

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 : B+ [Reaffirmed]

Short-term: NP [Reaffirmed]

Rating Outlook:

Negative (Revised from stable)

Weaknesses:

- Significant exposure to real estate
- Concentration risk in real-estate investments and funding base

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 reaffirmed the long- and short-term financial institution ratings of Central Investments and Finance Limited ("CIFL" or "the Company"), at B+ and NP; the outlook on the long-term rating has been revised from stable to negative. The negative outlook on the rating is premised on the Company's significant exposure to real estate, which has in turn dragged down its performance and exerted pressure on its liquidity position and capital adequacy.

CIFL, which was previously a very small family concern, has been taken over by Aspic Corporation Limited ("Aspic Group"). The Company has been expanding rapidly under the new management, with its asset base clocking in a growth of LKR 945.41 million (+158.92%) in FYE 31 March 2008 ("FY Mar 2008"), followed by another LKR 746.06 million (+64.58%) for the 9-month period to end-December 2008. Although investments in loans and liquid assets had spurred asset growth in FY Mar 2008, real-estate investments took centre stage by end-December 2008. By which time, investments in land and properties represented the largest asset class for the Company. Moreover, concentration risk had heightened as the bulk (86.46%) of the investments was locked in a single location, i.e. the Homagama housing project, a joint venture with Aspic Homes Limited ("Aspic Homes"). This project consists of 2 phases: Phase 1 has 72 horizontal condominiums while Phase 2 involves the construction of an apartment block. Phase 1 had faced delays and cost escalations, prompting the Company to channel additional funds to bring the project back on track. Construction work on Phase 2, meanwhile, will begin once pre-sales have been rung up. Due to the weak economic climate, however, real-estate sales are expected to be sluggish.

Additionally, CIFL's asset quality has deteriorated; its gross non-performing-loan ("NPL") ratio elevated to 8.31% as at end-December 2008, from 5.56% as at end-March 2007. The worsening NPLs can be attributed to the deteriorating macroeconomic conditions and correction of data. The error reflects the Company's weak information-technology ("IT") system, hence RAM Ratings Lanka view the integrity of information with concern.

The Company's weakening asset quality and swelling asset base, combined with heavy overheads, had weakened its performance; return on assets ("ROA") and return on equity ("ROE") deteriorated to 1.82% (end-FY Mar 2007: 4.60%) and 10.55% (end-FY Mar 2007: 14.56%), respectively, as at end-FY Mar 2008. By end-December 2008, these profitability indicators had sunk into negative territory.

Concurrently, the negative gap in the Company's asset-liability mismatches widened to LKR 781.58 million in the "less than 1 year" bucket as at end-December 2008 (end-December 2007: negative LKR 383.41 million), owing to its investments in real estate. Its funding base was also exposed to

concentration risk, as its top 20 deposits accounted for 24.59% of the Company's total deposits as at end-September 2008. Nonetheless, its statutory liquid-asset ratio stood at 24.29% as at end-December 2008, above the regulatory minimum of 15%. RAM Ratings Lanka opines that CIFL's capital adequacy is inadequate due to its exposure to property assets. Nonetheless, the Company's tier-1 risk-weighted capital-adequacy ratio ("RWCAR") and overall RWCAR stood at 12.32% and 14.15%, respectively as at end-December 2008-higher than the regulatory minimums of 5% and 10%.

Outlook

The negative outlook on CIFL's long-term rating reflects our concerns that the Company's liquidity and capital positions may weaken further in light of its concentration risk vis-à-vis real-estate investments. Inability to recoup investments in real estate will lead to a downgrade of its ratings.

While an upward movement in CIFL's ratings is unlikely in the medium term, its outlook may be reinstated to stable if it disposes its investment in the Homagama housing project, thus alleviating concentration risk.

Corporate Profile

CIFL is a registered finance company ("RFC") governed by the Central Bank of Sri Lanka ("Central Bank") under the Finance Companies Act No. 78 of 1988. Incorporated in 1966, the Company remained a family concern until 2004, following which CIFL came under the stable of the Aspic Group.

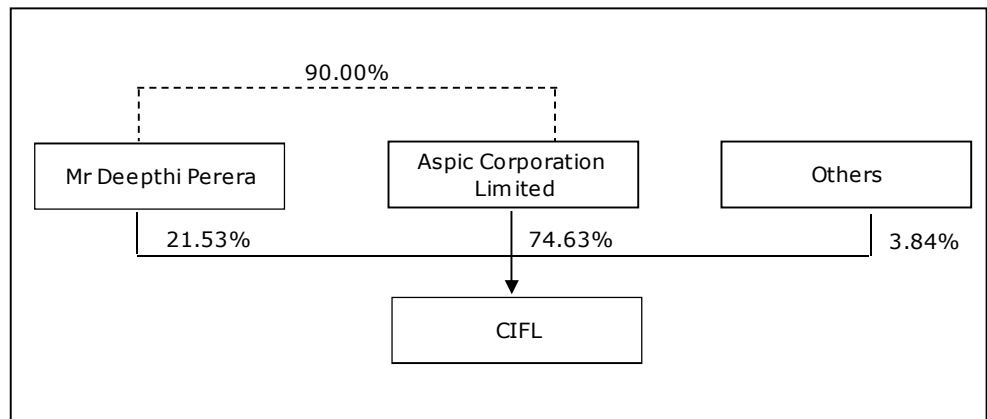
The Company, headquartered in Colombo, has been expanding at a rapid pace under the new management. CIFL has remained focused on augmenting its branch network, having started the operations of its second branch in Galle and 2 service centres in Thalawakelle and Mahiyanganaya; the management hopes to roll out the third branch by April 2009. Its increasingly wider branch network has been supported by a corresponding increase in head count; staff numbers more than tripled between end-FY Mar 2007 and end-December 2008, from 38 to 135. The Company's principle lines of business include hire-purchase ("HP") financing, finance leasing, mortgage loans and real-estate trading. On the funding side, it accepts public deposits.

Ownership

CIFL remains a closely held concern, with Mr Deepthi Perera having a 96.16%-stake (direct and indirect) in the Company. Mr Perera owns a 21.53% direct interest in the Company (refer to Chart 1) while the balance is held through the Aspic Group, of which Mr Perera is the Chairman.

**Expanding
geographical
presence**

Chart 1: CIFL's ownership structure



3 RFCs under Aspice Group

The Aspice Group was incorporated in 2003 by Mr Perera, a Sri Lankan-born Australian citizen, and is part of his global network of investments. In addition to CIFL, the Aspice Group presently has 2 other RFCs: Industrial Finance Limited and Next Finance Limited (formerly known as Janashakthi Finance and Investment Limited). The Aspice Group is also involved in several other sectors (refer to Table 1)

Table 1: Other companies within the Aspice Group

Company	Sector
Industrial Finance Next Finance	RFC
Aspice Developments Aspice Homes Aspice Residencies	Real estate
Aspice Engineering and Construction	Construction
Aspice Plantations	Agriculture
Aspice Bio-Techniques	Bio-engineering
Lumbini Aquaria Wayaba	Aqua culture
Ozzie Opportunities Aspice Professional Services	Consultancy services
Aspice Minerals	Mining
Aspices Entertainment Aspice Leisure	Leisure
Aspice International Trading	Consumer goods
Aspice Micro Finance	Micro finance

Management & Strategies

The management of CIFL continues to be led by its Deputy Chairman ("DC"), Mr Shirley Perera, a veteran of the finance industry. The DC is supported by Mr Sharm Fernando, the chief executive officer ("CEO")/Director. Meanwhile, CIFL has further strengthened its senior management team, most notably when Mr SH Piyasiri - its Joint DC - joined the Company in October 2008. Mr Piyasiri is also the DC of the Aspice Group.

New DC to focus on internal controls and efficiency

Mr Piyasiri has over 30 years of experience in the banking sector; prior to joining the Aspice Group, he had been the CEO of National Savings Bank - Sri Lanka's largest licensed specialised bank. Mr Piyasiri was brought into CIFL to enhance the Company's compliance culture and to improve its risk management. In this regard, he is currently setting up an internal audit department. At present, an

Post of COO and General Manager of Finance and IT have been filled

internal auditor, who reports directly to Mr Piyasiri, is in charge of daily internal audits. In addition, the DC has initiated the formation of the audit and integrated-risk committees. Furthermore, Mr Piyasiri assisted in the preparation of CIFL’s maiden 3-year corporate plan.

The other additions to the senior management line-up include Mr Jayantha Wickremaratne and Mr David Kapuruge, both of whom have extensive experience in the RFC sector. Mr Wickremaratne presently heads the entire operations of the organisation as its Chief Operating Officer (“COO”); Mr Kapuruge is the General Manger of Finance and IT. Mr Kapuruge, along with the new IT Manager, are in the process of fine-tuning CIFL’s IT system.

Problems with current IT system

CIFL has been unable to optimise its IT system. The management has found that the integrity of the system leaves much to be desired, following the discovery of discrepancies in data; they are in the process of reconciling the information. Thus far, thus far, corrections have revealed that the actual NPLs had been higher than previously reported. Over the short to medium term, the management intends to rectify CIFL’s IT system; in the long run, they plan to develop a new system.

Management targets to further expand branch network; hopes to introduce new products

On another note, CIFL continues to expand its branch network. The Company currently has 2 service centres, and hopes to increase this number to between 6 and 10 during FY Mar 2010. Moreover, the management also plans to introduce 2 new credit products in FY Mar 2010: gold loans and land loans. Unlike pawning, gold loans will require customers to make monthly payments. On the other hand, land loans will be more akin to lease on sale agreements; the amount lent is expected to be limited to 50%–60% of the land value. The management will limit total accommodations for land loans to LKR 20 million over the short term, to test market conditions. As such, HP and leasing are expected to remain CIFL’s core lending products.

Homagama housing project

Meanwhile, investments in real-estate projects accounted for a significant portion of the Company’s asset base as at end-December 2008; most of these investments were in the Homagama housing project. This project is a joint venture with Aspic Homes, a sister company, and has been overshadowed by delays and cost escalations, which have necessitated additional funds to be pumped in to expedite its completion. Phase 1 has been completed, with 60 of the 72 houses sold. However, the Company intends to only recover its investment upon pre-sales for Phase 2. Given the weak economic climate, RAM Ratings Lanka opines this to be a challenge. We note, however, that the management has identified exit strategies, and will monitor developments in this regard.

Reactive strategies

The weak economic fundamentals have also contributed to the rise in the Company’s NPLs. Accordingly, additional staff have been mobilised for recoveries; a new recoveries manager has been recruited while the legal department has been strengthened.

Elsewhere, CIFL has tied up with Commercial Bank of Ceylon, allowing the Company’s customers to make repayments through the bank’s more than 150 branches across the island.

Corporate Governance

Board supported by 3 committees

CIFL's 6-member board is chaired by Prof LR Amarasekara, and consists of 3 non-executive directors. The board convened 8 times in FY Mar 2008. Besides the credit committee, the apex body is also supported by the recently formed audit and integrated-risk committees.

Audit committee

The audit committee is headed by a non-executive director, and meets on a quarterly basis. External audits are undertaken by Tudor V Perera & Co while internal audits are handled by an internal auditor that reports directly to Mr Piyasiri.

Related-party transactions

The Company's related-party transactions amounted to LKR 221.74 million as at end-March 2008. Furthermore, as at end-December 2008, CIFL had invested LKR 720.02 million in Aspic Homes, in relation to the Homagama housing project. RAM Ratings Lanka notes that Mr Perera (Joint DC) and Mr Fernando (CEO/Director) also sit on the board of Aspic Homes. Moreover, CIFL has extended a corporate guarantee of LKR 4 million to its holding company; Finance Companies (Lending) Direction No. 1 of 2007 forbids such transactions.

Asset Quality

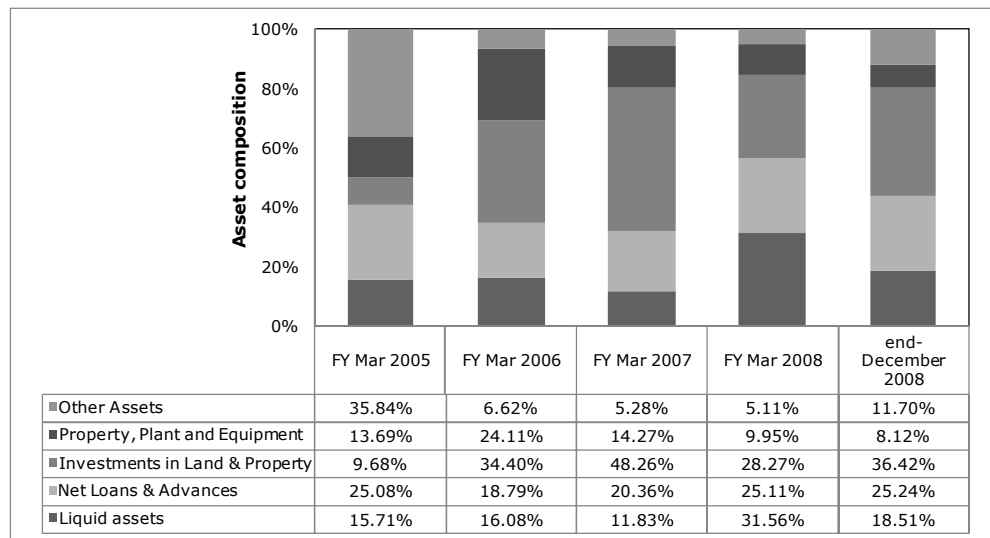
Feeble asset quality

RAM Ratings Lanka opines CIFL's asset quality to be feeble due to the Company's substantial exposure to real estate and the resultant concentration risk, as well as the burgeoning NPLs. As at end-December 2008, investments in real estate accounted for 36.42% of CIFL's total assets. The Homagama project alone took up 31.49% of its asset base (or 86.46% of its real-estate investments) as at the same date, thus further exacerbating the Company's concentration risk. As at end-December 2007, this project had made up 75% of CIFL's real-estate investments. Meanwhile, the Company's lending portfolio constituted only 25.24% of its total assets. As such, conventional benchmarks do not adequately capture the Company's overall asset quality.

Real-estate investments - largest asset class

Despite the management's initial focus on lending, real-estate investments had overshadowed all its other assets by end-December 2008. Meanwhile, CIFL has continued its aggressive expansion, with its asset base clocking in a 158.92% growth in FY Mar 2008 (FY Mar 2007: +137.36%). The growth had been achieved through increased investments in liquid assets and an rapidly expanding loan base during the period. CIFL recorded a compound annual growth of 150.61% between FY Mar 2005 and FY Mar 2008. As such, the Company's exposure to real-estate investments had shrunk to 28.27% (refer to Chart 2) as at end-FY Mar 2008 (end-FY Mar 2007: 48.26%). Nonetheless, this was only temporary as the Company had subsequently renewed its focus on property investments, increasing its exposure to the volatile real-estate market. Investments in land and property, once again, formed its single largest asset class, taking up 36.42% as at end-December 2008. The Company had initially ventured into the property market as a means of turning around its losses when the new management took over. Our concerns lie in the Company's rapid loan expansion amid the uncertain economic climate and its significant exposure to real estate.

Chart 2: CIFL's asset composition



Concentration risk in real-estate investments

Furthermore, the Company is exposed to significant concentration risk in its real-estate investments; the housing project in Homagama took up 86.46% of its total investments in land and property as at end-December 2008. This project is a joint venture with Aspic Homes, with the latter undertaking construction, sales and collections while CIFL provides funding. Although the Company recognises the financing as a loan to Aspic Homes, it has ownership over all the land and buildings. Furthermore, Aspic Homes is only expected to repay the investment once it has sold all the planned launches. Investments in this project amounted to LKR 720.02 million as at end-December 2008; this constituted 31.49% of CIFL's balance sheet as at the same date. RAM Ratings Lanka has a negative view of this concentration risk.

Heavily invested in Homagama housing project

The Homagama housing project is a modern, semi-luxury housing project consisting of 2 phases; it is located 10 km from Colombo. Phase 1, which has been completed, comprises 72 horizontal condominiums while Phase 2 comprises 98 apartments; work on Phase 2 has yet to begin. We note that the Company had intended to complete Phase 2 by end-March 2009. CIFL had been expected to invest in the scheme in 2 tranches. Project overruns and costs escalations had, however, resulted in the Company following through its investment ahead of schedule. All funds provided by CIFL have been channelled to the development of Phase 1. The Company is not expected to make any further cash injections into the project.

Demand for Phase 2 expected to be weak

Although sales have been encouraging, with 60 of the 72 houses from Phase 1 already sold, the current economic turmoil is expected to dampen demand for Phase 2. Construction of Phase 2 is expected to commence based on the response gleaned from pre-sales marketing, beginning in March 2009. We note that sales of the remaining real-estate investments have been poor, with inventory relatively unchanged since end-December 2007 (refer to Table 2). Besides weak demand for real estate, investments in land and properties also introduce myriad risks, including construction, market and counterparty risks.

Table 2: CIFL's major real-estate investments

Project	Location	Year Launched	Outstanding Stock (LKR million)	
			end-December 2007	end-December 2008
Land sale	Kaburugamuwa	2005	8.71	8.76
Housing project	Mount Lavinia	2006	37.00	37.00
JV housing project	Homagama	2006	290.29	720.02
JV land sale	Kurunegala	2007	30.74	30.74
JV land sale	Horana	2008	-	10.00

Aggressive loan expansion

Elsewhere, the Company continued its aggressive loan growth in FY Mar 2008, with gross loans swelling 209.25% over the period (FY Mar 2007: +130.95%). HP still drove growth; its HP portfolio augmented 312.21% year-on-year ("y-o-y"), taking up 57.46% of its loan portfolio. Meanwhile, leases (25.76%), loans (16.67%) and mortgage-backed loans (0.11%) accounted for the remainder. We note that the Company's aggressive growth amid deteriorating economic conditions has led to increased delinquencies.

Deteriorating portfolio quality

CIFL's NPL ratio deteriorated to 8.31% as at end-December 2008, from 5.56% as at end-FY Mar 2007. In absolute terms, NPLs had jumped up LKR 41.89 million over the same period to LKR 48.80 million. RAM Ratings Lanka understands that the spike also had to do with correction of data. At the same time, defaults had been exacerbated by the weak economic climate. In response to the escalating NPLs, the management has enlisted the marketing staff to perform recoveries, in addition to recruiting a new recoveries manager. Although these measures are viewed positively, RAM Ratings Lanka opines that the Company will be challenged to improve its credit quality.

Weak provisioning

Although CIFL's provisioning improved to 40.01% as at end-FY Mar 2008 (end-FY Mar 2007: 23.34%), it still remained weaker than the industry average of 48.55% as at the same date. The Company follows the Central Bank's Direction 3¹ on provisioning. However, as CIFL calculates provisions yearly, its gross NPL coverage plummeted to 20.60% as at end-December 2008. RAM Ratings Lanka also notes that 39.44% of the Company's loan portfolio was exposed to lorries and buses as at end-September 2008. We view this with concern as the second-hand market for these specialised vehicles has waned significantly.

Going forward, the Company's asset quality will hinge on its ability to recover investments made in the Homagama housing project and rein in NPLs. Owing to the subdued real-estate market, however, disposal of its real-estate investment is not expected to be easy.

Performance

Performance deemed weak

Deteriorating asset quality, together with burgeoning overheads, renders CIFL's financial performance weak. Although the Company achieved a pre-tax profit of LKR 19.41 million in FY Mar 2008, it recorded a pre-provision loss of LKR 0.05 million as at end-December 2008, as per its provisional accounts.

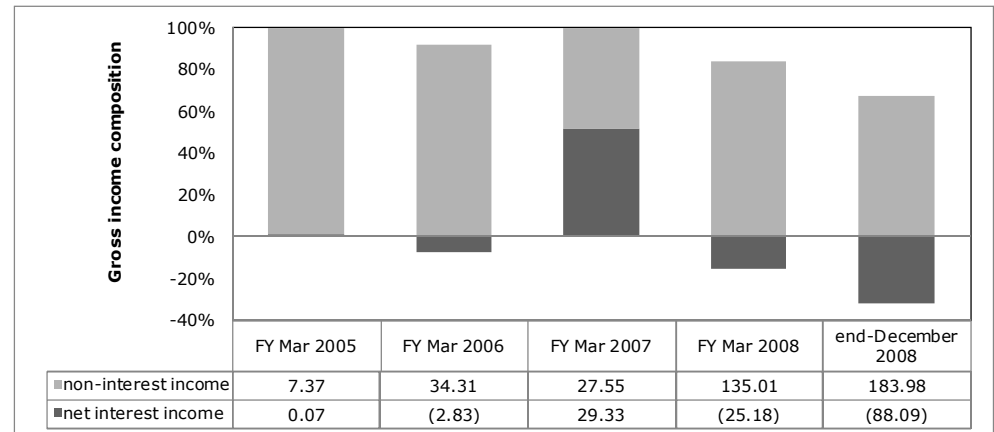
Non-interest income takes centre stage again

CIFL's dependence on real-estate assets is reflected in its gross income composition, as returns from such investments have been its sole contributor (refer to Chart 3). Despite the growth of its lending portfolio, interest income

¹ Refer to page 13 for relevant Central Bank regulations.

has been insufficient vis-à-vis meeting interest expenses; net interest income accounted for negative 22.92% of its gross income as at end-FY Mar 2008 while non-interest income contributed 122.92% (end-FY Mar 2007: 48.44%). This was mainly due to the reclassification of real-estate income. In FY Mar 2007, the Company recognised an element of interest income from its real-estate investments, in addition to a profit element. This gross income mix is a concern to RAM Ratings Lanka, as reliance on real-estate income renders CIFL's profit performance volatile.

Chart 3: CIFL's gross-income composition



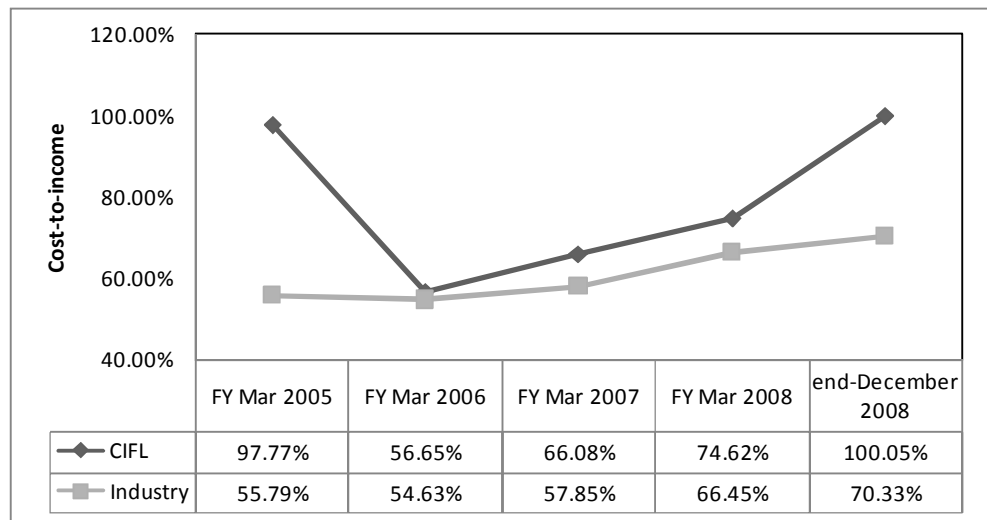
Negative NIM as interest expense rose faster than interest income

Although the Company's interest income augmented 50.77% (or LKR 30.76 million) on the back of continued lending, interest expenses out-paced interest income, swelling 272.73% (or LKR 85.28 million) in FY Mar 2008. Consequently, the Company's net-interest margin ("NIM") descended to negative 2.36% (FY Mar 2007: 6.94%). This deteriorated further to negative 6.14% as at end-December 2008. On the other hand, CIFL's non-interest margin improved to 12.65% in FY Mar 2008 (FY Mar 2007: 6.52%), owing to the reclassification mentioned earlier.

Hefty overheads erased revenue gains

Improvements in CIFL's top line were eroded by heavy overheads in FY Mar 2008. Despite gross income climbing 93.07% (or LKR 52.95 million), pre-tax profit remained relatively stable at LKR 19.41 million in FY Mar 2008 (FY Mar 2007: LKR 19.44 million), as overheads and loan-loss provisions negated the gains. The Company's cost-to-income ratio deteriorated from 66.08% as at end-FY Mar 2007 to 74.62% as at end-FY Mar 2008, comparing poorly against the industry average of 66.45% (refer to Chart 4). Personnel expenses had augmented 151.56% y-o-y to LKR 24.83 million in FY Mar 2008 (FY Mar 2007: LKR 9.87 million), in tandem with the Company's burgeoning staff numbers for marketing and branch expansion. Meanwhile, non-interest expenses were also pushed up 106.09% y-o-y to LKR 57.12 million in FY Mar 2008, a result of increased promotions and vehicle maintenance. We note that by end-December 2008 overheads exceeded gross income, leading to a pre-tax loss of LKR 0.05 million (cost-to-income ratio as at end-December 2008: 100.05%). Any improvement in the situation is contingent upon sales from the Homagama project.

Chart 4: CIFL's cost-to-income ratio



Profitability indicators trending downwards

Consequently, CIFL's ROA and ROE eased to 1.82% and 10.55%, respectively, as at end-FY Mar 2008 - weaker than the corresponding industry averages of 2.78% and 17.81%. The Company's ROA and ROE sank into the red as at end-December 2008, as investments made in real estate had not generated sufficient returns to keep pace with swelling interest expenses and overheads.

In the short term, CIFL's performance will be driven by sales from Phase 2 of the Homagama housing project. RAM Ratings Lanka's concerns lie in the challenges that the Company will face when trying to dispose of this investment, given the weak demand for real-estate at present.

Funding & Liquidity

Weak funding and liquidity positions

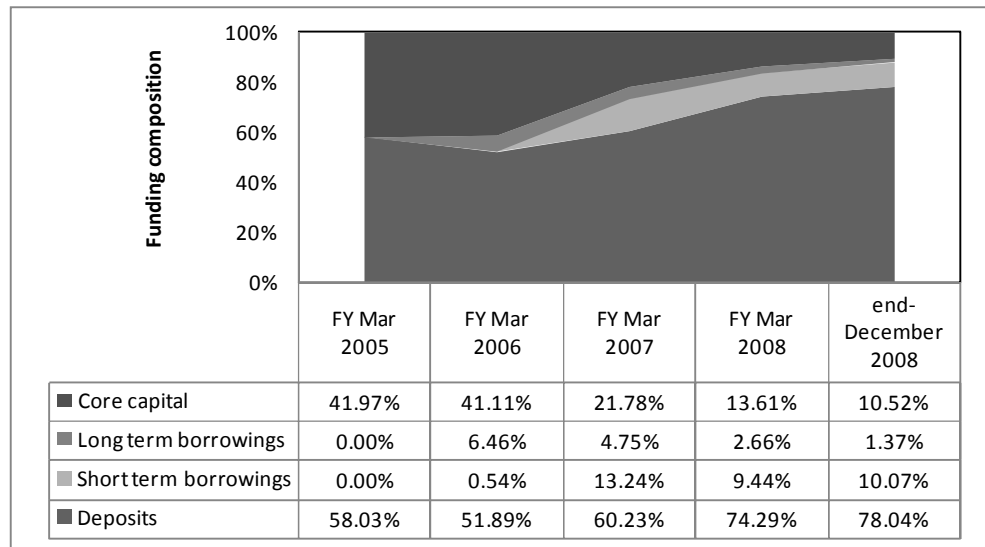
The funding and liquidity positions of CIFL are considered weak due to its exposure to interest-rate and liquidity risks, as well as concentration risk in its deposit base. Nonetheless, the Company's statutory liquid-asset ratio stood at 24.29% as at end-December 2008 - above the regulatory floor of 15%.

Deposits remain primary funding source

CIFL's funding base remained dominated by deposits; public deposits accounted for 74.29% of its funding base as at end-FY Mar 2008 (refer to Chart 5). The deposit base surged 216.58% (or LKR 693.14 million) y-o-y to LKR 1.01 billion as at the same date (end-FY Mar 2007: LKR 320.03 million), thanks to concerted marketing efforts.

Concentration risks in funding

Nonetheless, concentration risk arose in the Company's deposit base, as its top 20 deposits made up 24.59% of its deposit base as at end-September 2008. RAM Ratings Lanka also notes concentration risk in the Company's borrowings; 69.63% of CIFL's borrowings stemmed from a single source (Seylan Bank PLC) as at end-December 2008. Meanwhile, borrowings took up 12.10% of the Company's funding base as at end-FY Mar 2008 (end-December 2008: 11.44%).

Chart 5: CIFL's funding composition

Widening ALMM in "less than 1 year" bucket

We also note the negative gap in CIFL's asset-liability maturity mismatch ("ALMM") in the "less than 1 year" bucket widened to LKR 781.58 million as at end-December 2008 (refer to Table 3). Most of the deposits (72.58%) bear tenures of less than 1 year while returns from real-estate investments are less predictable. Furthermore, real-estate investments as a percentage of deposits came up to 50.21%. While the formation of an asset-liability committee is viewed positively, there is still the question of its ability to mitigate risks in the face of the Company's slow-moving real-estate stock amid a weak macroeconomic climate.

Table 3: CIFL's asset-liability profile

Maturity Bucket	end-December 08			FY Mar 08		
	Interest earning assets	Interest bearing liabilities	Gap	Interest earning assets	Interest bearing liabilities	Gap
Less than 1 year	643.86	1,425.44	(781.58)	557.39	996.58	(439.19)
1 to 3 Years	331.99	465.98	(133.99)	157.59	200.96	(43.37)
Over 3 years	4.12	10.16	(6.05)	152.09	104.78	47.32
Total	979.97	1,901.58	(921.61)	867.07	1,302.32	(435.25)

Going forward, CIFL intends to diversify its funding base vis-à-vis securitisation. In this respect, our concern lies in the further concentration of its borrowings, together with the subordination of its depositors.

Capital Adequacy

Despite reporting capital-adequacy ratios above the regulatory minimums, RAM Ratings Lanka opines CIFL's capital position to be weak due to the Company's marginal performance and significant exposure to real-estate investments. As at end-FY Mar 2008, CIFL recorded a Tier-1 RWCAR and an overall RWCAR of 17.44% and 20.57%, respectively - better than the corresponding regulatory minimums of 5% and 10%. However, the Company's significant exposure in a single real-estate investment (the Homagama housing project) leaves its capital vulnerable to unfavourable shifts in the property markets.

Capital adequacy considered weak

CIFL meets Central Bank's minimum core-capital requirement

On a more positive note, CIFL has met the Central Bank's minimum core-capital requirement of LKR 200 million, through a LKR 103.92 million rights issue. Even so, the Company's tier-1 RWCAR and overall RWCAR weakened to a respective

Generous dividend payments weaken internal capital generation

12.32% and 14.16% as at end-December 2008, following the rapid expansion of its asset base. Nonetheless, we note that the ratios were still higher than the corresponding regulatory floors of 5% and 10%.

Meanwhile, the Company’s internal capital generation deteriorated to 2.63% as at end-FY Mar 2008, from 11.26% a year earlier, after generous dividend payments (dividend payout ratio: 72.57%). The weak performance further pressured its internal capital generation, which fell to negative 0.03% as at end-December 2008.

Industry Overview

Sri Lanka’s gross domestic product (“GDP”) is estimated to have expanded by 6.5% in the first 9 months of 2008, same as 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 better 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 textile, garment 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. Looking ahead, however, global recession is expected to take its toll across all sectors.

Table 4: Overall and sectoral GDP growth

At constant 2002 prices	3Q 2007	3Q 2008
Agriculture	2.6%	8.5%
Industry	7.3%	6.2%
Services	7.0%	6.3%
Total	6.5%	6.5%

Meanwhile, the rate of inflation, which has been rising since 2H 2007, is now slowing down. The Colombo Consumer Price Index (“CCPI”), which hit an all-time high of 28.2% in June 2008, has been declining significantly since the latter part of last year (December 2008: 14.4%). Favourable domestic supply factors, as well as easing international commodity prices - especially crude oil - have supported the deceleration in inflation. Furthermore, the tight monetary policies adopted by the by the Central Bank in 1H 2008 complemented the results achieved. With easing inflation the Central Bank has relaxed its monetary policy by cutting base interest rates. If the expected favourable trend in inflation continues, the Central Bank may ease its monetary policy further, thereby encouraging lower interest rates. A fall in market rates could help boost economic activity and galvanise the system; however, the effectiveness of these measures remains to be seen in the face of global recessionary pressures.

Even though falling interest rates may be a positive development, RAM Ratings Lanka does not envisage the RFC industry’s asset quality to improve over the medium term. This is because RFCs are more vulnerable to economic vagaries given their exposure to the sub-prime sector. Although inflationary pressure is easing, economic fundamentals have yet to strengthen. Hence, maintaining

asset quality will remain a challenge. On this note, rising loan delinquencies have weakened the industry's average gross NPL ratio, which deteriorated from 4.46% as at end-FY Mar 2007 to 7.24% as at end-December 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 y-o-y loan growth almost halved from 33.07% in FY Mar 2007 to 16.10% 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 Lanka notes an accumulation in the number of seized vehicles. In this respect, the quality of collateral takes centre stage vis-à-vis recouping outstanding advances.

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

Against this backdrop, RAM Ratings Lanka 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 weakened 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 volatile interest rates. Many RFCs consequently face widening negative liquidity gaps 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, following the collapse of 2 unregulated finance companies, liquidity levels in the RFC sector have been pressured. Nonetheless, the Central Bank's easing monetary policy is expected to provide some respite to the industry.

In the meantime, the weakened economic climate is weighing down on the financial performance of the RFC sector as a whole. The industry's ROA declined from 3.79% as at end-FY Mar 2007 to 1.95% as at end-December 2008; this trend is expected to persist over the medium term. The industry's performance has also been hampered by margin squeezes and rising overheads. Moreover, rising delinquencies have been narrowing portfolio yields and increasing pressure on bottom lines via heftier provisioning. RAM Ratings Lanka further notes that RFCs involved in housing and real-estate development tend to recognise trading profits upfront; this clouds profit comparisons with other RFCs that only offer financing products.

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 18.51% (end-December 2008).

On a separate note, the Central Bank has introduced its *Direction on Corporate Governance of Finance Companies*, which took effect on 1 January 2009. As per transitional provision, however, a 3-year extension has been granted for full compliance. These guidelines are envisaged to instil more discipline on RFCs vis-à-vis board responsibility and overall risk management. Nonetheless, RAM Rating notes that meeting these requirements will be a challenge.

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> <p>(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> <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> <p>(a) Tier I - Core Capital</p> <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> <p>(b) Tier II - Supplementary Capital</p> <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> <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: 03 July 1966

Commencement of Business: 29 July 1966

Major Shareholders:

Aspic Corporation Ltd	74.63%
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 SH Piyasiri	Joint Deputy Chairman
Mr Sharm Fernando	Chief Executive Officer
Mr Suren Liyanage	Director
Mr HG Chandralal Rodrigo	Director

Auditor: Tudor V Perera & Co

Listing: Not listed

Key Management:

Mr WWDT Shirley Perera	Joint Deputy Chairman
Mr SH Piyasiri	Joint Deputy Chairman
Mr Sharm Fernando	Chief Executive Officer
Mr Jayantha Wickremaratne	Chief Operating Officer
Mr David Kapuruge	GM Finance & IT
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	
	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Dec-08
ASSETS					
Cash & Money At Call	1.43	6.10	47.24	187.00	112.60
Deposits & Placements With Financial Institutions	1.05	1.06	1.07	188.77	159.54
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	15.00	7.00
Securities					
Dealing Securities	5.89	29.74	18.29	89.94	123.76
Investment Securities	2.55	3.40	3.77	5.35	20.35
Gross Loans & Advances	25.57	56.35	130.14	402.45	592.06
Interest-In-Suspense	3.35	4.86	7.45	5.60	4.95
General Loan Loss Reserves	0.18	0.18	0.18	0.18	0.18
Specific Loan Loss Reserves	4.63	4.22	1.41	9.88	9.88
Net Loans & Advances	17.42	47.08	121.09	386.79	577.06
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Investment Land and Properties	6.73	86.22	287.07	435.49	832.74
Other Assets	24.89	16.59	31.43	78.66	267.58
Property, Plant and Equipment	9.51	60.43	84.91	153.28	185.70
TOTAL ASSETS	69.45	250.62	594.88	1,540.28	2,286.34
LIABILITIES					
Customer Deposits					
Savings	0.00	0.00	0.00	0.00	0.00
Fixed	36.05	107.83	320.03	1,013.17	1,658.45
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	0.00	14.54	95.61	165.13	243.12
Subordinated Debt & Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Other Liabilities	4.08	10.27	30.21	143.11	127.90
TOTAL LIABILITIES	40.12	132.64	445.85	1,321.42	2,029.48
Paid-up Capital	34.30	80.08	128.12	193.12	232.03
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	0.00	33.28	1.24	1.24	1.24
Statutory General Reserve	5.85	3.20	4.01	7.54	4.01
Retained Profits/(Loss)	(10.83)	1.43	15.65	16.96	19.58
Total Shareholders' Funds	29.33	117.99	149.02	218.87	256.87
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	69.45	250.62	594.88	1,540.28	2,286.34
COMMITMENTS & CONTINGENCIES	0.00	4.00	4.00	4.00	4.00
TIER 1 CAPITAL	26.07	85.42	115.75	185.59	223.59
CAPITAL BASE	26.24	102.24	149.02	218.87	256.87

Financial Summary - Company

INCOME STATEMENT (LKR Million)	Re-stated			Un-audited	
	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Dec-08
Interest Income	3.22	6.85	60.60	91.36	155.79
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	3.15	9.67	31.27	116.54	243.89
Net Interest Income	0.07	(2.83)	29.33	(25.18)	(88.09)
Non-Interest Income	7.37	34.31	27.55	135.01	183.98
Gross Income	7.44	31.48	56.89	109.83	95.89
Personnel Expenses	3.45	6.54	9.87	24.83	31.91
Other Non-Interest Expenses	3.82	11.29	27.72	57.12	64.03
Loan Loss Provisions	(0.28)	(0.04)	(0.14)	8.46	0.00
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	0.45	13.68	19.44	19.41	(0.05)
Taxation	0.00	0.78	4.40	1.76	0.00
Profit After Tax	0.45	12.91	15.04	17.65	(0.05)
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	0.65	0.82	3.53	0.00
Transfer To Other Reserves	(5.00)	0.00	0.00	0.00	0.00
Dividend	0.00	0.00	0.00	12.81	0.00
Retained Profit For The Year	5.45	12.26	14.22	1.31	(0.05)

Financial Ratios - Company

KEY RATIOS (%)	Re-stated			Un-audited	
	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Dec-08
Profitability					
Net Interest Margin	0.13%	(1.77%)	6.94%	(2.36%)	(6.14%) *
Non-Interest Income Margin	13.36%	21.44%	6.52%	12.65%	12.82%
Cost To Income	97.77%	56.65%	66.08%	74.62%	100.05%
Return On Assets	0.81%	8.55%	4.60%	1.82%	(0.00%) *
Return On Equity	2.36%	18.58%	14.56%	10.55%	(0.03%) *
Dividend Payout	0.00%	0.00%	0.00%	72.57%	0.00%
Asset Quality					
Gross NPL Ratio	29.25%	12.33%	5.56%	6.33%	8.31%
Net NPL Ratio	10.62%	4.50%	4.46%	3.94%	6.74%
Specific Loan Loss Provisions For Current Year	(1.70%)	0.00%	0.00%	3.18%	0.00%
Gross NPL Coverage	73.99%	69.34%	23.34%	40.01%	20.60%
Loan Loss Reserve Coverage	21.64%	8.55%	1.30%	2.53%	1.71%
General Loan Loss Reserve Coverage	1.01%	0.38%	0.15%	0.05%	0.03%
Liquidity & Funding					
Liquid Asset Ratio	28.99%	36.56%	17.91%	42.52%	21.68%
Statutory Liquid Asset Ratio	23.21%	34.22%	20.81%	47.45%	24.29%
Customer Deposits To Total Interest Bearing Funds	100.00%	88.12%	77.00%	85.99%	87.21%
Loans To Deposits Ratio	48.32%	43.67%	37.84%	38.18%	34.80%
Loans To Stable Funds Ratio	31.07%	26.14%	25.23%	31.09%	29.25%
Capital Adequacy					
Shareholders' Funds To Total Assets	42.23%	47.08%	25.05%	14.21%	11.23%
Tier 1 Risk Weighted Capital Adequacy Ratio	44.52%	40.07%	22.35%	17.44%	12.32%
Overall Risk Weighted Capital Adequacy Ratio	44.81%	47.95%	28.77%	20.57%	14.15%
Internal Rate Of Capital Generation	2.36%	17.52%	11.26%	2.63%	(0.03%) *

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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