

Lanka Rating Agency assigns A₃/L2 financial institution ratings to Senkadagala Finance Company Limited

Lanka Rating Agency Limited (“LRA”) has assigned a long-term financial institution rating of A₃ (with a stable outlook) and a short-term rating of L2 to Senkadagala Finance Company Limited (“Senkadagala” or “the Company”). The ratings reflect Senkadagala’s commendable asset quality, above-average profitability, satisfactory liquidity and sturdy capitalisation.

Senkadagala is a licensed finance company registered under the Finance Companies Act No. 78 of 1988. It is also registered under the Finance Leasing Act No. 56 of 2000, to carry out its leasing business. Senkadagala was incorporated in Kandy in 1968, as a limited-liability company under the Company’s Ordinance. The Company is headed by Mr Lakshman Balasuriya, the Chief Executive Officer who has more than 20 years’ experience in the field of finance. He is supported by an able team of senior managers whose competency is reflected in the Company’s sound performance. Senkadagala had been the first finance company in Sri Lanka to obtain a domestic credit rating. It also won the “Best Annual Report” award for registered finance companies in 2004, conducted under the aegis of the Institute of Chartered Accountants of Sri Lanka.

Sound lending practices and effective portfolio management have propelled Senkadagala’s asset quality to the forefront of the domestic finance-company industry. Senkadagala’s powerful information technology (“IT”) system provides real-time information, enabling the management to have greater control over its portfolio. As a result, this portfolio has been managed within acceptable credit parameters, resulting in better collections and less overdues. Senkadagala writes off loans that have been in arrears for more than 6 months.

The Company’s performance has been consistently better than the industry’s, mainly due to its well-managed interest margins and the cost efficiencies gained through its automated lending system, on top of staff productivity and careful branch expansion. As a result, Senkadagala has been able to maintain its return on assets (“ROA”) at above 5% in the last 5 years. Looking ahead, Senkadagala should be able to maintain an adequate level of capitalisation via its above-average profitability and conservative dividend policy.

On the other hand, Senkadagala has been relying excessively on the long-term bank borrowings secured by its lease portfolio. Although these loans offer better maturity structures, they have also subordinated depositors’ credit standing in the short term. Nevertheless, this is expected to normalise once Senkadagala starts to mobilise deposits aggressively via the launch of its new savings product in mid-2006.

To read the full report, please log on to LRA’s website at <http://www.lankarating.com> or Rating Agency Malaysia’s (“RAM”) website at <http://www.ram.com.my>

LRA is a domestic credit rating agency licensed by the Securities and Exchange Commission of Sri Lanka. LRA is a 100%-owned subsidiary of RAM, Malaysia’s premier rating agency. RAM is also an affiliate of Standard & Poor’s, the world’s largest rating agency.

LRA is backed by a 40-strong team of analysts at RAM, which has rated almost all the financial institutions in Malaysia and some 1,000 debt issues by corporates, statutory organisations and

Press Release
03 Jan 2005

subsidiaries of foreign multinationals. These issuers are involved in the leading sectors of the Malaysian economy, which share some similarities with the potential growth sectors in Sri Lanka. In particular, LRA can leverage on RAM's fortes in the ratings of financial institutions, asset-backed securities and Islamic debt securities.

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LRA'S CREDIT RATING DEFINITIONS (FINANCIAL INSTITUTIONS)

LRA's 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** 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.
- 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.
- 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.
- BB** Financial institutions rated in this category are adjudged to lack key protection factors, which results in inadequate safety for timely payments of financial obligations. This level of rating indicates that the entities would need certain favourable economic changes in order to meet financial obligations in a timely fashion.
- 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 favorable economic conditions or some degree of external support.
- 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.
- 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

- L1** Financial institutions in this category have superior capacities for timely payments of obligations.
- L2** Financial institutions in this category have strong capacities for timely payments of obligations.
- L3** 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 are impaired by doubtful capacities for timely payments of obligations, unless significant external support is made available.

For long-term ratings, LRA applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the financial institution ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the financial institution ranks at the lower end of its generic rating category.