RATINGS

NOVEMBER 2008

CREDIT RATING RATIONALE

FINANCIAL INSTITUTIONS – SRI LANKA

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

Senkadagala Finance Company Limited – Rating Review

Financial Institution Ratings:
Long-term: A- [Reaffirmed]
Short-term: P2 [Reaffirmed]

Rating Outlook:
Negative

Strengths:
- Above-average profitability
- Healthy capitalisation
- Effective IT framework
- Strong branch network

Weaknesses:
- Rising NPLs
- Reliance on securitised borrowings

Principal Activities:
Finance company engaged in hire-purchase, leasing, retail lending and mobilising public deposits

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Summary

RAM Ratings has reaffirmed Senkadagala Finance Company Limited's ("Senkadagala" or "the Company") respective long- and short-term financial institution ratings at A- and P2; concurrently, the outlook on the long term rating has been revised from stable to negative. The negative outlook is premised on Senkadagala's weakening asset quality in the midst of deteriorating economic conditions. The ratings are, nevertheless, supported by the Company's commendable profitability and healthy capitalisation.

Senkadagala is the fifth-largest registered finance company ("RFC") in Sri Lanka in terms of assets, supported by 30 branches and a staff strength of over 200 personnel. The Company opened its thirtieth branch in Palawatte recently, strengthening its foothold at the forefront of the industry. Senkadagala's superior information technology ("IT") system has been the driving force behind its cost and operational efficiencies. These elements jointly fortify the Company's competitive strength in the industry.

Amid weakening economic fundamentals, RAM Ratings notes a deterioration in Senkadagala's asset quality over the past few years. The Company's gross non-performing-loan ("NPL") ratio which had remained below 3% prior to FYE 31 March 2007 ("FY Mar 2007"), had weakened to 6.27% as at end-FY Mar 2008, and further to 7.27% as at end-September 2008 (end-FY Mar 2006: 2.87%); the industry estimates for end-FY Mar 2008 and end-September 2008 came up to 6.54% and 7.01%, respectively. Going forward, RAM Ratings expects Senkadagala's asset quality to be further challenged by the prevailing climate of high inflation and lofty interest rates.

In spite of the above, the Company chartered yet another year of strong profit performance in FY Mar 2008. Pre-tax profit surged 17.27% year-on-year ("y-o-y") to LKR 302.25 million, translating into a healthy return on assets ("ROA") of 5.67% at the end of the period; this compared favourably with the industry average of 2.80%. As in previous years, the Company maintained a tight reign over its overheads, recording a cost-to-income ratio of 47.38% that was significantly below the industry average of 66.33%. However, given Senkadagala's weakening asset quality and the challenging economic conditions, RAM Ratings expects the Company's performance to moderate going forward, but remain above industry parameters.

Meanwhile, the Company's funding structure is still skewed towards securitised borrowings (53.42% of its total funding as at end-FY Mar 2008); this forms the basis for our concerns about the subordination of depositors' funds. At the same time, RAM Ratings notes that Senkadagala's reliance on this form of borrowing has been gradually reducing, and the Company is now emphasising deposit mobilisation against borrowings; we view this favourably. Elsewhere, the

The ratings shown are based primarily on audited accounts and information provided by the management of the rated institution. RAM Ratings does not verify the accuracy or completeness of such material and is not responsible for any errors or omissions, or the results obtained from the use of the same. RAM Ratings' rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involves any audit by RAM Ratings.

Company's capitalisation remained healthy, underpinned by strong internal capital generation and earnings retention.

Outlook

The negative outlook on the Company's long-term rating reflects the weakening trend in Senkadagala's asset quality amid the deteriorating economic environment. Downward pressure will be exerted in the absence of any improvement in its asset quality, or a significant deterioration in the Company's performance, liquidity or capitalisation. Similarly, reinstatement to a stable outlook will be considered in the event of a significant and sustainable improvement in Senkadagala's asset quality while its performance, liquidity and capitalisation remain intact.

Corporate Profile

40-year history

Senkadagala is an RFC governed by the Central Bank of Sri Lanka ("Central Bank") under the Finance Companies Act No. 78 of 1988, and the Finance Leasing Act No. 56 of 2000. The Company was incorporated in Kandy in 1968, by its founder director, Mr EW Balasuriya.

Fifth-largest RFC

The Company is supported by over 200 staff and 30 branches, located mainly in the western, central and southern regions of Sri Lanka. Senkadagala is the country's fifth-largest RFC in terms of assets, accounting for 3.97% of the industry's assets as at end-FY Mar 2008. The Company's principle lines of business comprise hire-purchase ("HP") financing, finance leasing, retail lending and accepting public deposits.

Ownership

Owned and managed by Balasuriya family

Senkadagala is a public limited company, 97%-owned and managed by the founding Balasuriya family; while 58.90% is held by EW Balasuriya & Co (Pvt) Ltd, the balance is owned by members of the Balasuriya family. The family also has interests in hotels, gaming and jewellery retailing. As at end-FY Mar 2008, Senkadagala held a 39%-stake in Hotel Casamara while the family owned the remaining interest.

Management & Strategies

Operations under purview of MD

Senkadagala's management team is headed by its Managing Director ("MD") and Chief Executive officer ("CEO"), Mr Lakshman Balasuriya. The MD is supported by an experienced and loyal team of senior managers, who drive the Company's performance.

30 branches - a milestone

Senkadagala further strengthened its branch network with the addition of 6 new branches in FY Mar 2008 and another 4 in the following 6 months; the Company now operates 30 branches. RAM Ratings anticipates this increase in delivery channels to aid the Company in expanding its deposit base, to supplement lending and reduce reliance on securitised borrowings over the long term. Having realised the importance of deposits as a diversified pool of low-cost funding, the Company is now emphasising deposit mobilisation via advertising and direct marketing.

Fund-based services

In terms of lending, Senkadagala has maintained its focus on HP, leasing and personal loans, with emphasis on HP. Against a backdrop of adverse economic conditions, the Company recorded a 19.87% y-o-y growth in its gross loan portfolio in FY Mar 2008. Amid the current environment of volatile interest rates, the Company is also considering introducing variable-rate leases to the market; this will allow Senkadagala to better manage its interest-rate risk. Meanwhile, the Company maintains a strong working relationship with Commercial Bank of Ceylon Ltd ("Commercial Bank"), enabling customers to pay their rentals through any of the latter's 160-odd branches island-wide.

Fee-based services

Elsewhere, the Company is also keen on expanding its fee-based services, to achieve revenue diversity and reduce reliance on fund-based services alone. In this respect, the management has signed up with Western Union Money Transfer Services, to provide facilities to Western Union customers through its branch network. Senkadagala also intends to team up with Capital Alliance Securities (Pvt) Ltd to make use of its branch network for stock brokering operations.

IT – integral element of operations

We note that the Company's IT configuration remains an integral element of its logistical operations. The system provides direct links to its lenders, to whom the Company has pledged its portfolio when securing loans; this enables both trustees and banks to monitor the performance of assigned contracts. The Company's IT system also provides direct links to insurance companies, to speed up transactions. The link provided to Commercial Bank allows automatic updating of customer accounts whenever a rental is paid through any of this bank's branches. Senkadagala has one of the best IT systems among RFCs in Sri Lanka; it has been the foundation of the Company's cost and operational efficiencies, as well as its smooth transition vis-à-vis rapid branch expansion.

Corporate Governance

Board composition

Senkadagala's Board now comprises 9 directors, 8 of whom are non-executive. The Company's operations fall under the purview of its MD, Mr Lakshman Balasuriya. The Board appointed Mr SK Wickremasinghe as the Chairman in April 2008; the former Chairman and founding director, Mr EW Balasuriya, will remain as a director. Meanwhile, Mr LGC Herath was appointed as a non-executive director in September 2008.

Sub-committees

The apex body currently has 4 sub-committees: credit, audit, strategic planning, and human resources & remuneration. Board meetings are held once every 2 months while special meetings are convened as and when required; we note that the Board convened 6 times in FY Mar 2008. The Company did not have any significant related-party transactions during the year. Moreover, it was also not exposed to any contingent liabilities or commitments of any material nature as at end-FY Mar 2008.

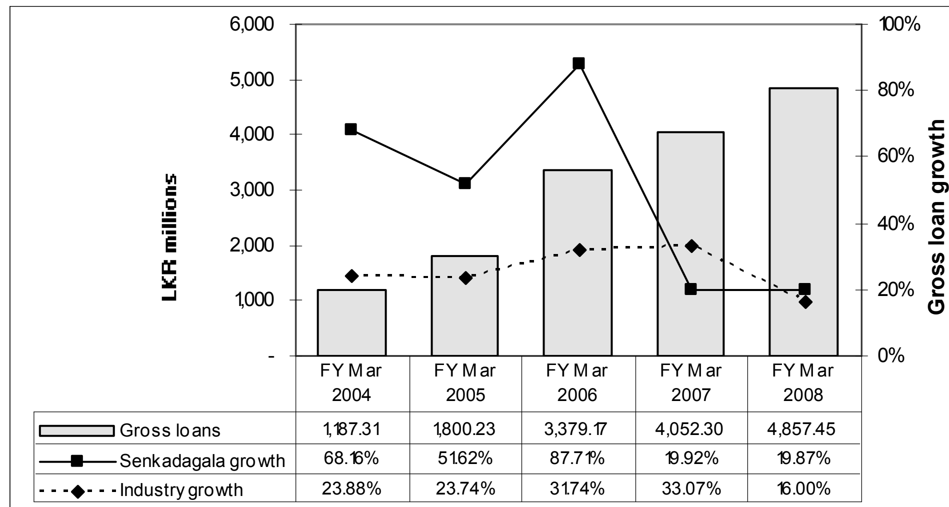
Asset Quality

Declining asset quality

Senkadagala's asset base augmented by a further LKR 1.07 billion in FY Mar 2008, representing a 22.36% y-o-y expansion (industry: 24.28%). At the same time, the Company's gross loan base had broadened 19.87% y-o-y (or LKR 805.15 million) to LKR 4.86 billion, compared to the industry average of 16.00%

for the same period (refer to Chart 1). Although credit disbursements had been curtailed, the Company had not been able to insulate itself from the challenging macroeconomic conditions in the country, to which RFCs are more vulnerable. Against this backdrop of high inflation and lofty interest rates, RAM Ratings notes a decline in the Company's asset quality.

Chart 1: Senkadagala's gross loan base and gross loan growth vs the industry



	FY Mar 2004	FY Mar 2005	FY Mar 2006	FY Mar 2007	FY Mar 2008
Gross loans	1,187.31	1,800.23	3,379.17	4,052.30	4,857.45
Senkadagala growth	68.16%	51.62%	87.71%	19.92%	19.87%
Industry growth	23.88%	23.74%	31.74%	33.07%	16.00%

New loan disbursements

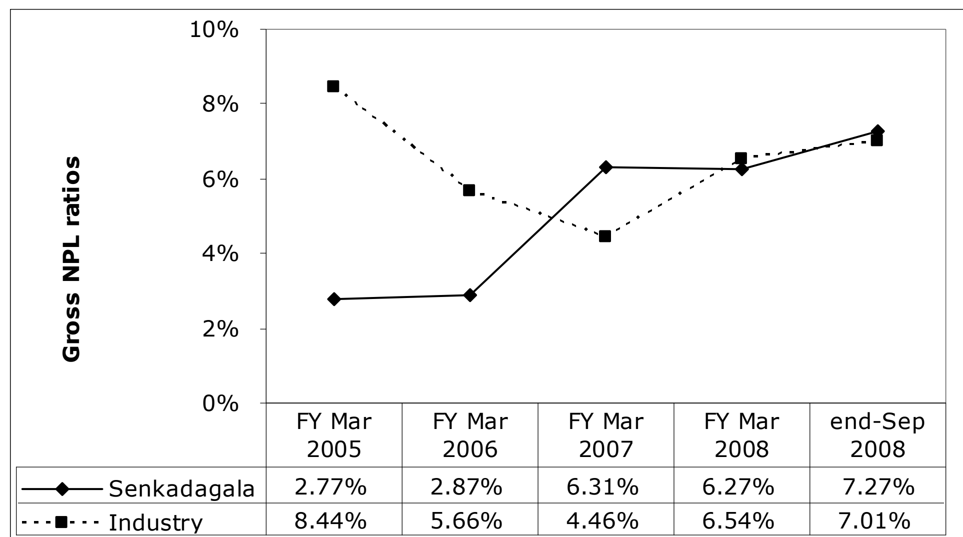
Much of the growth in Senkadagala's new lending had been driven by HP disbursements. While its HP portfolio augmented 28.32% y-o-y in FY Mar 2008, its lease portfolio only expanded 10.20%, taking up a respective 56.62% and 39.19% of the Company's gross loan portfolio as at the end of the period. Other loans grew by 18.37% y-o-y and comprised a minor 4.19% of the entire portfolio. New lending was mostly concentrated in the western and central provinces, as majority of the Company's branches are located in these areas.

Rising NPLs

The deteriorating economic fundamentals, coupled with the Company's aggressive expansion strategies adopted in the past (refer to Chart 1), have had a knock-on effect on Senkadagala's asset quality. Accordingly, the Company's gross NPL ratio (on a 6-month classification basis), which had remained below 3% prior to FY Mar 2007, rose to 6.27% as at end-FY Mar 2008 (end-FY Mar 2007: 6.31%[1]), and further to 7.27% as at end-September 2008; the estimated industry averages for the respective periods came up to 6.54% and 7.01%, respectively (refer to Chart 2). Previously, Senkadagala had adopted a policy of writing off NPLs which were not repossessed at the end of the financial year; effective FY Mar 2007, however, the Company has changed this policy and is instead making provisions against these advances.

[1] Gross NPL ratios have been restated to include seized stocks, to accommodate more stringent NPL-recognition policies recommended by the Central Bank. Accordingly, the gross NPL coverage and net NPL ratios have also been adjusted.

Chart 2: Senkadagala's gross NPL ratios vs the industry



Large quantum of seized stocks

RAM Ratings notes that Senkadagala's NPLs deteriorated from LKR 255.53 million as at end-FY Mar 2007 to LKR 304.54 million as at end-FY Mar 2008, and further to LKR 380.46 million as at end-September 2008. This rapid increase in delinquencies amid a volatile economic environment is of concern to us. However, it is pertinent to note that more than 50% of Senkadagala's NPLs can be attributed to unsold seized stocks, reflecting the Company's close surveillance over its current facilities and prompt recovery action upon default. Although accumulated seized stocks summed up to LKR 244.15 million as at end-FY Mar 2008, this had receded to LKR 193.34 million by end-September 2008 (refer to Table 1). Even so, full recovery of dues on repossessed vehicles is becoming increasingly challenging, given the present subdued economic climate.

Table 1: Movements in relation to Senkadagala's seized stocks

	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08
Number of vehicles b/f	182	309	222	255	250	253	241
(+) Repossessed during the month	156	15	61	69	42	42	20
(-) Sold during the month	29	102	28	74	39	54	81
Number of vehicles c/f	309	222	255	250	253	241	180
Closing value of stock (LKR million)	244.15	185.97	212.02	220.71	223.46	216.72	193.34

Bulk of NPLs from leasing

As at end-FY Mar 2008, bulk of Senkadagala's NPLs had originated from finance leasing; leases took up almost 58% of the Company's total NPLs while HP and other loans accounted for around 40% and 2%, respectively. We also note weakening collections in the period under review. Going forward, RAM Ratings expects Senkadagala's asset quality to be further challenged by the weakening economic climate. Hence, we expect the management to redouble its efforts to enhance its asset quality; failure to do so may exert downward pressure on its ratings.

Higher provisions

On a separate note, the Company had increased its specific provisions during the year, by LKR 79.81 million. As a result, its gross NPL coverage had improved from 28.67%[2] to 50.26% as at end-FY Mar 2008; this was better than the industry average of 49.30%. The Company provides for bad debts in accordance with the Central Bank's Direction 3[3], which allows RFCs to set off the value of collateral prior to provisioning; hence gross NPL coverage remains low due to

[2] Refer to Footnote 1
[3] Refer to page 13 for Central Bank regulations for RFCs

the large quantum of seized stocks. Despite this, RAM Ratings notes that Senkadagala's net NPL ratio stood at 3.22% as at end-FY Mar 2008 (end-September 2008: 4.72%), below the industry average of 4.29%. Although the Company's ratio on net NPLs to shareholders' funds eased from 26.63% to 16.82% as at end-FY Mar 2008 (industry average: 18.08%), it had deteriorated to 24.33% as at end-September 2008.

Diversified portfolio

Elsewhere, portfolio concentration remained minimal for Senkadagala, with its top 10 facilities accounting for less than 1% of its entire portfolio and less than 6% of its shareholders' funds. The net outstanding value on the largest facility accounted for only 0.75% of the Company's shareholders' funds. While more than 90% of the facilities had net outstanding amounts of less than LKR 1 million each, they accounted for more than 70% of the total portfolio value. Geographical diversification remained moderate vis-à-vis the Company's wide branch network spanning the western, central and southern regions of the country.

Performance

Strong performance

The Company chartered yet another year of strong profit performance in FY Mar 2008; pre-tax profit surged 17.27% y-o-y to LKR 302.25 million. Although its ROA narrowed marginally from 5.73% to 5.67%, it still fared well compared to the industry average of 2.80%.

Broader interest income

In line with portfolio expansion, the Company's interest income broadened 18.98% y-o-y to LKR 1.26 billion in FY Mar 2008 (FY Mar 2007: LKR 1.06 billion). The bulk of the increase in interest income was supported by returns on HP; interest on HP jumped 40.41% y-o-y (or LKR 187.85 million) to LKR 652.71 million. Default interest income also increased significantly to LKR 129.97 million in FY Mar 2008, from LKR 102.17 million the year before. At the same time, income from leases contracted slightly (by LKR 36.63 million) to LKR 371.21 million in FY Mar 2008, reflecting the receding growth momentum in the Company's lease portfolio.

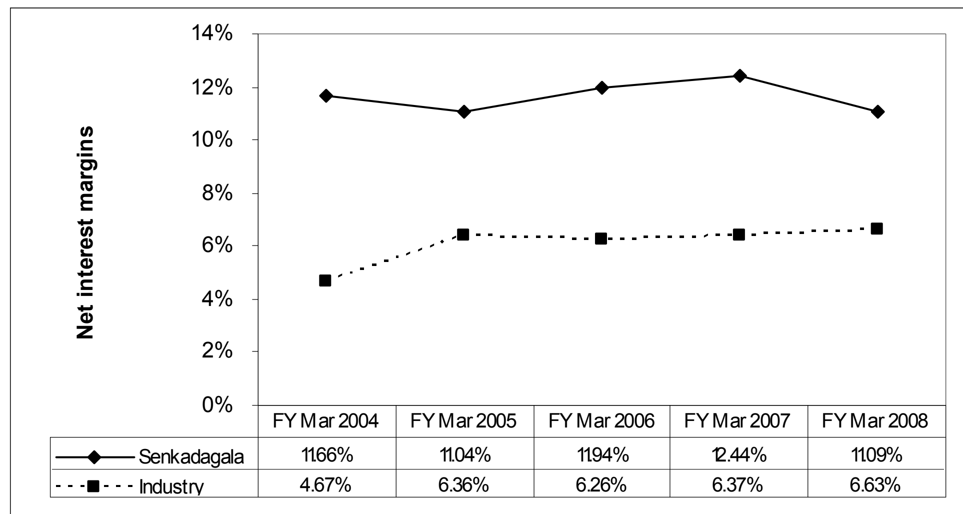
Robust NIM, albeit marginally lower

Meanwhile, RAM Ratings notes an exponential growth in Senkadagala's interest expenses during the period under review. Total interest expenses swelled 33.89% y-o-y against a 20.21% rise in total interest-bearing borrowings. Hence, interest expenses as a percentage of interest-bearing funding climbed up from 13.87% to 15.98% over the same span. We note that about 66.29% of the Company's interest expenses had arisen from securitised borrowings. Hence, amidst the environment of elevated interest rates, Senkadagla's net interest income only advanced 5.68% y-o-y, translating into a lower net interest margin ("NIM") of 11.09% as at end-FY Mar 2008 (end-FY Mar 2007: 12.44%). Nevertheless, this still compared strongly against the industry average of 6.63% for the same period (refer to Chart 3).

Higher non-interest income

Elsewhere, non-interest-income appreciated 27.98% y-o-y to LKR 117.76 million in FY Mar 2008, backed by commission income and profits from the sale of seized vehicles. Concurrently, the Company's non-interest-income margin also broadened slightly from 2.05% to 2.21%. Due to the slower expansion of net interest income, however, the growth in the Company's gross income slowed down to 8.83% y-o-y, reaching LKR 708.92 million for FY Mar 2008. Its gross income composition remained healthy, with net interest income accounting for 83.39% of gross income and non-interest income making up the balance.

Chart 3: Senkadagala's NIM vs the industry

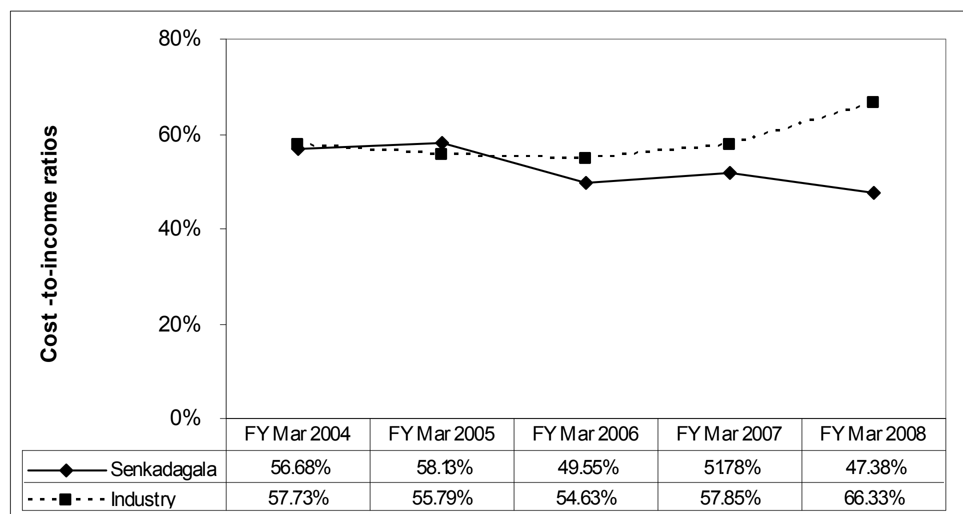


	FY Mar 2004	FY Mar 2005	FY Mar 2006	FY Mar 2007	FY Mar 2008
Senkadagala	11.66%	11.04%	11.94%	12.44%	11.09%
Industry	4.67%	6.36%	6.26%	6.37%	6.63%

Overheads under control

As in previous years, Senkadagala had maintained a tight reign over its overheads, thanks to its efficient IT system and the management's prudent cost controls. Total overheads (excluding loan-loss provisions) stood at LKR 335.90 million for FY Mar 2008, translating into a cost-to-income ratio of 47.38%. This fared favourably against the industry average of 66.33% for the same period (refer to Chart 4). Nonetheless, RAM Ratings notes that the Company's aggressive branch expansion during the 6 months to end-September 2008 had eroded cost efficiencies, as overheads had outpaced the growth in income from new branches. As such, Senkadagala's cost-to-income ratio had worsened to 64.34% at the end of the 6-month period. RAM Ratings expects the Company's cost-to-income ratio taper off over the medium term, once contributions from new branches accelerate.

Chart 4: Senkadagala's cost-to-income ratio vs the industry



	FY Mar 2004	FY Mar 2005	FY Mar 2006	FY Mar 2007	FY Mar 2008
Senkadagala	56.68%	58.13%	49.55%	51.78%	47.38%
Industry	57.73%	55.79%	54.63%	57.85%	66.33%

Above-average ROA and ROE

Senkadagala's strong performance had filtered down to a healthy bottom line; the Company recorded an ROA of 5.67% and a return on equity ("ROE") of 38.14% as at end-FY Mar 2008. Although these were slightly below the previous year's respective 5.73% and 44.34%, the ratios were well above the industry averages of 2.80% and 17.90%. However, RAM Ratings notes that loan-loss provisions had eroded 18.97% of Senkadagala's pre-provision profits during the year under review. In light of its weakening asset quality and the challenging economic environment, RAM Ratings expects Senkadagala's profitability to

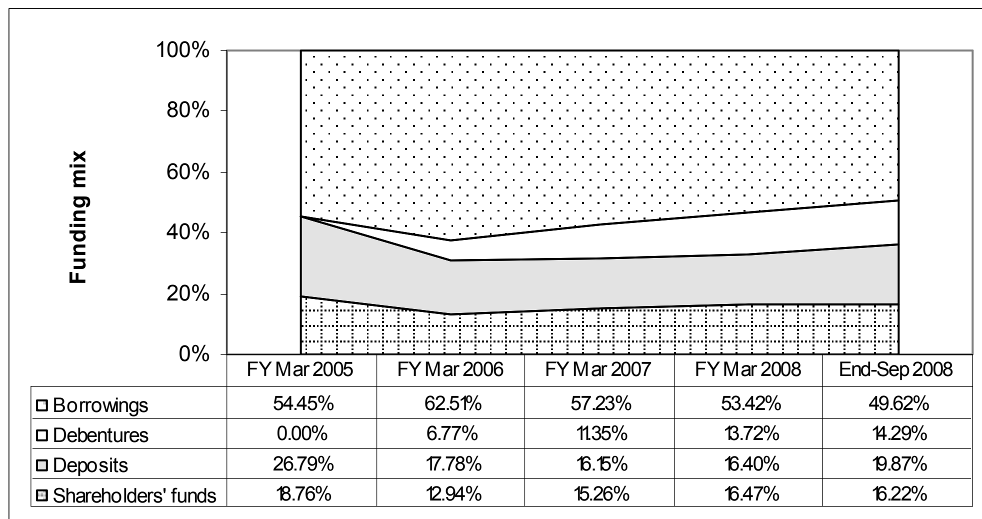
moderate going forward, but remain above industry parameters over the medium term.

Funding & Liquidity

Funding dominated by borrowings

The bulk of Senkadagala's funding is still supported by securitised borrowings. As at end-FY Mar 2008, securitised borrowings took up 53.42% of Senkadagala's total funding; debentures, deposits and shareholders' funds contributed a respective 13.72%, 16.40% and 16.47% (refer to Chart 5). As at the end of the reviewed period, securitised borrowings came up to LKR 2.92 billion (end-FY Mar 2007: LKR 2.57 billion), against which LKR 4.91 billion of the Company's HP and lease receivables were pledged. While the subordination of depositors' funds due to securitised borrowings is still a concern to RAM Ratings, we derive some comfort from the Company's reducing reliance on this form of borrowing (also refer to Chart 5); while funding from securitised borrowings had reduced further to 49.62% by end-September 2008, funding from deposits had risen to 19.87%. Furthermore, the Company's borrowings are now fairly diversified, with around 15 lenders, thus alleviating our concerns about concentration risk.

Chart 5: Senkadagala's funding mix



	FY Mar 2005	FY Mar 2006	FY Mar 2007	FY Mar 2008	End-Sep 2008
Borrowings	54.45%	62.51%	57.23%	53.42%	49.62%
Debentures	0.00%	6.77%	11.35%	13.72%	14.29%
Deposits	26.79%	17.78%	16.15%	16.40%	19.87%
Shareholders' funds	18.76%	12.94%	15.26%	16.47%	16.22%

Debenture issue

Meanwhile, Senkadagala had also issued LKR 241 million of unlisted unsecured redeemable debentures during the year, thus increasing its total outstanding amount from debenture funding to LKR 750 million as at end-FY Mar 2008. These debentures have a 5-year tenure and a fixed rate of 16% per annum. In the meantime, the Company repaid LKR 150 million of outstanding listed debentures (redeemable in 2009) in October 2008; a further LKR 100 million is scheduled to be repaid by October 2009. Thus, the Company's hypothetical gearing ratio (borrowings against equity) eased further to 4.08 times as at end-FY Mar 2008 (end-September 3.94 times), from 4.49 times a year earlier.

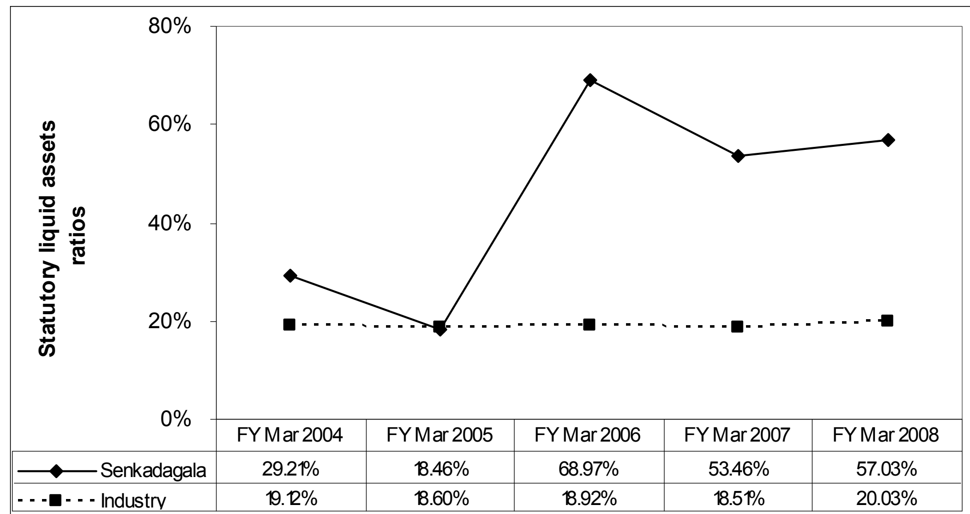
Emphasising deposit mobilisation

Elsewhere, customer deposits only went up LKR 172.35 million (or 23.79% y-o-y) to LKR 896.69 million as at end-FY Mar 2008. This included LKR 19.32 million of savings deposits; Senkadagala launched its first savings product in November 2007. Despite its solid branch network, RAM Ratings notes that the Company has not optimised its distribution channels for deposit mobilisation thus far. However, the Company is now accelerating its deposit-marketing activities via advertising and direct marketing. To this end, we note that deposits had augmented by LKR 313.51 million during the 6 months to end-September 2008.

Healthy liquidity profile

Meanwhile, Senkadagala's deposit-concentration risk remained somewhat high, with its top 20 depositors accounting for 19.90% of its total deposit liabilities and the top 10 taking up 17.38% as at end-FY Mar 2008. Nonetheless, these concerns are somewhat moderated by the Company's strong liquidity profile; its statutory liquid-asset ratio clocked in at 57.03% as at end-FY Mar 2008 (refer to Chart 6), comfortably surpassing the regulatory minimum of 15%. RAM Ratings also notes that Senkadagala's statutory liquid-asset ratio reflects high averages due to its fairly small deposit base in comparison to other long-term borrowings.

Chart 6: Senkadagala's liquid-asset ratio vs the industry



	FY Mar 2004	FY Mar 2005	FY Mar 2006	FY Mar 2007	FY Mar 2008
Senkadagala	29.21%	18.46%	68.97%	53.46%	57.03%
Industry	19.12%	18.60%	18.92%	18.51%	20.03%

Capital Adequacy

Healthy capitalisation

Senkadagala's capitalisation strengthened further in FY Mar 2008, underpinned by sturdy internal capital generation and healthy earnings retention. The Company's overall risk-weighted capital-adequacy ratio ("RWCAR") improved from 15.56% to 16.84% as at the end of the period under review (end-September 2008: 17.36%); the required minimum is 10%. In the meantime, its Tier-1 (core) capital summed up to LKR 900.56 million as at end-FY Mar 2008, standing well above the regulatory minimum of LKR 200 million for RFCs. As the entire capital base comprised shareholders' funds and revenue reserves, Senkadagala's Tier-1 RWCAR also stood at 16.84%, comfortably satisfying the statutory minimum of 5%.

Sturdy internal capital generation

The adequacy of Senkadagala's capitalisation is underpinned by its strong ability to generate capital internally. Despite an annual dividend payout ratio of 20% on average, the Company's internal rate of capital generation has remained strong over the past few years. Despite a marginal fall from the previous year, this ratio worked out to 27.26% as at end-FY Mar 2008 (end-FY Mar 2007: 35.52%), comparing well with the industry average of 13.93% for the same period. Looking ahead, RAM Ratings expects Senkadagala's pace of internal capital generation to moderate due to slower earnings generation, but remain above the industry average.

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 3).

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 takes its toll across all sectors.

Table 1: 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 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 7.01% as at end-September 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 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 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 2.22% as at end-September 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 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 13.95% (end-September 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

<table>
<tr><td>Liquid assets</td><td>Every finance company must have a minimum holding of liquid assets at any given time. Liquid assets mean:
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.

The minimum limits are as follows:
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.

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.</td></tr>
<tr><td>Provision of bad and doubtful debts</td><td>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:

<u>Direction No. 1 of 1991</u>

Bad and doubtful debts provided for under this direction are subject to a minimum of:
(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.

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:
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.

<u>Direction No. 2 of 1991</u>

Bad and doubtful debts provided for under this direction are subject to a minimum of:
(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.

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.</td></tr>
</table>

	With effect from 1 April 2007, Direction No. 3 of 2006 will be applicable to every RFC and will replace Directions 1 and 2. <u>Direction No. 3 of 2006</u> Bad and doubtful debts provided for under this direction are subject to a minimum of: (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. A finance company may deduct the value of the following items held as collateral in arriving at the amount of provisioning; 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: 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
Capital adequacy	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: (a) Tier I - Core Capital 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. (b) Tier II - Supplementary Capital 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. The Central Bank also issues guidelines from time to time, to be used in computing total risk-weighted assets.
Single-borrower limit	In the case of an individual borrower, the maximum of a single advance or the aggregate of advances granted to, and the aggregate outstanding at any time on advances granted to, should not exceed 15% of the capital funds of the finance company. This limit stands at 20% for any group of corporate or unincorporated borrowers with common directors or common partners or common proprietors. 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.

<table>
<tr><td>Minimum core-capital requirement</td><td>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:

(a) A finance company with a core capital of less than LKR 100 million must:

1. enhance its core capital to at least LKR 100 million by February 2007; and
2. bring the remaining LKR 100 million or the deficit up to the core-capital requirement of LKR 200 million by July 2008.

(b) A finance company with a core capital of between LKR 100 million and LKR 200 million must bring in:

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.</td></tr>
<tr><td>Investments</td><td>A finance company must not invest in the shares of any company

(a) In excess of 5% of its capital funds, provided that such investment does not exceed 40% of the issued share capital of the investee company
(b) In aggregate, in excess of 25% of the capital funds of the finance company

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.</td></tr>
</table>

Corporate Information

Date of Incorporation: 29 December 1968

Commencement of Business: 1968

Major Shareholders:

EW Balasuriya & Co (Pvt) Ltd	58.9%
Mr EW Balasuriya	0.08%
Mr L Balasuriya	6.56%
Dr A Balasuriya	6.56%
Mr R Balasuriya	6.56%
Dr M Balasuriya	6.56%
Dr Gayatri Madan Mohan	6.56%
Mrs L Fernando	5.47%

Directors:

Mr SK Wickremasinghe	Chairman
Mr L Balasuriya	Chief Executive Officer/Director
Mr EW Balasuriya	Director
Dr A Balasuriya	Director
Mr R Balasuriya	Director
Dr M Balasuriya	Director
Dr Gayatri Madan Mohan	Director
Mrs L Fernando	Director
Mr LGC Herath	Director

Auditor: KPMG Ford, Rhodes, Thornton & Co

Listing: Not listed

Key Management:

Mr L Balasuriya	Chief Executive Officer
Mr P Ikiriwatte	General Manager
Mr JK Jayatilleke	Assistant General Manager - Operations
Mr K Aturupana	Assistant General Manager - Accounts
Mr Timothy de Silva	Assistant General Manager - IT
Mr S Supramaniam	Manager, Treasury

Major Subsidiaries and Associates: Hotel Casamara (associate company)

Capital History:

Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
1969	Ordinary share capital	0.23	0.23
1976	Share issue	0.001	0.23
1981	Share issue	0.03	0.26
1984	Share issue	0.12	0.38
1990	Rights issue	3.05	3.43
1990	Bonus issue	1.91	5.34
1994	Bonus issue	5.33	10.67
1998	Bonus issue	21.35	32.02
2004	Bonus issue	21.35	53.37
2005	Bonus issue	160.10	213.47

Financial Summary - Company

BALANCE SHEET (LKR Million)	31-Mar-04	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	Provisional 30-Sep-08
ASSETS						
Cash & Money At Call	79.47	30.77	381.26	307.21	417.43	674.94
Deposits & Placements With Financial Institutions	0.00	0.00	0.00	0.00	0.00	0.00
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00	0.00
Securities						
Dealing Securities	63.56	67.95	73.94	92.32	110.18	30.19
Investment Securities	0.21	0.21	0.21	0.21	0.21	0.21
Gross Loans & Advances	1,187.31	1,800.23	3,379.17	4,052.30	4,857.45	5,230.17
Interest-In-Suspense	0.00	0.00	0.00	0.00	0.00	0.00
General Loan Loss Reserves	6.33	3.78	4.41	0.00	0.00	0.00
Specific Loan Loss Reserves	0.00	0.00	0.00	73.26	153.07	140.15
Net Loans & Advances	1,180.98	1,796.45	3,374.76	3,979.04	4,704.39	5,090.02
Investments in Subsidiaries/Associates	13.96	13.96	13.96	13.96	13.96	0.00
Investment Land and Properties	0.00	0.00	0.00	0.00	0.00	0.00
Other Assets	88.55	93.20	215.48	194.40	259.97	156.19
Property, Plant and Equipment	72.71	105.59	139.76	206.85	359.63	400.36
TOTAL ASSETS	**1,499.44**	**2,108.12**	**4,199.36**	**4,794.00**	**5,865.75**	**6,351.91**
LIABILITIES						
Customer Deposits						
Savings	0.00	0.00	0.00	0.00	19.32	25.10
Fixed	448.01	496.83	639.56	699.65	864.90	1,163.29
NIDs	34.78	26.15	17.33	24.69	12.47	21.81
Interbank Deposits	0.00	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	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	0.00
Other Borrowing	577.63	1,063.17	2,497.59	2,566.48	2,921.21	3,021.79
Subordinated Debt & Hybrid Capital	0.00	0.00	250.00	509.00	750.00	870.00
Other Liabilities	160.42	155.68	316.84	309.68	397.30	262.02
TOTAL LIABILITIES	**1,220.83**	**1,741.83**	**3,721.32**	**4,109.50**	**4,965.20**	**5,364.01**
Paid-up Capital	53.37	53.37	213.47	213.47	213.47	213.47
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	203.96	272.00	275.70	405.70	603.02	603.02
Statutory General Reserve	19.51	27.07	43.59	61.03	79.54	79.54
Retained Profits/(Loss)	1.76	13.84	(54.73)	4.31	4.53	91.87
Total Shareholders' Funds	**278.60**	**366.28**	**478.03**	**684.50**	**900.56**	**987.90**
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	**1,499.44**	**2,108.12**	**4,199.36**	**4,794.00**	**5,865.75**	**6,351.91**
COMMITMENTS & CONTINGENCIES	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
TIER 1 CAPITAL	**278.61**	**366.29**	**478.04**	**684.50**	**900.56**	**987.90**
CAPITAL BASE	**278.61**	**366.29**	**478.04**	**684.50**	**900.56**	**987.90**

Financial Summary - Company

INCOME STATEMENT (LKR Million)	31-Mar-04	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	Provisional 30-Sep-08
Interest Income	251.18	325.55	645.33	1,058.87	1,259.89	756.76
Less: Amortisation Of Premium/(Accretion Of Discount)	0.00	0.00	0.00	0.00	0.00	0.00
Less: Net Interest Suspended	0.00	0.00	0.00	0.00	0.00	0.00
Less: Interest Expense	104.68	126.50	268.69	499.47	668.74	432.56
Net Interest Income	146.50	199.06	376.64	559.40	591.16	324.20
Non-Interest Income	17.91	25.93	60.23	92.02	117.76	57.68
Gross Income	**164.41**	**224.99**	**436.87**	**651.42**	**708.92**	**381.88**
Personnel Expenses	12.41	26.08	49.98	81.10	100.20	52.01
Other Non-Interest Expenses	80.77	104.72	166.48	256.20	235.69	193.68
Loan Loss Provisions	8.06	0.57	13.04	56.37	70.77	29.55
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	**63.17**	**93.63**	**207.37**	**257.75**	**302.25**	**106.65**
Taxation	0.12	(2.06)	(6.52)	(31.12)	16.50	0.09
Profit After Tax	**63.05**	**95.69**	**213.89**	**288.87**	**285.75**	**106.56**
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Prior Year Adjustments	0.00	0.00	(64.25)	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00	0.00	0.00
Transfer To Statutory Reserves	3.40	7.56	16.52	17.43	18.51	0.00
Transfer To Other Reserves	48.50	68.04	163.80	130.00	197.32	0.00
Dividend	10.67	8.01	37.89	82.40	69.70	19.21
Retained Profit For The Year	**0.48**	**12.08**	**(68.57)**	**59.03**	**0.22**	**87.35**

Financial Ratios - Company

KEY RATIOS (%)	31-Mar-04	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	Provisional 30-Sep-08	
Profitability							
Net Interest Margin	11.66%	11.04%	11.94%	12.44%	11.09%	10.61%	*
Non-Interest Income Margin	1.42%	1.44%	1.91%	2.05%	2.21%	1.89%	
Cost To Income	56.68%	58.13%	49.55%	51.78%	47.38%	64.34%	
Return On Assets	5.03%	5.19%	6.58%	5.73%	5.67%	3.49%	*
Return On Equity	25.03%	29.04%	49.12%	44.34%	38.14%	21.59%	*
Dividend Payout	16.93%	8.37%	17.72%	28.53%	24.39%	18.03%	
Asset Quality							
Gross NPL Ratio[R]	3.46%	2.77%	2.87%	6.31%	6.27%	7.27%	
Net NPL Ratio[R]	3.46%	2.77%	2.87%	4.58%	3.22%	4.72%	
Gross NPL Coverage[R]	15.41%	7.58%	4.55%	28.67%	50.26%	36.84%	
Loan Loss Reserve Coverage	0.53%	0.21%	0.13%	1.81%	3.15%	2.68%	
General Loan Loss Reserve Coverage	0.53%	0.21%	0.13%	0.00%	0.00%	0.00%	
Liquidity & Funding							
Liquid Asset Ratio	29.63%	18.88%	53.88%	55.16%	58.84%	58.27%	
Statutory Liquid Asset Ratio	29.21%	18.46%	68.97%	53.46%	57.03%	57.01%	
Customer Deposits To Total Interest Bearing Funds	45.53%	32.97%	19.29%	19.06%	19.63%	23.72%	
Loans To Deposits Ratio	244.62%	343.50%	513.75%	549.34%	524.64%	420.59%	
Loans To Stable Funds Ratio	93.83%	97.81%	90.40%	93.33%	92.34%	89.46%	
Capital Adequacy							
Shareholders' Funds To Total Assets	18.58%	17.37%	11.38%	14.28%	15.35%	15.55%	
Tier 1 Risk Weighted Capital Adequacy Ratio	21.46%	18.16%	12.78%	15.56%	16.84%	17.36%	
Overall Risk Weighted Capital Adequacy Ratio	21.46%	18.16%	12.78%	15.56%	16.84%	17.36%	
Internal Rate Of Capital Generation	20.75%	27.19%	41.69%	35.52%	27.26%	17.68%	*

Note :

* annualised

NA = Not available / Not applicable

R = Restated (refer Asset Quality)

Financial Ratios - Company

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

RAM RATINGS' CREDIT RATING DEFINITIONS

(Financial Institutions)

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

LONG-TERM RATINGS

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

SHORT-TERM RATINGS

P1 Financial institutions in this category have superior capacities for timely payments of obligations.

P2 Financial institutions in this category have strong capacities for timely payments of obligations.

P3 Financial institutions in this category have adequate capacities for timely payments of obligations. The ability to honour the obligations is more vulnerable to adverse changes in business, economic or financial conditions.

NP Financial institutions in this category have doubtful capacities for timely payments of obligations.

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