

RAM

RATINGS

## CREDIT RATING RATIONALE

FINANCIAL INSTITUTIONS – SRI LANKA

A wholly owned subsidiary of RAM Holdings Berhad

MERCANTILE INVESTMENTS LIMITED –  
Rating Review**Financial Institution****Ratings:**

Long-term: A [Reaffirmed]

Short-term: P1 [Reaffirmed]

**Rating Outlook:**

Negative

**Instrument:**

(i) LKR 250 million

Commercial Paper ("CP")

Programme

**Rating:**

(i) P1 [Reaffirmed]

**Tenure & Repayment:**

(i) 3-month CP revolving up

to 15 months, LKR 50

million repayable quarterly

**Coupon Rate:**

(i) Average of past 3

months' AWPLR + 2.25%

per annum

**Strengths:**

- Sturdy capitalisation

- Adequate liquidity

**Weaknesses:**

- Weaker asset quality

- Declining profitability

**Principal Activities:**

Finance company engaged in

hire-purchase, leasing,

loans and acceptance of

public deposits

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**Summary**

RAM Ratings Lanka has reaffirmed the respective long- and short-term ratings of Mercantile Investments Limited ("MIL" or "the Company") at A (with a negative outlook) and P1. At the same time, the P1 rating of the Company's outstanding LKR 51.13 million CP Programme has also been reaffirmed.

The negative outlook is premised on the Company's rising delinquencies, which have been impinging on its financial performance. Nonetheless, the ratings are still supported by MIL's robust capitalisation and improved funding structure.

MIL, a long-established registered finance company ("RFC") celebrated its 45<sup>th</sup> anniversary this year. In an industry where the 2 biggest players accounted for 42% of its overall asset base as at end-March 2009, MIL is the fifth-largest player, accounting for 4.64% of the sector's assets. Despite its size, the Company has a limited branch network; MIL opened 2 branches in FYE 31 March 2009 ("FY Mar 2009"), bringing its total count to only 4. We note that similar-sized peers have more than 20 branches each.

Due to its limited network and selective lending, MIL's net loan portfolio shrank 2.97% year-on-year ("y-o-y") in FY Mar 2009. Nevertheless, the Company could not isolate itself from the harsh macroeconomic environment that has prevailed in the last 2 years. While we note that the Company's gross non-performing-loan ("NPL") ratio (on a 6-month classification basis) deteriorated from 8.19% as at end-FY Mar 2008 to 9.22% as at end-FY Mar 2009, partly due to its contracting loan base, our opinion on asset quality hinges on the absolute rise in its NPLs and its waning provisioning levels.

MIL's pre-tax profit was lifted 10.00% to LKR 254.41 million in FY Mar 2009 (FY Mar 2008: LKR 231.29 million). Although the Company's net interest margin ("NIM") widened to 8.04% (FY Mar 2008: 7.50%), a 30.21% spike in provisions (owing to rising NPLs) had dented its performance.

Meanwhile, MIL has bolstered its funding structure. The Company, which had previously relied on bank borrowings, has shifted its focus to deposits. MIL has expanded its deposit base despite the widespread loss in public confidence towards the end of 2008. As at end-FY Mar 2009, deposits took up a larger share of its funding base, augmenting from 37.63% of its total funding to 43.29%; concurrently, bank funding had diminished. All this had aided MIL in remedying the mismatch in its asset-liability maturity profile; the negative gap in the "less than 3 months" bucket narrowed to LKR 281.64 million as at end-FY Mar 2009 (end-FY Mar 2008: LKR 733.64 million). The Company recorded a statutory liquid-asset ratio of 12.24% as at the same date (regulatory minimum: 10%).

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On a more positive note, MIL remains one of the best-capitalised RFCs in the industry, with a core capital base of LKR 1.77 billion as at end-FY Mar 2009. Its robust capitalisation is still the Company's key rating driver. Meanwhile, its ratio on net NPLs to shareholders' funds stood at 9.85% as at end-FY Mar 2009, i.e. healthier than the industry average of 19.24%. The Company's capitalisation had also improved due to the contraction in its loan base. MIL's Tier-1 risk-weighted capital-adequacy ratio ("RWCAR") ascended to 24.02% as at end-FY Mar 2009 (end-FY Mar 2008: 20.06%), far above the regulatory minimum of 5%.

**Outlook**

The negative outlook on MIL's long-term rating reflects the weakening trend in its asset quality and underlying performance. The rating will be revised downwards if the Company does not demonstrate a substantial improvement in its asset quality and performance, should the Company demonstrate such an improvement the outlook will be reinstated to stable.

**Corporate Profile**

Incorporated in 1964, MIL is registered under the Finance Companies Act No. 78 of 1988, and is regulated by the Central Bank of Sri Lanka ("Central Bank"). MIL's main lines of business include providing hire-purchase ("HP") and leasing facilities for vehicles and other loans. The Company also undertakes fleet management and deposit mobilisation.

MIL celebrated its 45<sup>th</sup> anniversary in 2009. Over the years, the Company has evolved into one of the top 5 RFCs in Sri Lanka, in terms of asset size. Meanwhile, the management has fulfilled their vision of extending the Company's reach. In FY Mar 2009, MIL opened a branch each in Kadawatha and Balangoda; in total, the Company now has 4 branches. Its staff force has increased in tandem, from 247 employees as at end-FY Mar 2008 to 273 a year later.

**Ownership**

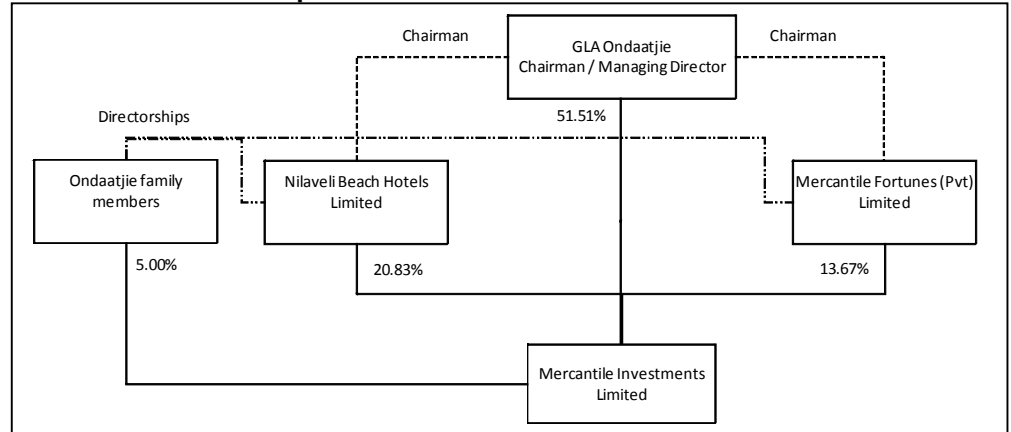
MIL is a closely held entity, with the Ondaatjie family owning 56.51% (refer to Chart 1). The remaining equity is spread among 10 individuals and 3 institutions, in which the Ondaatjie family also has controlling interests.

Mr GLA Ondaatjie, MIL's major shareholder, is a well-known business personality in Sri Lanka. He had been the chairman of the Finance House Association, the Tourist Hotels Association, and Pacific Asia Travel; and also a former director of the Colombo Stock Exchange.

RAM Ratings notes that the Central Bank intends to get all RFCs listed by 2011 (pending formal regulation). In this regard, the management is considering various listing options.

**Among top 5 RFCs  
in Sri Lanka****Family concern****Eminent chairman****RFCs to be listed  
by 2011**

**Chart 1: MIL's ownership structure**



**Management & Strategies**

**Conservative management**

The management team of MIL continues to be led by Deputy Chairman (“DC”) Gerard Ondaatjie, supported by a team of experienced senior managers. The management has always adopted cautious business strategies. Given the depressing economic conditions over the past 2 years, the management has been more prudent in its lending policies.

**New branch in pipeline**

Despite the general improvement in business sentiment, the management still maintains a conservative stance, with plans to expand MIL’s loan books only towards the end of 2009. In this regard, a new branch is planned for Bentota in October 2009.

**Diversifying marketing channels**

We note that MIL is shifting away from its traditional methods of generating business. Previously, the management had depended on brokers to bring in customers. Now, the Company is focusing on grooming its own sales and marketing force. To this effect, each branch has 2 members from the sales team, with performance-based remuneration.

**Recoveries revamped**

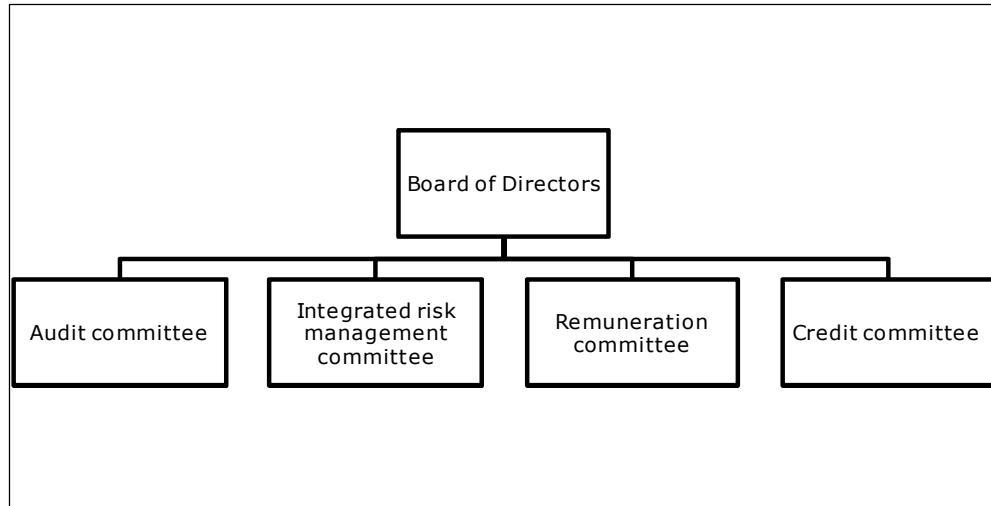
Similarly, the recoveries department has also been revamped. This department has been segregated by the number of overdue rentals; geographical location is also considered. The recoveries department now has 2 managers: one who keeps track of trends to ensure that action is taken once a loan becomes 1 month in arrears; the other one takes over if the loan becomes non-performing. Customers are reminded of rental payments due via short messaging service (“SMS”) and telephone calls. The recoveries department also deploys special recoveries and intelligence teams to aid in these efforts. The special recoveries team employs conspicuous means to direct attention on defaulters, with the expectation that the “shame” factor will induce payment. Elsewhere, the intelligence team gathers information on “slippery” clients.

**Corporate Governance**

**Board composition**

The board, chaired by Mr GLA Ondaatjie and comprising 9 directors, convened 4 times in FY Mar 2009. We note that none of the directors are independent. Besides the audit, credit and remuneration committees, the apex body is also supported by the newly formed integrated-risk committee (refer to Chart 2). RAM Ratings Lanka notes that conventional corporate-governance measures would not be reflective of MIL’s operations, as it is a closely held family concern with no distinction between shareholders and management.

**Chart 2: Board committees**



**Related-party transactions**

The Company’s related-party loans increased to LKR 147.82 million as at end-FY Mar 2009, from LKR 127.30 million a year earlier. Apart from 3 large tsunami-related loans that had been extended to related parties in the hotel sector, MIL had also given a large loan (end-FY Mar 2009: LKR 22.21 million) to Mercantile Fortunes (Pvt) Limited (“Mercantile Fortunes”). RAM Ratings Lanka notes that this loan is secured against the latter’s inventory. Mercantile Fortunes is involved in the import and sale of vehicles and wooden flooring. However, our concerns are mitigated as the Company’s total related-party lending has remained benign, accounting for only 2% of its gross loans or 8% of its core capital as at end-FY Mar 2009.

**Asset Quality**

**Waning asset quality**

MIL’s asset quality continues to wane owing to rising delinquencies and thinning coverage levels. While we note that the Company has taken steps to arrest the rising trend in NPLs, it still faces an uphill task in improving its asset quality.

**Contracting asset base**

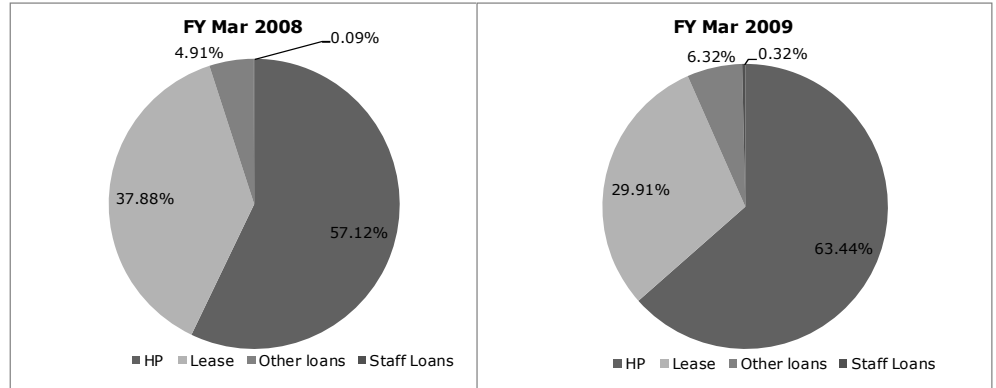
MIL’s balance sheet profile remained unaltered even though its asset base contracted 3.35% in FY Mar 2009. The contraction in the asset base had arisen from restricted lending and diminution in the market value of its investments. The Company’s loan base had contracted 2.97% or LKR 159.86 million during the reviewed period; the value of MIL’s investment in its hotel-related subsidiaries fell LKR 238.17 million. On a brighter note, the decline in investment value has no cashflow effect and only a balance sheet impact, as it is offset against the Company’s revaluation reserves (discussed under *Capital Adequacy*).

**Growth in HP and other loans; decline in lease portfolio**

The contraction of MIL’s loan base had been due to its shrinking lease portfolio, although HP and other loans still charted some growth, albeit at a slower pace. The diminishing lease base is a reflection of the weaker demand for new vehicles and the management’s more cautious lending approach. The Company’s lease portfolio dwindled 23.39% to LKR 1.56 billion as at end-FY Mar 2009 (end-FY Mar 2008: LKR 2.04 billion). On the other hand, the growth of its HP portfolio had been stimulated by more robust demand for second-hand vehicles and the relative cost savings compared to leases due to value added tax. Nevertheless, the HP portfolio expanded at a slower pace (FY Mar 2008: +24.06%; FY Mar 2009: +7.78%). HP accounted for a larger portion (63.44%) of MIL’s loan base as at end-FY Mar 2009 (end-FY Mar 2008: 57.12%) (refer to Chart 3).

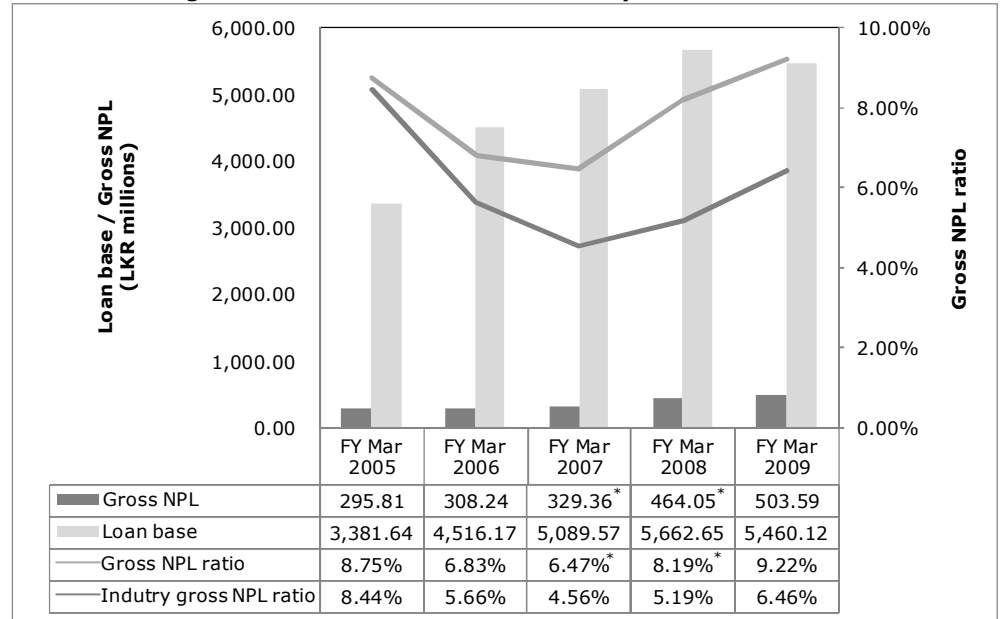
**Deterioration in NPLs**

**Chart 3: MIL's loan composition**



On the other hand, the quality of its HP portfolio continued to deteriorate; its HP default rate climbed up to 8% as at end-FY Mar 2009, compared to 6.39% a year earlier. Defaults in its lease portfolio also trended upwards to 12.14% as at the same date (end-FY Mar 2008: 11.58%). With rising NPLs, the Company's gross NPL ratio deteriorated to 9.22% (end-FY Mar 2008: 8.19%), comparing poorly against the industry average of 6.46% (refer to Chart 4). We note that the deterioration is inflated to some extent by the contraction in MIL's loan base. In the meantime, the Company's NPLs - aided by write-offs - augmented at a slower pace, increasing by 8.52% (or LKR 39.54 million) over the same period.

**Chart 4: MIL's gross NPLs and ratios vs the industry**



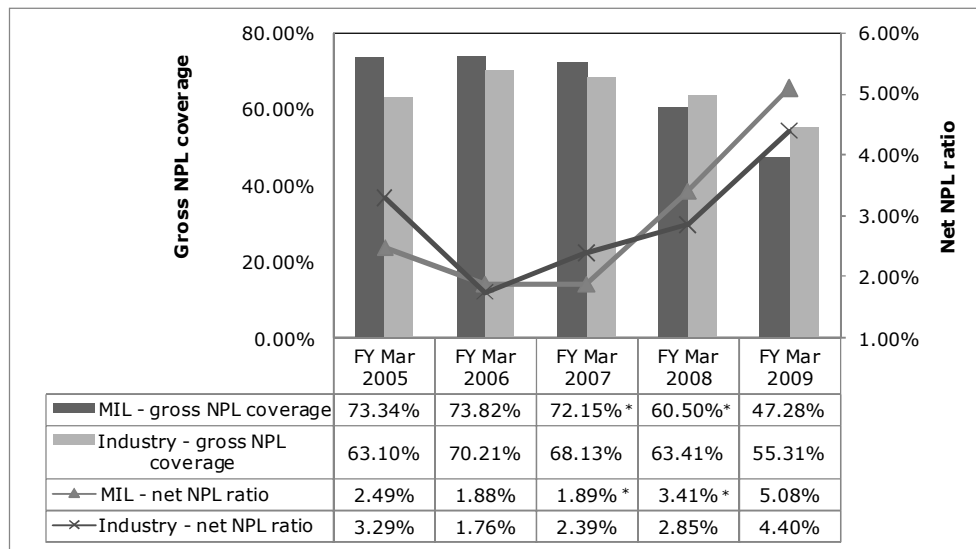
\* Restated

**Weakening provisions**

The write-offs had eroded MIL's provisioning levels, with its gross NPL coverage weakening to 47.28% as at end-FY Mar 2009 (end-FY Mar 2008: 60.50%). We note that the Company which had maintained better-than-industry coverage levels, was now below industry average (refer to Chart 5). MIL follows the Central Bank's Direction 3<sup>1</sup> on loan-loss provisioning, which is deemed to be less stringent as it allows the netting off of collateral when determining provisioning levels. All this had pushed its net NPL ratio up to 5.08% as at end-FY Mar 2009 (end-FY Mar 2008: 3.41%).

<sup>1</sup> Refer to page 14 for relevant Central Bank Directions

**Chart 5: MIL's NPL coverage and ratios vs the industry**



\* Restated

**Tighter underwriting standards**

In light of its weakening asset quality, the Company has tightened its lending procedures. Lending is now more centralised; any loan above LKR 1.2 million will be vetted by the DC. Furthermore, all second-hand vehicles are physically checked before the disbursement of a loan. The Company is also more discerning when it comes to lending for property purchases. MIL now requires collateral in the form of a vehicle, in addition to the land. As most of MIL's clients are small and medium-scale enterprises, they lack proper documentation; this renders cashflow-based evaluation unfeasible. As such, the Company relies on collateral and its own qualitative assessment of its clients. Therefore, loan-origination procedures are largely dependent on the experience of its credit officers.

**Investments tilted to hotel sector**

Meanwhile, MIL's investment in shares has remained within regulatory limits; share investments against capital funds amounted to 15.57% as at end-FY Mar 2009 (regulatory minimum: 25%<sup>2</sup>). In this regard, MIL continues to be heavily exposed to the hotel sector, with 84.59% or LKR 354.96 million of its total investments in this segment. The Company also has investments in related companies that are in the same sector. However, our concerns are mitigated as investments in related companies and shares only constituted 6.49% and 5.33% of its total assets, respectively.

Prospectively, MIL's asset quality will hinge on its ability to take advantage of the gradually improving macro-economic conditions, not to mention the effectiveness of the management's cautious approach to lending.

**Performance**

**Poorer underlying performance**

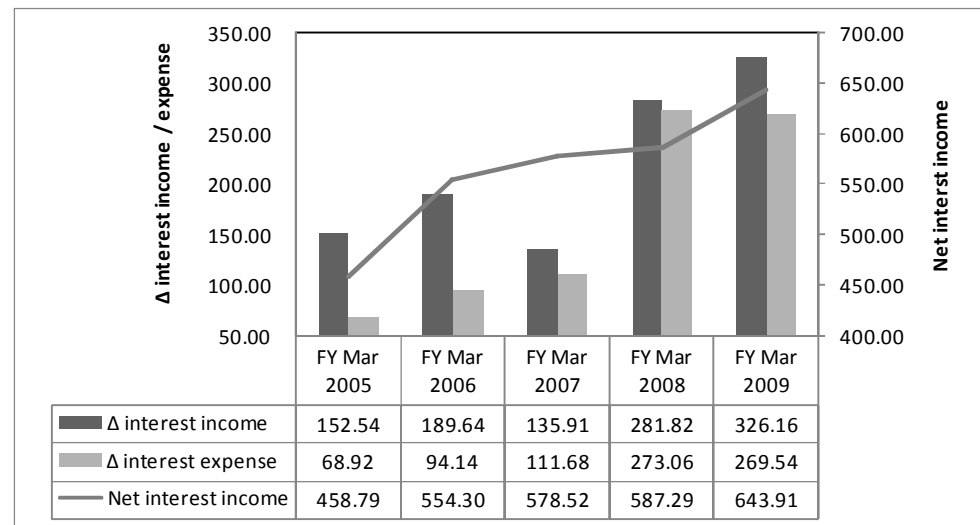
MIL's NIM widened as the augmentation in interest income, driven by the expansion of the HP portfolio, outpaced the rise in interest expense. Despite its healthier margins, MIL's underlying performance continues to weaken due to rising NPLs; its adjusted return on assets ("ROA") and return on equity ("ROE") weakened to 2.07% and 6.13%, respectively, as at end-FY Mar 2009. That said, MIL's showing is still commendable given the industry's performance and the gloomy economic climate.

<sup>2</sup> Refer to page 14 for relevant Central Bank Directions

**Increase in interest income outpaces interest expense**

The Company's expanding HP portfolio, which yields more lucrative margins than leases, coupled with the concurrent decline in its borrowings, has helped push up its net interest income, which was lifted 9.64% (or LKR 56.62 million) to LKR 643.91 million in fiscal 2009. HP income, meanwhile, rose LKR 230.80 million, followed by lease income that went up LKR 39.21 million. Meanwhile, interest expenses increased at a slower pace in FY Mar 2009, rising 37.43% (or LKR 269.54 million) compared to 61.08% (or LKR 273.06 million) in fiscal 2008 (refer to Chart 6). This was mainly due to a decline in bank borrowings (discussed under *Funding & Liquidity*). Given the prevailing environment of declining interest rates, MIL's interest expenses are expected to ease over the short term as a significant portion (48.25%) of its long-term borrowings have floating rates.

**Chart 6: Growth of MIL's net interest**



**Widening NIM**

With stronger net interest income, the Company's NIM reversed its downward trend, improving to 8.04% as at end-FY Mar 2009 (end-FY Mar 2009: 7.50%). Over the medium term, the Company is expected to enjoy better margins, backed by cheaper funding costs while its loans yield higher interest rates.

**Stable non-interest income**

The Company's other sources of non-interest income include fees, operating leases and dividend income, which are deemed more stable. Its margin on non-interest income also widened from 0.83% to 0.94% over the same span. Income from the sale of dealing securities was the main contributor to this increase. We note that the Company's margin on non-interest income was weaker than the industry's 2.60%. However, we also observe that the industry is more dependant on real-estate income, which is overstated due to profit-recognition policies, and more prone to economic vagaries.

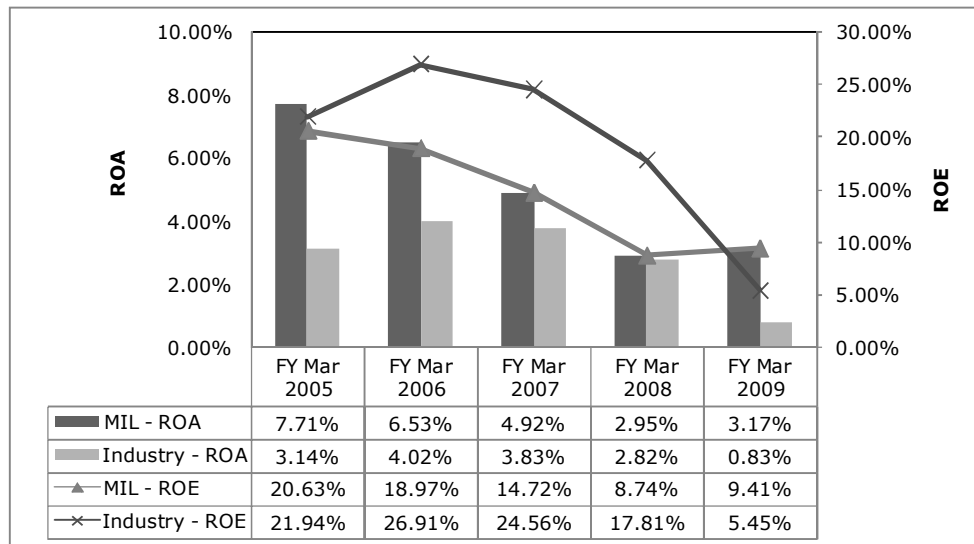
**Controlled overheads**

MIL's overhead management remains a positive factor. Its cost-to-income ratio has improved somewhat on the back of more robust income and better-controlled costs. Despite the acute inflationary pressures in FY Mar 2009, the Company had kept its overheads in check. Overheads only increased LKR 28.09 million in FY Mar 2009, i.e. less than the LKR 79.49 million rise in overheads the previous year. Meanwhile, MIL's cost-to-income ratio of 55.19% as at end-FY Mar 2009 was well below the industry average of 79.10%.

**Better-than-industry performance**

The improved income and cost structures had helped lift MIL’s pre-tax profit by 10% to LKR 254.41 million in fiscal 2009 (FY Mar 2008: LKR 231.29 million). Concurrently, its ROA and ROE broadened to 3.17% and 9.41%, respectively, at the end of the year (end-FY Mar 2008: 2.95%, 8.74%) - better than the corresponding industry averages of 0.83% and 5.45% (refer to Chart 7).

**Chart 7: MIL’s performance vs the industry**



**Underlying performance weakening track record**

Nonetheless, RAM Ratings Lanka observes that MIL’s underlying performance is still weakening. Its loan-loss provisions ascended to LKR 67.77 million in FY Mar 2009 (FY Mar 2009: LKR 52.05 million). If MIL had maintained the previous year’s provisioning levels (end-FY Mar 2008: 60.50%; end-FY Mar 2009: 47.28%), RAM Ratings Lanka calculates that pre-tax profit would have slumped LKR 88.76 million. As such, its ROA and ROE would fall to approximately 2.07% and 6.13%%, respectively, albeit better than the sliding industry averages of 0.83% and 5.45%. RAM Ratings Lanka expects MIL’s financial performance to stay ahead of the industry over the medium term. However, provisioning costs will erode its income if the Company is unable to turn around its asset quality.

**Funding & Liquidity**

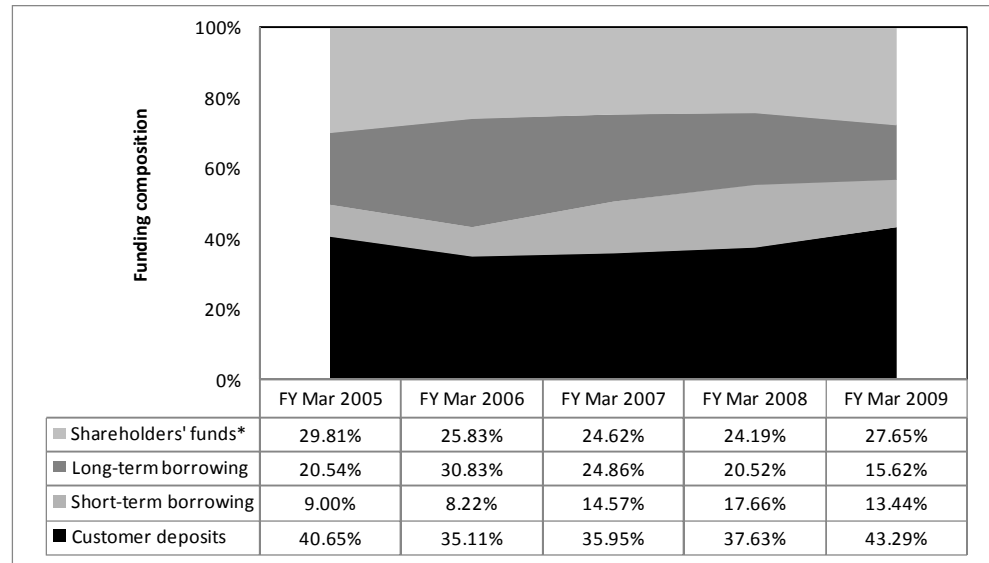
**Adequate funding and liquidity levels**

RAM Ratings Lanka opines that MIL’s funding and liquidity levels are adequate as the Company’s funding structure is skewed towards deposits, with receding bank borrowings. MIL’s franchise aided the Company to increase its deposit base, despite waning confidence in the RFC sector. Furthermore, MIL’s negative maturity mismatch in the “less than 3 months” bucket has narrowed.

**Improved funding structure**

MIL’s funding structure has improved, with the Company relying more on customer deposits and pruning its borrowings. Customer deposits took up the bulk of its funding base (43.29%) as at end-FY Mar 2009 (end-FY Mar 2008: 37.63%) (refer to Chart 8). Consequently, its debt level had declined from 38.18% to 29.06% of its total funding. Shareholders’ funds (excluding revaluation reserves) made up 27.65% of the Company’s funding base as at end-FY Mar 2009, reflecting MIL’s sound capitalisation.

**Chart 8: MIL's funding composition**



\*Excluding revaluation reserves

**Narrowing negative gap in ALMM**

The mismatch in MIL's asset-liability maturity profile has eased; the negative gap in the "less than 3 months" bracket narrowed from LKR 733.64 million to LKR 281.64 million between end-March 2008 and end-March 2009 (refer to Table 1). The Company's sizeable shareholders' funds meant that interest-earning assets outweighed interest-bearing liabilities. Although MIL recently formed an asset-liability committee ("ALCO"), the effectiveness of this committee can only be ascertained over time.

**Table 1: MIL's asset-liability maturity profile**

Maturity bucket	FY Mar 2009			FY Mar 2008		
	Interest earning assets	Interest bearing liabilities	Gap	Interest earning assets	Interest bearing liabilities	Gap
less than 3 months	1,635.91	1,917.54	(281.64)	1,536.25	2,269.89	(733.64)
3 - 12 months	2,550.89	1,830.57	720.32	2,513.19	1,658.20	854.99
1 - 3 years	2,164.80	649.87	1,514.93	3,427.79	743.06	2,684.73
3 - 5 years	2,150.47	239.37	1,911.09	1,287.00	136.65	1,150.35
more than 5 years	21.82	0.00	21.82	45.35	38.44	6.92
<b>Total</b>	<b>8,523.88</b>	<b>4,637.35</b>	<b>3,886.53</b>	<b>8,809.58</b>	<b>4,846.23</b>	<b>3,963.35</b>

**Liquid-asset ratio above statutory minimum**

Meanwhile, MIL reported a statutory liquid-asset ratio of 16.67% as at end-FY Mar 2009 (end-FY Mar 2008: 17.28%). However, RAM Ratings Lanka adjusted statutory liquid-asset ratio came up to 12.24% as at the same date. All said, this is still above the regulatory minimum of 10%. We highlight that the Company's adjusted statutory liquid-asset ratio excludes LKR 123.01 million of fixed deposits, which are under lien.

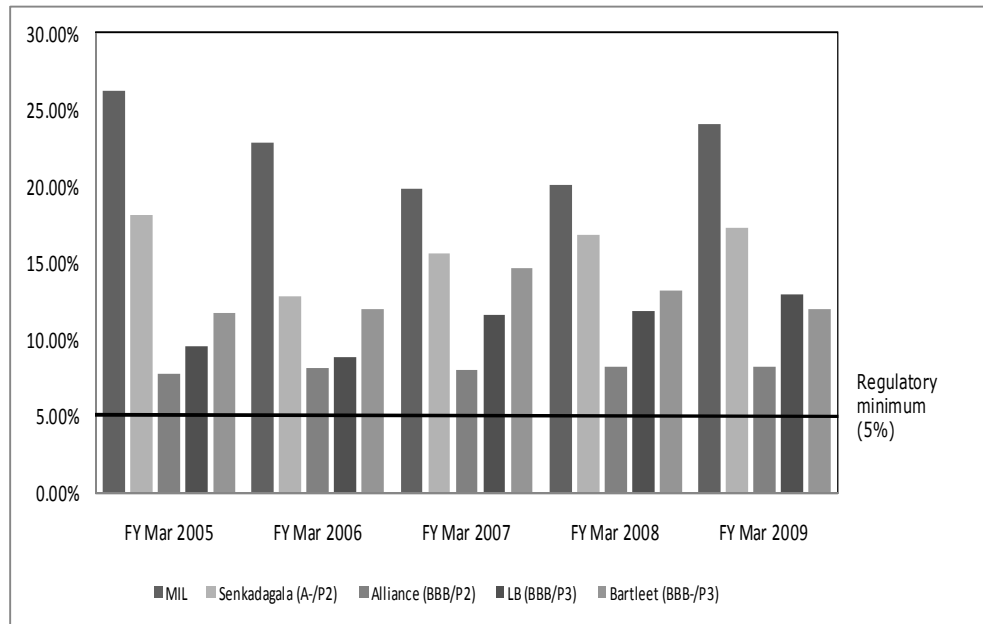
### Capital Adequacy

**Capitalisation - key strength**

MIL's robust capitalisation remains one of its key strengths. The Company's Tier-1 RWCAR and overall RWCAR improved to 24.02% and 30.26%, respectively, as at end-FY Mar 2009 (end-FY Mar 2008: 20.06% and 27.59%). These are well above the regulatory minimums of 5% (refer to Chart 9) and 10%, respectively. We note that the higher RWCAR was partly due to the contraction in the asset base. The Company's ratio on net NPLs to shareholders' funds, although weakening to 9.85% as at end-FY Mar 2009 (end-FY Mar 2008: 6.76%), was still superior to the industry average of 19.24% (refer to Chart 10). Furthermore, its

tightened capital-retention policy had lifted the ratio of MIL's internal capital generation (end-FY Mar 2009: 8.27%; end-FY Mar 2008: 5.08%).

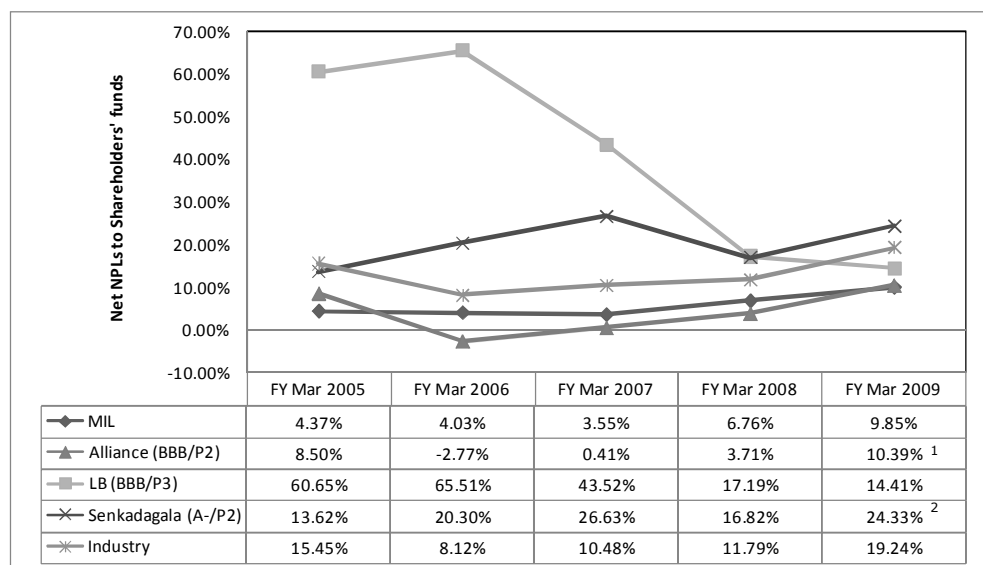
**Chart 9: MIL's Tier-1 RWCAR vs peers**



**Revaluation reserves shrank**

Meanwhile, the Company's revaluation reserves dwindled 20.74% to LKR 0.92 billion as at end-FY Mar 2009 (end-FY Mar 2008: LKR 1.16 billion), largely due to the drop in the value of its investments (as discussed in *Asset Quality* earlier). Changes in the carrying value of long-term investments are either credited or charged to the revaluation reserve, as per Sri Lanka Accounting Standard 22. Consequently, MIL's shareholders' funds slipped marginally from LKR 2.71 billion to LKR 2.69 billion over the same period. Going forward, RAM Ratings Lanka envisages MIL's capital-adequacy levels to remain well above the regulatory minimums.

**Chart 10: MIL's ratio on net NPLs to shareholders' funds vs peers**



<sup>1</sup> As at end-December 2008

<sup>2</sup> As at end-September 2008

## Industry Overview

Sri Lanka’s Gross Domestic Product (“GDP”) expanded 1.5% in the first quarter of 2009. Although this pales in comparison to the 6.2% of the previous corresponding period, the slower growth must be seen in the context of the global downturn. Not surprisingly, all 3 major sectors of the domestic economy have been hit by the global turmoil

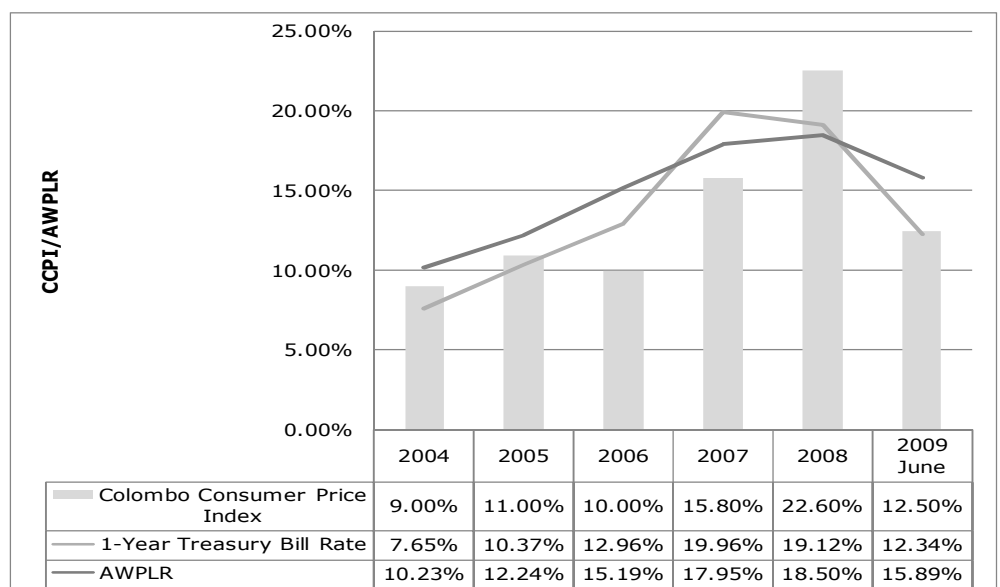
The performance of the primary sectors (agriculture, forestry and fishing) had been dented by the steep fall in tea prices, drought and slumping demand. Although value addition in tea declined 40.9%, this was partially cushioned by the expansion of other food items, including fishing. However, virtually all sub-segments within the industrial and services sectors advanced at a slower pace last year, principally due to weaker export demand (refer to Table 2).

**Table 2: Overall and sectoral GDP growth in 1Q 2008 and 1Q 2009**

Sector	1Q 2008	1Q 2009
Agriculture, Forestry and Fishing	5.9%	3.0%
Industry	6.0%	1.9%
Services	6.4%	1.0%
GDP	6.2%	1.5%

On a more positive note, the end of the 25-year war against the separatist Tamil Tigers has spawned renewed hope for the country. Additionally, the country’s long-awaited USD 2.5 billion stand-by facility from the International Monetary Fund (“IMF”) is expected to elevate the nation’s sorely depleted foreign-exchange reserves. Moreover, both inflation (as measured by the Colombo Consumer Price Index) and interest rates, which peaked in 2008, have been easing consistently since early 2009 (refer to Chart 11). While this augurs well for the domestic economy, sluggish export demand is still a concern. The tapering interest rates follow the Central Bank’s reversal of its tight monetary policy.

**Chart 11: Inflation and interest rates**



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 was 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 vehicle financing. In this regard, they compete with commercial banks. Although commercial banks have a cost 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 appetite. 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 present 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 provide greater agility.

In the interim, RAM Ratings Lanka expects the industry's overall 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 this 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 improving liquidity, the industry's funding structure - although improving - is still fragile. RFCs continue to 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><b>Liquid assets</b></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"> <li>a) Cash in hand.</li> <li>b) Balances in a current or deposit account in a commercial bank, free from any banker's lien or charge.</li> <li>c) Sri Lankan Government Treasury Bills, free from any charge or lien.</li> <li>d) Sri Lankan Government Securities maturing within 1 year and free from any charge or lien.</li> <li>e) Central Bank securities maturing within 1 year and free from any charge or lien.</li> <li>f) Cash balance, if any, maintained with the Central Bank.</li> </ol> <p>The minimum limits are as follows:</p> <ol style="list-style-type: none"> <li>1. For time deposits, 15% of outstanding deposits.</li> <li>2. For certificates of deposits, 15% of the face value of the certificates.</li> <li>3. For savings deposits, 20% of the outstanding deposits.</li> </ol> <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><b>Provision of bad and doubtful debts</b></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"> <li>(a) 50% of all advances in arrears for a period of 7 to 12 months.</li> <li>(b) 100% of all advances in arrears for 13 months or more.</li> </ol> <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"> <li>1. The value so deducted should not exceed the value decided by a professional valuer at the time of granting the advance.</li> <li>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.</li> </ol> <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"> <li>(a) 50% of all advances in arrears for a period of 12 to 24 months.</li> <li>(b) 100% of all advances in arrears for more than 24 months.</li> </ol> <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"> <li>(a) 50% of all advances in arrears for a period of 6 to 12 months.</li> <li>(b) 100% of all advances in arrears for 13 months or more.</li> </ul> <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"> <li>1. Sri Lankan Government securities, free from any lien or charge.</li> <li>2. Central Bank securities, free from any lien or charge.</li> <li>3. Time deposits in a licensed commercial bank, specialised bank or RFC, free from any lien or charge.</li> <li>4. Bank guarantees.</li> <li>5. With regard to repossessed vehicles and machinery, 80% of the valuation obtained in the preceding 6 months and by an approved valuer.</li> <li>6. With regard to mortgaged land and buildings that are held as collateral, if the accommodation has been in arrears for a period of: <ul style="list-style-type: none"> <li>a) 6-36 months, 100% of the value is deductible</li> <li>b) 37-60 months, 80% of the value is deductible</li> <li>c) 61-120 months, 50% of the value is deductible</li> <li>d) more than 120 months, 0% of the value is deductible</li> </ul> </li> </ol>
<p><b>Capital adequacy</b></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"> <li>(a) Tier I - Core Capital</li> </ul> <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"> <li>(b) Tier II - Supplementary Capital</li> </ul> <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><b>Single-borrower limit</b></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><b>Minimum core-capital requirement</b></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"> <li>(a) A finance company with a core capital of less than LKR 100 million must: <ul style="list-style-type: none"> <li>1. enhance its core capital to at least LKR 100 million by February 2007; and</li> <li>2. bring the remaining LKR 100 million or the deficit up to the core-capital requirement of LKR 200 million by July 2008.</li> </ul> </li> <li>(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"> <li>1. at least 50% of the deficient amount to meet the core-capital requirement of LKR 200 million by February 2007; and</li> <li>2. the balance of the deficient amount up to the core capital requirement of LKR 200 million by July 2008.</li> </ul> </li> </ul>
<p><b>Investments</b></p>	<p>A finance company must not invest in the shares of any company</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) In aggregate, in excess of 25% of the capital funds of the finance company</li> </ul> <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

<b>Date of Incorporation:</b>	1964	
<b>Commencement of Business:</b>	1964	
<b>Major Shareholders:</b>	Mr G L A Ondaatjie	51.51%
	Nilaveli Beach Hotels Ltd	20.83%
	Mercantile Fortunes (Pvt) Ltd	13.67%
	Tangerine Tours Ltd	6.67 %
	Mr G G Ondaatjie	1.67 %
	Ms A M Ondaatjie	1.67 %
	Mr T J Ondaatjie	1.67 %
	Mr G V Divitotawela	0.83 %
	Mr N H V Perera	0.33 %
	Mr R M D Abeygunawardena	0.33 %
<b>Directors:</b>	Deshabandu G L Andrew Ondaajie	Chairman & Managing Director
	Mr Gerard George Ondaatjie	Executive Deputy Chairman
	Mr Shermal Hemaka Jayasuriya	Finance Director
	Mrs Mignonne Bernadette Assuaw	Director Deposits
	Mr Pathiranage Mahes Amarasekera	Director Recoveries
	Mr Saman Kumara Abraham Galappaththi	Director Legal
	Mrs Angeline Myrese Ondaatjie	Director
	Mr Travis John Ondaatjie	Director
	Mr Justin Severimuttu Dominic	Director
<b>Auditor:</b>	Cecil Arsecularatne & Co (external) SJMS Associates (internal)	
<b>Listing:</b>	Not listed	
<b>Key Management:</b>	Mr Gerard George Ondaatjie	Executive Deputy Chairman
	Mr Shermal Hemaka Jayasuriya	Finance Director
	Mrs Mignonne Bernadette Assuaw	Director Deposits
	Mr Pathiranage Mahes Amarasekera	Recoveries Director
<b>Related Companies:</b>	Tangerine Beach Hotels Ltd, Nuwara Eliya Hotels Co Ltd, Royal Palms Beach Hotels Ltd, Nilaveli Beach Hotels Ltd, Tangerine Tours Ltd, Mercantile Fortunes (Pvt) Ltd	

<b>Capital History:</b>	Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
	1964	First allotment	0.07	0.07
	1965	Issue of shares	0.07	0.14
	1966	Issue of shares	0.07	0.21
	1966	Issue of shares	0.03	0.24
	1967	Issue of shares	0.01	0.25
	1967	Issue of shares	0.24	0.49
	1967	Issue of shares	0.01	0.50
	1982	Issue of shares	0.50	1.00
	1988	Bonus Issue	1.00	2.00
	1989	Bonus Issue	1.00	3.00
	1989	Bonus Issue	2.00	5.00
	1993	Issue of shares	5.00	10.00
	1995	Bonus Issue	10.00	20.00
	1997	Issue of shares	5.00	25.00
	2004	Issue of shares	5.00	30.00

## Financial Summary - Company

<b>BALANCE SHEET (LKR Million)</b>	<b>31-Mar-05</b>	<b>31-Mar-06</b>	<b>31-Mar-07</b>	<b>31-Mar-08</b>	<b>31-Mar-09</b>
<b>ASSETS</b>					
Cash & Money At Call	38.96	90.40	71.63	71.81	51.16
Deposits & Placements With Financial Institutions	0.00	51.42	100.00	104.10	123.01
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00
Securities					
Dealing Securities	516.30	570.51	628.38	688.02	708.09
Investment Securities	5.22	3.27	3.27	2.46	0.23
Gross Loans & Advances	3,582.98	4,761.22	5,402.40	6,093.08	5,930.34
Interest-In-Suspense	201.33	245.04	312.83	430.43	470.22
General Loan Loss Reserves	0.00	0.00	0.00	0.00	0.00
Specific Loan Loss Reserves	216.94	227.53	237.65	280.75	238.08
Net Loans & Advances	3,164.70	4,288.65	4,851.93	5,381.90	5,222.04
Investments in Subsidiaries/Associates	623.86	671.77	751.63	749.16	510.98
Investment Land and Properties	0.00	0.00	0.00	0.00	0.00
Other Assets	116.83	156.59	242.19	263.99	200.51
Property, Plant and Equipment	376.76	367.23	859.20	888.38	1,061.16
<b>TOTAL ASSETS</b>	<b>4,842.63</b>	<b>6,199.81</b>	<b>7,508.23</b>	<b>8,149.80</b>	<b>7,877.17</b>
<b>LIABILITIES</b>					
Customer Deposits					
Savings	0.00	0.00	0.00	7.57	8.60
Fixed	1,533.10	1,701.15	1,959.14	2,246.69	2,651.47
NIDs	85.90	109.90	106.50	155.00	114.90
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	1,176.61	2,014.35	2,265.37	2,444.54	1,862.38
Subordinated Debt & Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Other Liabilities	244.17	373.08	593.99	583.95	545.41
<b>TOTAL LIABILITIES</b>	<b>3,039.77</b>	<b>4,198.48</b>	<b>4,925.00</b>	<b>5,437.74</b>	<b>5,182.76</b>
Paid-up Capital	30.00	30.00	30.00	30.00	30.00
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	1,564.97	1,713.21	2,273.33	2,380.64	2,324.37
Statutory General Reserve	206.40	256.40	276.40	296.40	321.40
Retained Profits/(Loss)	1.49	1.72	3.50	5.02	18.64
<b>Total Shareholders' Funds</b>	<b>1,802.86</b>	<b>2,001.33</b>	<b>2,583.22</b>	<b>2,712.06</b>	<b>2,694.41</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' FUNDS</b>	<b>4,842.63</b>	<b>6,199.81</b>	<b>7,508.23</b>	<b>8,149.80</b>	<b>7,877.17</b>
<b>COMMITMENTS &amp; CONTINGENCIES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TIER 1 CAPITAL</b>	<b>1,187.30</b>	<b>1,332.50</b>	<b>1,414.33</b>	<b>1,548.85</b>	<b>1,772.47</b>
<b>CAPITAL BASE</b>	<b>1,495.08</b>	<b>1,666.89</b>	<b>1,998.77</b>	<b>2,130.45</b>	<b>2,233.44</b>

## Financial Summary - Company

<b>INCOME STATEMENT (LKR Million)</b>	<b>31-Mar-05</b>	<b>31-Mar-06</b>	<b>31-Mar-07</b>	<b>31-Mar-08</b>	<b>31-Mar-09</b>
Interest Income	700.04	889.69	1,025.59	1,307.42	1,633.57
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	241.25	335.39	447.07	720.13	989.66
<b>Net Interest Income</b>	<b>458.79</b>	<b>554.30</b>	<b>578.52</b>	<b>587.29</b>	<b>643.91</b>
Non-Interest Income	99.45	84.81	66.74	64.72	75.04
<b>Gross Income</b>	<b>558.24</b>	<b>639.10</b>	<b>645.27</b>	<b>652.01</b>	<b>718.95</b>
Personnel Expenses	80.99	95.20	111.68	134.48	156.29
Other Non-Interest Expenses	142.27	170.08	177.50	234.19	240.47
Loan Loss Provisions	23.00	13.04	18.77	52.05	67.77
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
<b>Pre-Tax Profit</b>	<b>311.98</b>	<b>360.78</b>	<b>337.31</b>	<b>231.29</b>	<b>254.41</b>
Taxation	7.03	77.10	100.33	82.72	21.03
<b>Profit After Tax</b>	<b>304.95</b>	<b>283.69</b>	<b>236.99</b>	<b>148.57</b>	<b>233.38</b>
Extraordinary Items	0.00	0.00	0.00	0.00	0.00
Prior Year Adjustments	0.00	0.00	(95.13)	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00	0.00
Transfer To Statutory Reserves	0.00	0.00	0.00	0.00	0.00
Transfer To Other Reserves	265.00	254.14	80.00	133.00	210.00
Dividend	42.19	29.32	60.08	14.05	9.75
<b>Retained Profit For The Year</b>	<b>(2.24)</b>	<b>0.23</b>	<b>1.78</b>	<b>1.52</b>	<b>13.63</b>

## Financial Ratios - Company

KEY RATIOS (%)	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09
<b>Profitability</b>					
Net Interest Margin	11.34%	10.04%	8.44%	7.50%	8.04%
Non-Interest Income Margin	2.46%	1.54%	0.97%	0.83%	0.94%
Cost To Income	39.99%	41.51%	44.82%	56.54%	55.19%
Return On Assets	7.71%	6.53%	4.92%	2.95%	3.17%
Return On Equity	20.63%	18.97%	14.72%	8.74%	9.41%
Dividend Payout	13.83%	10.34%	25.35%	9.46%	4.18%
<b>Asset Quality</b>					
Gross NPL Ratio	8.75%	6.83%	6.47% †	8.19% †	9.22%
Net NPL Ratio	2.49%	1.88%	1.89% †	3.41% †	5.08%
Specific Loan Loss Provisions For Current Year	0.76%	0.31%	0.37%	0.91%	1.13%
Gross NPL Coverage	73.34%	73.82%	72.15% †	60.50% †	47.28%
Loan Loss Reserve Coverage	6.42%	5.04%	4.67%	4.96%	4.36%
General Loan Loss Reserve Coverage	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Liquidity &amp; Funding</b>					
Liquid Asset Ratio	28.08%	31.87%	27.56%	24.40%	24.26%
Statutory Liquid Asset Ratio	17.86%	19.63%	17.52%	17.28%	12.24%
Customer Deposits To Total Interest Bearing Funds	57.91%	47.34%	47.69%	49.64%	59.84%
Loans To Deposits Ratio	195.47%	236.80%	234.89%	223.38%	188.18%
Loans To Stable Funds Ratio	87.96%	89.58%	91.49%	90.78%	90.67%
<b>Capital Adequacy</b>					
Shareholders' Funds To Total Assets	37.23%	32.28%	34.41%	33.28%	34.21%
Tier 1 Risk Weighted Capital Adequacy Ratio	26.22%	22.81%	19.79%	20.06%	24.02%
Overall Risk Weighted Capital Adequacy Ratio	33.02%	28.53%	27.96%	27.59%	30.26%
Internal Rate Of Capital Generation	17.38%	13.37%	7.72%	5.08%	8.27%

**Note :**

\* annualised

† restated

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.

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### Long-Term Ratings

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- 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.*

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### Short-Term Ratings

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- P1** A financial institution 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** A financial institution 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** A financial institution 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** A 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** A 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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