape in FY Mar 2009. The Company had invested in a new housing project as of end-September 2009, also in collaboration with Aspic Homes. This venture took up 19.19% of CIFL’s real-estate investments as at the same date. RAM Ratings Lanka had previously highlighted the liquidity risk that the Company faced due to its real-estate investments.

Deteriorating credit portfolio

Meanwhile, CIFL’s credit portfolio has deteriorated as the Company had expended more effort on tackling the liquidity crisis. The Company’s gross NPL ratio spiked up from 6.33% as at end-FY Mar 2008 to 19.15% as at end-September 2009. We also note that the weakening of its gross NPL ratio had been due to its shrinking loan base. In absolute terms, the amount of NPLs shot up from LKR 25.13 million to LKR 101.19 million over the same period. This had followed the Company’s aggressive loan expansion in FY Mar 2008, amid non-conducive economic conditions.

Performance

Poor financial performance

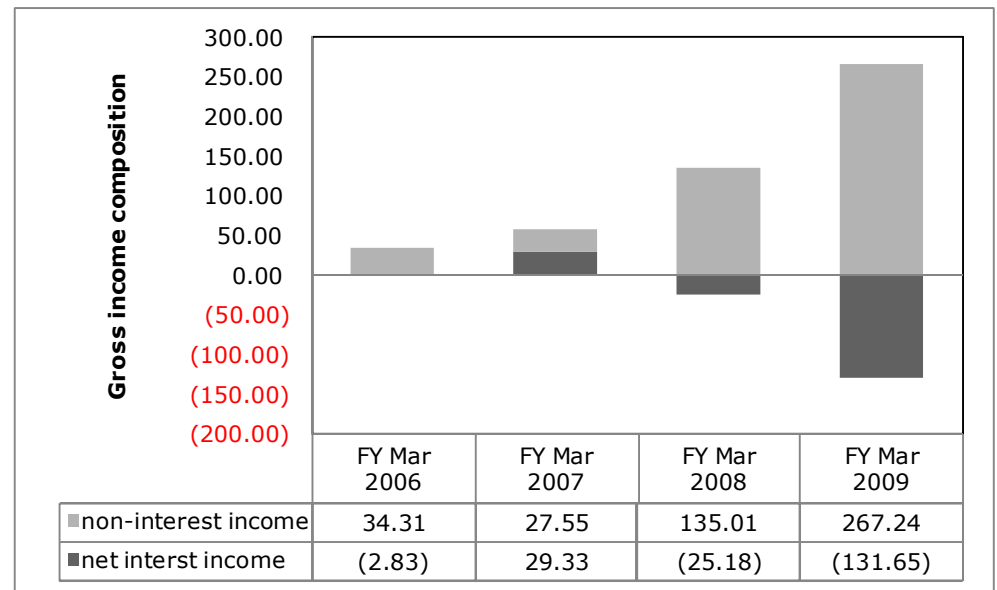
CIFL’s financial performance is deemed poor owing to high overheads and the weak correlation between real-estate profits and cashflow. As the Company relies heavily on real-estate income, CIFL has suffered losses on its net interest income.

NIM narrowed further

The Company’s net interest income has deteriorated further as interest-bearing funding has been channelled to non-interest-earning real-estate investments.

CIFL’s negative NIM widened from 2.36% to 7.02% between end-FY Mar 2007 and end-FY Mar 2008. We note that the rise in interest expenses had outpaced interest income; interest expenses augmented LKR 221.10 million to LKR 337.64 million in FY Mar 2008, in line with CIFL’s expanding deposit base. On the other hand, interest income added LKR 114.63 million to LKR 205.99 million for the same period, as funding had been channelled to real-estate investments. Consequently, the Company’s net interest income had sunk further into the red (-LKR 131.65 million) in FY Mar 2009 (FY Mar 2008: -LKR 25.18 million) (refer to Chart 2). Going forward, however, the Company is expected to earn increase its contribution from interest income as it expands its loan base.

Chart 2: Composition of CIFL’s gross income



Profits driven by real-estate investments

At present, CFIL’s financial performance is shored up by profits from its real-estate investments. The Company’s real-estate profits are mainly derived from the funds channelled to Aspic Homes for the Homagama housing project. Due to overruns and lacklustre sales, Aspic Homes has been delaying its payments. As a result, CIFL’s profits do not reflect its cashflow. Moving forward, Prospectively, Aspic Homes will transfer some of its real-estate inventory to an associate company of CIFL (as discussed earlier under Management & Strategies), as settlement for the funds provided by CIFL. The Company does not intend to dispose of the land over the medium term. Nonetheless, the impact on profits is unclear at this juncture; RAM Ratings Lanka will closely monitor developments on this front.

Overheads dragged down profitability

CIFL’s financial performance has also been affected by lofty overheads, resulting from its burgeoning staff numbers and business promotional activities amid high inflation. The Company’s cost-to-income ratio jumped from 74.62% as at end-FY Mar 2008 to 99.10% as at end-FY Mar 2009. We note that the management has taken corrective action to curtail its overheads. The Company’s head office has been moved to a cheaper location while salaries have been slashed across the board, with those of senior management halved. These measures are expected to bring overheads down to more manageable levels.

Over the short term, CIFL’s financial performance is expected to remain weak as it is focuses on maintaining its liquidity. Although its profit performance is envisaged to improve over the medium term as the Company expands its loan base and funding costs ease, we do not anticipate any significant progress.

Fragile funding and liquidity positions

Deposits make up bulk of funding base

Unable to meet maturing deposit liabilities

Liquid-asset ratio below regulatory minimum

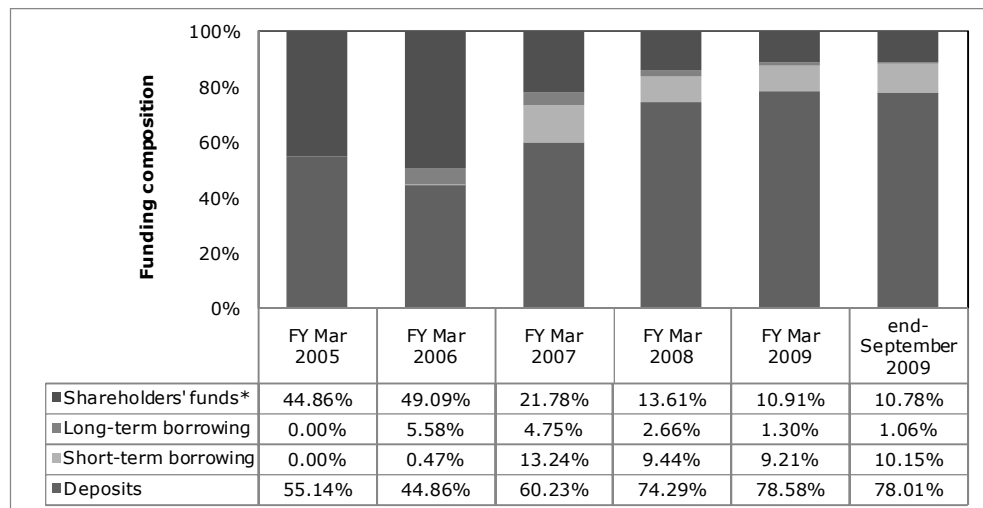
Weak capital position

Funding & Liquidity

CIFL's funding and liquidity positions are fragile, following the withdrawal pressures the Company faced in the wake of the RFC crisis in early 2009. Liquidity strains had been exacerbated by investments in real-estate projects, which do not yield regular cashflow compared to loans.

Meanwhile, the growth in the Company's deposit base witnessed over the past 2 years had reversed as of end-September 2009, as its deposit base shrank to LKR 1.55 billion (end-FY Mar 2009: LKR 1.61 billion). Nonetheless, deposits remain CIFL's primary funding source, accounting for 78.01% of its funding base as at end-September 2009 (refer to Chart 3). Borrowings (11.21%) and shareholders' funds (10.78%) made up the remainder of the Company's funding base.

Chart 3: CIFL's funding composition



*Excluding revaluation reserves

CIFL had faced a run on its deposits as public confidence in RFCs waned in early 2009. Although the Company had been able to meet some of its depositors' withdrawal demands on account of the liquidity following its rights issue in FY Mar 2009, it could not fulfil all deposit withdrawals. In this regard, the management had successfully persuaded some of its depositors to renew their investments while others had agreed to accept property as settlement.

By end-September 2009, CIFL's statutory liquid-asset ratio had fallen to only 7.42%, i.e. below the regulatory minimum of 10%. This was because the Company had to dispose of its liquid assets to meet its deposit liabilities.

Capital Adequacy

CIFL's capital position remains weak owing to its poor performance and heavy exposure to real estate. Furthermore, the Company's capital-adequacy ratios have been trending downwards in line with the expansion of its asset base. CIFL reported Tier-1 and overall capital-adequacy ratios of 11.61% and 13.34%, respectively, as at end-FY Mar 2009 (end-FY Mar 2008: 17.44% and 20.57%), which were still better than the corresponding regulatory minimums of 5% and 10%. The weak performance cramped its capital growth in FY Mar 2009 while losses as of end-September 2009 eroded its capital.

Exposed to cyclical property market

In the meantime, CIFL's capital remains vulnerable to unfavourable shifts in the property market, a result of its single large investment in the Homagama housing project through Aspic Homes. As mentioned earlier, Aspic Homes intends to settle the loan by transferring its existing land stock to CIFL. Although this will dilute concentration risk, CIFL will still be exposed to the inherent fluctuations in the property market.

Capital adequacy to wane further

RAM Ratings Lanka expects CIFL's capital-adequacy ratios to wane further over the medium, albeit still staying above the regulatory minimums, as the Company continues augmenting its asset base without any proposed capital infusion. Over the long term, however, the management intends to list the Company on the Colombo Stock Exchange, as per the Central Bank's requirement.

Industry Overview

Sri Lanka’s gross domestic product (“GDP”) expanded 2.1% in 2Q 2009. Although this pales in comparison to the 7.0% attained in 2Q 2008, the slower growth has to be put in the context of the present global downturn. Not surprisingly, all 3 major sectors in Sri Lanka have been hit by the global upheaval.

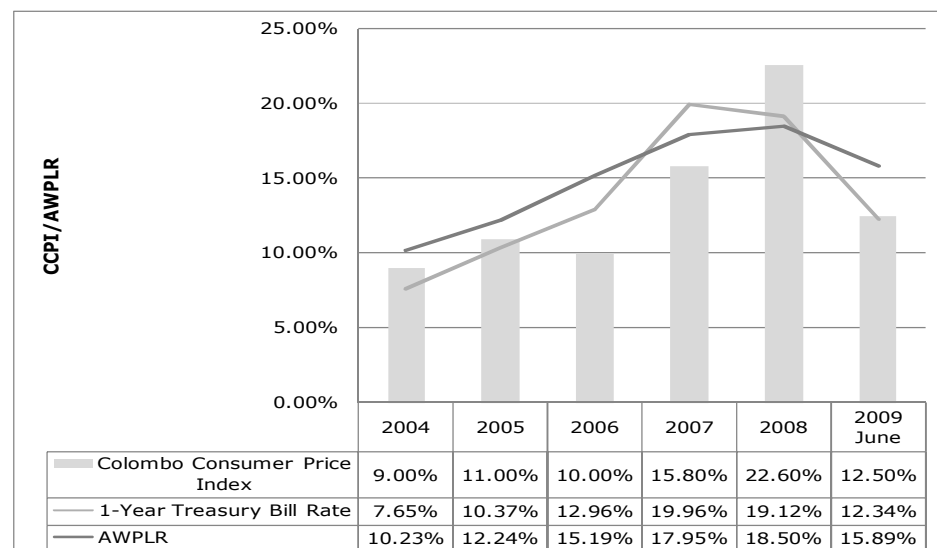
The performance of the primary sector (i.e. agriculture, forestry and fishing) has been dented by a steep fall in tea prices, drought and diminished demand. Although value addition in tea shrank 11.7% in 2Q 2009, this was partially cushioned by the expansion of other food crops, including fishing. Nonetheless, virtually all sub-sectors within the industrial and services industries had advanced at a slower pace, principally due to dampened export demand (refer to Table 1).

Table 1: Sectoral contributions to GDP

Sector	2Q 2008	2Q 2009
Agriculture, forestry and fishing	7.4%	4.4%
Industrial	6.9%	3.0%
Services	6.9%	1.1%
GDP	7.0%	2.1%

On a more positive note, the end of the 25-year war against the separatist Tamil Tigers has spawned renewed hope for the country. The arrival of the long-awaited stand-by-facility from the International Monetary Fund has also helped augment Sri Lanka’s depleted foreign-exchange reserves. Moreover, both inflation (as measured by the Colombo Consumer Price Index) and interest rates - which peaked in 2008 - have been consistently easing since early 2009 (refer to Chart 4). While these augur well for the economy, sluggish export demand is still a concern. We observe that the tapering interest rates represent a reversal of the Central Bank’s tight monetary policy. While continually lower interest rates may not be sustainable given the country’s budget deficit, RAM Ratings Lanka also notes that interest rates would not be as high as in 2008. On the whole, however, we envisage the credit cycle to chart a rising trend.

Chart 4: Movements in Colombo Consumer Price Index and average-weighted prime lending rate



In the context of the financial-services industry, the collapse of 2 unregulated financial institutions relatively recently had triggered a crisis of confidence among depositors. However, the contagion effects of the collapse had been halted by the Central Bank. The regulator's timely move of vesting the vulnerable Ceylinco-related institutions with state-owned or state-linked enterprises has helped avert a full-blown crisis. Concurrently, there have been changes in ownership, which RAM Ratings Lanka considers positive on the whole.

On a broader note, RFCs' main revenue spinners are their vehicle-financing operations. In this regard, they compete against commercial banks. Although commercial banks have an advantage as their cost of funds are much lower, RFCs cater to small and medium-scale businesses as well as micro businesses that fall outside the banks' risk parameters. Hence, this segment is considered sub-prime. Although RFCs have been encouraged to finance machinery and equipment, most of them still focus entirely on vehicle financing due to lack of expertise and difficulties in legally seizing these assets.

Meanwhile, RAM Ratings Lanka observes that RFCs' lack of extensive branch networks presents a challenge when trying to expand their portfolios while maintaining asset quality. RFCs are generally hindered by asset-quality issues as geographical concentration and intense competition result in financing a more risky segment. In view of the expected improvement in the economic climate and enhanced regional growth, however, we expect some RFCs to take advantage of these opportunities. Although this would entail heightened operational risk, we note that some financial institutions have already gained experience in managing such risks.

Despite easing inflation and interest rates, RFCs are still reeling from the effects of a weakened economy. With the resumption of economic activity, however, the industry's asset quality is expected to chart a healthy recovery. RAM Ratings Lanka's interaction with industry players reveals that recoveries and collections are still high on the agenda. Although we anticipate asset quality to weaken in the short run, the industry's asset-quality indicators are envisaged to improve over the medium term.

Elsewhere, RFCs that extensively deal in real estate still face liquidity issues arising from subdued demand. Going forward, RAM Ratings Lanka expects these companies to revisit their business models and craft strategies that will engender greater agility.

In the interim, RAM Ratings Lanka expects the industry's general profit performance to come under pressure from slower loan growth. Nonetheless, this is expected to be a short-term phenomenon; the sector's profitability is expected to bottom out in 2009. This view is anchored by our expectations vis-à-vis interest-rate trends and economic recovery.

At present, leading RFCs in the country are flushed with liquidity due to slower loan growth and augmenting deposits. Public confidence, which had ebbed in the first quarter of this year, is now staging a return. Apart from revitalised liquidity, the industry's funding structure - although improving - is still fragile. RFCs still rely on bank funding, which poses additional liquidity risk. Over the medium and long term, however, RAM Ratings Lanka expects the industry's funding structure to weaken further as RFCs resort to bank borrowings to expand their loan books.

From a regulatory perspective, the industry's capital-adequacy levels are deemed adequate as they are able to support about a 40% asset growth. However, RAM Ratings Lanka notes that the current capital-adequacy framework does not capture the entire spectrum of risks inherent in RFCs.

On a more positive note, RAM Ratings Lanka welcomes the regulator's emphasis on risk management and improved transparency. In this regard, the Central Bank has set a direction on corporate governance. Moreover, the regulator has also proposed that all RFCs be listed by June 2011 (pending formal regulation). Although these directions will be disconcerting to some market participants, RAM Ratings Lanka believes that the industry as a whole will benefit over the long haul.

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, 10% of outstanding deposits. 2. For savings deposits, 15% 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 10% of the capital funds of the finance company.</p> <p>This limit stands at 15% 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> <ul style="list-style-type: none"> (a) A finance company with a core capital of less than LKR 100 million must: <ul 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. (b) A finance company with a core capital of between LKR 100 million and LKR 200 million must bring in: <ul 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> <ul style="list-style-type: none"> (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 (b) In aggregate, in excess of 25% of the capital funds of the finance company <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: 03 July 1966

Commencement of Business: 29 July 1966

Major Shareholders:	Aspic Corporation Ltd	74.59%
	Mr M Deepthi Perera	21.53%
	Mr T Wanigasekara	0.71%
	Prof LR Amarasekara	0.39%
	Ms TK Weerasinghe	0.14%
	Mr WWDT Shirely Perera	0.12%

Directors:	Prof LR Amarasekara	Chairman
	Mr WWDT Shirley Perera	Joint Deputy Chairman
	Mr Sharm Fernando	Director
	Mr Suren Liyanage	Director
	Mr HG Chandralal Rodrigo	Director
	Mr J Wickremeratne	Chief Executive Officer / Director

Auditor: Tudor V Perera & Co

Listing: Not listed

Key Management:	Mr WWDT Shirley Perera	Joint Deputy Chairman
	Mr Jayantha Wickremeratne	Chief Executive Officer
	Ms Dilrukshi Amithalingam	Chief Manager – HR, Administration & Marketing
	Ms Champika Withanage	Manager - Compliance
	Ms Natali Sivaratnam	Senior Manager – Marketing & Business Development

Major Subsidiaries and Associates: None

Capital History:	Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
	2000	Brought forward		5.53
	2001	New issue	0.30	5.83
	2003	New issue	5.00	10.83
	2004	New issue	3.29	14.12
	2005	New issue	20.18	34.30
	2006	New issue	45.78	80.08
	2007	Bonus issue	32.03	112.11
	2007	New issue	16.00	128.11
	2008	Rights issue	103.92	232.03

Financial Summary - Company

BALANCE SHEET (LKR Million)	Re-stated		Un-audited		Un-audited
	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	30-Sep-09
ASSETS					
Cash & Money At Call	6.10	47.24	187.00	114.57	19.03
Deposits & Placements With Financial Institutions	1.06	1.07	188.77	122.70	104.11
Securities Purchased Under Resale Agreements	0.00	0.00	15.00	0.00	0.02
Securities					
Dealing Securities	29.74	18.29	89.94	3.95	4.39
Investment Securities	3.40	3.77	5.35	5.35	5.26
Gross Loans & Advances	56.35	130.14	402.45	619.76	538.75
Interest-In-Suspense	4.86	7.45	5.60	7.55	10.46
General Loan Loss Reserves	0.18	0.18	0.18	0.18	0.18
Specific Loan Loss Reserves	4.22	1.41	9.88	9.88	9.88
Net Loans & Advances	47.08	121.09	386.79	602.16	518.24
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Investment Land and Properties	86.22	287.07	435.49	1,115.62	1,391.20
Other Assets	16.59	31.43	78.66	61.61	(20.92)
Property, Plant and Equipment	60.43	84.91	153.28	186.52	123.63
TOTAL ASSETS	250.62	594.88	1,540.28	2,212.48	2,144.97
LIABILITIES					
Customer Deposits					
Savings	0.00	0.00	0.00	0.00	0.00
Fixed	107.83	320.03	1,013.17	1,606.87	1,545.23
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	14.54	95.61	165.13	214.82	222.05
Subordinated Debt & Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Other Liabilities	10.27	30.21	143.11	134.44	130.77
TOTAL LIABILITIES	132.64	445.85	1,321.42	1,956.13	1,898.05
Paid-up Capital	80.08	128.12	193.12	232.03	232.03
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	33.28	1.24	1.24	1.24	1.24
Statutory General Reserve	3.20	4.01	7.54	4.01	4.01
Retained Profits/(Loss)	1.43	15.65	16.96	19.06	9.63
Total Shareholders' Funds	117.99	149.02	218.87	256.35	246.91
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	250.62	594.88	1,540.28	2,212.48	2,144.97
COMMITMENTS & CONTINGENCIES	4.00	4.00	4.00	4.00	4.00
TIER 1 CAPITAL	85.42	115.75	185.59	223.07	213.64
CAPITAL BASE	102.24	149.02	218.87	256.35	246.91

Financial Summary - Company

INCOME STATEMENT (LKR Million)	Re-stated		Un-audited		Un-audited
	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	30-Sep-09
Interest Income	6.85	60.60	91.36	205.99	91.49
Less: Amortisation Of Premium/(Accretion Of Discount)	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	9.67	31.27	116.54	337.64	179.44
Net Interest Income	(2.83)	29.33	(25.18)	(131.65)	(87.95)
Non-Interest Income	34.31	27.55	135.01	267.24	132.17
Gross Income	31.48	56.89	109.83	135.60	44.22
Personnel Expenses	6.54	9.87	24.83	43.89	21.23
Other Non-Interest Expenses	11.29	27.72	57.12	90.49	40.66
Loan Loss Provisions	(0.04)	(0.14)	8.46	0.00	0.00
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	13.68	19.44	19.41	1.22	(17.68)
Taxation	0.78	4.40	1.76	0.00	0.00
Profit After Tax	12.91	15.04	17.65	1.22	(17.68)
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	0.65	0.82	3.53	0.00	0.00
Transfer To Other Reserves	0.00	0.00	0.00	0.00	0.00
Dividend	0.00	0.00	12.81	0.00	0.00
Retained Profit For The Year	12.26	14.22	1.31	1.22	(17.68)

Financial Ratios - Company

KEY RATIOS (%)	Re-stated		Un-audited		Un-audited
	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	30-Sep-09
Profitability					
Net Interest Margin	(1.77%)	6.94%	(2.36%)	(7.02%)	(8.07%) *
Non-Interest Income Margin	21.44%	6.52%	12.65%	14.24%	12.13%
Cost To Income	56.65%	66.08%	74.62%	99.10%	139.98%
Return On Assets	8.55%	4.60%	1.82%	0.06%	(1.62%) *
Return On Equity	18.58%	14.56%	10.55%	0.51%	(14.56%) *
Dividend Payout	0.00%	0.00%	72.57%	0.00%	0.00%
Asset Quality					
Gross NPL Ratio	12.33%	5.56%	6.33%	15.81%	19.15%
Net NPL Ratio	4.50%	4.46%	3.94%	14.43%	17.61%
Specific Loan Loss Provisions For Current Year	0.00%	0.00%	3.18%	0.00%	0.00%
Gross NPL Coverage	69.34%	23.34%	40.01%	10.39%	9.94%
Loan Loss Reserve Coverage	8.55%	1.30%	2.53%	1.64%	1.90%
General Loan Loss Reserve Coverage	0.38%	0.15%	0.05%	0.03%	0.03%
Liquidity & Funding					
Liquid Asset Ratio	36.56%	17.91%	42.52%	13.55%	7.42%
Statutory Liquid Asset Ratio	34.22%	20.81%	47.45%	15.01%	8.25%
Customer Deposits To Total Interest Bearing Funds	88.12%	77.00%	85.99%	88.21%	87.44%
Loans To Deposits Ratio	43.67%	37.84%	38.18%	37.47%	33.54%
Loans To Stable Funds Ratio	26.14%	25.23%	31.09%	31.83%	27.41%
Capital Adequacy					
Shareholders' Funds To Total Assets	47.08%	25.05%	14.21%	11.59%	11.51%
Tier 1 Risk Weighted Capital Adequacy Ratio	40.07%	22.35%	17.44%	11.61%	11.29%
Overall Risk Weighted Capital Adequacy Ratio	47.95%	28.77%	20.57%	13.34%	13.05%
Internal Rate Of Capital Generation	17.52%	11.26%	2.63%	0.51%	(14.56%) *

Note :

* annualised

NA = Not available / Not applicable

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

CREDIT RATING DEFINITIONS

(Financial Institution Ratings)

A Financial Institution Rating (“FIR”) is RAM Ratings Lanka’s current opinion on the overall capacity of a financial institution to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take in to account the expressed terms and conditions of any specific financial obligation.

Long- Term Ratings

- AAA** A financial institution rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term FIR assigned by RAM Ratings.
- AA** A financial institution rated AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
- A** A financial institution rated A has an adequate capacity to meet its financial obligations. The financial institution is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
- BBB** A financial institution rated BBB has a moderate capacity to meet its financial obligations. The financial institution is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
- BB** A financial institution rated BB has a weak capacity to meet its financial obligations. The financial institution is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
- B** A financial institution rated B has a very weak capacity to meet its financial obligations. The financial institution has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
- C** A financial institution rated C has a high likelihood of defaulting on its financial obligations. The financial institution is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.
- D** A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

For long-term ratings, RAM Ratings applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the financial institution ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the financial institution ranks at the lower end of its generic rating category.

Short- Term Ratings

- P1** The Financial institutions rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term FIR assigned by RAM Ratings.
- P2** The Financial institutions rated P2 has an adequate capacity to meet its short-term financial obligations. The financial institution is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.
- P3** The Financial institutions rated P3 has a moderate capacity to meet its short-term financial obligations. The financial institution is more likely to be weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category.
- NP** The financial institution rated NP has a doubtful capacity to meet its short-term financial obligations. The financial institution faces major uncertainties that could compromise its capacity for payment of financial obligations.
- D** The financial institution rated D is currently in default on either all or he D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

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