



RATINGS

Media Release

Series of Educational Articles by RAM Ratings Lanka How safe are your deposits?

Before you decide to deposit your hard-earned money in a licensed commercial or specialized bank or a registered finance company, you must be convinced that the entity will be able to return your funds upon maturity, as promised. In this context, credit ratings help the public to gauge the safety of their deposits. This is very important especially in the face of some high profile failures of unrated and or unregulated finance companies, namely Sakvithi Investments and Golden Key Credit Card Co Ltd. It should be noted that the Central Bank of Sri Lanka has mandated that all commercial banks, specialized banks (collectively referred to as Banks) and registered finance companies to obtain a credit rating. Hence the public would be well advised to check the rating of the financial institution before they make their deposit decision.

Banks and finance companies offer various deposit options and the vast majority of depositors decide on a particular institution solely on the interest rate they offer. However, this should not be the case as high returns are accompanied by greater risks. In this context, it is important that depositors should have a diverse portfolio of deposits in terms of tenures and institutions in order to achieve the right degree of safety and return. Hence, by measuring the ability and willingness of a financial institution to honour its financial commitments, credit ratings are essential inputs that help you make better-informed deposit decisions.

Credit-Rating Agencies

There are 2 domestic credit-rating agencies in Sri Lanka recognized by Central Bank, of which RAM Ratings Lanka is one of them. Each rating agency aims to provide a rating system that assists depositors to determine the risks associated with depositing in a specific financial institution. Credit ratings can be assigned to entities (ie financial institutions, corporates and insurance companies) or to issues (ie specific borrowings in the form of securities such as debentures, promissory notes etc) and indicates an issuer's ability to honour its financial obligations or issue.

However, it is important to note that ratings are not a buy or sell recommendations, nor do they represent a guarantee against default. Rather, ratings are a measure of an entity's ability and willingness to repay its depositors and or creditors hence a relative ranking only.

The Rating Scale

Although rating scale differ between rating agencies, RAM Ratings Lanka's credit ratings ranges from AAA, which denotes superior repayment capacity or highest credit quality at one end, to "D" or in default at the other (refer table below). In other words, from the depositors'/investors' point of view credit rating provides a simplified measure of the repayment capacity and can be used for deciding the return given the institution's repayment capability. ie investors should be prepared to accept a lower return attached to a AAA rated instrument as compared to a AA rated paper. Accordingly, interest rates should increase as one move down the rating scale.

RAM Ratings (Lanka) Ltd
Wholly owned by
RAM Holdings Berhad

No 9, Arthur's Place
Colombo 4
Sri Lanka

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

RAM Ratings Lanka’s rating scale

Credit Rating	Denotes	
AAA	Superior capacity	
AA+ AA AA-	Strong capacity	RAM Ratings Lanka applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the 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 institution ranks at the lower end of its generic rating category.
A+ A A-	Adequate capacity	
BBB+ BBB BBB-	Moderate capacity	
BB+ BB BB-	Weak capacity	
B+ B B-	Very weak capacity	
C+ C C-	Very weak capacity	
D	Default	

In addition to the rating per se, RAM Ratings Lanka also encourages depositors to read rating rationales of each financial institution, available on rating agencies’ websites. In this regard, the depositing public is invited to visit RAM Ratings Lanka’s website at www.ram.com.lk. RAM Ratings Lanka provides these rationales to be downloaded free of charge or any obligation in the interest of serving the public.

Analyst Contact
Prakash Jerome
prakash@ram.com.lk