



FINANCIAL INSTITUTIONS

LANKA RATING AGENCY LIMITED

(Incorporated in Sri Lanka under Companies Act 1982) Co. Reg. No: N (PBS) 1144

SENKADAGALA FINANCE COMPANY LIMITED – Initial Rating

Financial Institution

Ratings:

Long-term: A₃ [Assigned]

Short-term: L2 [Assigned]

Rating Outlook:

Stable

Principal Activity:

Finance company engaged in leasing, hire-purchase, retail loans and acceptance of public deposits.

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Summary

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.

Sound lending practices and effective portfolio management have propelled Senkadagala’s asset quality to the forefront of the industry. The Company’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 margin and 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.

However, 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.

With above-average profitability and a conservative dividend policy, we opine that Senkadagala will be able to maintain its capitalisation adequately.

Corporate Profile

Company with over 35 year' track record

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. The Company was incorporated in Kandy in 1968, as a limited-liability company under the Company's Ordinance. The founder of Senkadagala is Mr E W Balasuriya, the present Chairman and Managing Director of the Company.

Senkadagala had been the first finance company 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.

Ownership and Financial Flexibility

A family concern

Senkadagala is owned by the Balasuriya family, who hold over 97% of its equity (see Table 1). The family also owns and manages E W Balasuriya and Company (Pvt) Ltd, Thompsons Beach Hotels Ltd (previously Hibiscus Hotel) and E W Balasuriya Jewellers.

As at the end of FYE 31 March 2005 ("FY Mar 2005"), the family owned 61% of Hotel Casamara whilst Senkadagala held the remaining 39%.

Table 1: Shareholders of Senkadagala (as at end-FY Mar 2005)

Stakeholder	% shareholding
E W Balasuriya & Co (Pvt) Ltd	58.90%
Mr E W 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 (member of Balasuriya family)	6.56%
Mrs L Fernando (member of Balasuriya family)	5.47%
Family holding	97.25%
Others	2.75%
Total	100.00%

Senkadagala's financial flexibility stems from its shareholders. Although there has not been any liquidity crunches to date, we opine that some form of support should be forthcoming in times of distress. Nevertheless, we cannot comment on the level of support as we are unable to ascertain the individual shareholders' financial strength.

Management & Strategies

The Board of Senkadagala comprises members of the Balasuriya family who are academically qualified individuals. The Board is chaired by the head of the family, Mr EW Balasuriya, who has over 60 years' experience.

Experienced management team

Meanwhile, the Company is headed by Mr Lakshman Balasuriya, the Chief Executive Officer ("CEO"), who holds a master's degree in operational research and has more than 20 years' experience in the fields of finance, leisure and jewellery. He is supported by an able team of senior managers whose competency is reflected in the Company's sound asset quality and above-average profitability. The senior management team comprises individuals with well over 15 years' experience each, drawn from various fields such as banking, accounting and leasing.

Growth through careful branch expansion

In keeping with the Company's plans to expand its business to new markets through its branch network, the first branch was opened in 2000, followed by 2 more in 2003, another 3 in late 2004, and 3 more in early 2005. These branches are mainly located in the Western, Central and Southern Provinces and are linked to the central server in Colombo. The Company aims to increase its network to up to 15 branches by mid-2006. Although it has taken 5 years to establish a 10-branch network, Senkadagala has been careful in ensuring the productivity of each branch and their contributions to the Company's overall profitability, as planned. The Company has also successfully identified new locations for its branches through the use of its IT based management information system.

Senkadagala has also made arrangements with one of the leading local commercial banks to accept rentals of its clientele through the Bank's 120-plus branches across the country. This has allowed Senkadagala to extend its business to encompass a larger geographical area and also provides it the opportunity to identify potential locations for future branches.

Powerful IT system drives performance

The Company has one of the best IT systems among the finance companies in Sri Lanka, the benefits of which are reflected in many areas of its business. The system instantly captures all lending/accounting transactions and allows on-line updating of its database. Sufficient checks and controls have been incorporated to warrant good lending practices for all branches. The system provides real-time information on the most critical aspects of the business, both at corporate and branch levels, permitting close management of their portfolios on a daily basis. It further enables the management to monitor the effective return from each contract, thus facilitating more informed decisions. The system also captures staff attendance and movements to maximise productivity. All these, coupled with a team of managers who are well-trained in the mechanics of the system, has allowed Senkadagala to stride ahead of its peers.

Concentrates on leasing and hire-purchase financing

At the same time, Senkadagala offers traditional financing solutions while avoiding complex and untested products. Its lending portfolio includes finance leases, hire-purchase ("HP") financing, trade loans and pledge loans. The Company is confident of reaching new markets through its existing range of products.

New savings product expected to kick-start deposit mobilisation

In the context of deposits, the Company has been offering fixed deposits with tenures running up to a maximum of 60 months. Most of the branches currently focus wholly on lending to capitalise on the growing market for leases and HP financing. At present, deposit mobilisation is limited to the Colombo and Kandy branches. To strengthen its deposit base, the Company plans to launch its new savings product, which comes together with automated teller machine (“ATM”) cards, by early next year. Plans are afoot to tie up with international card issuers, which would enable customers to access their savings accounts through a global network. Furthermore, leading commercial banks are being approached to gain access via their ATM networks, to offer island-wide accessibility to Senkadagala’s customers. The IT platform is being augmented to accommodate this upcoming product. This should bring Senkadagala’s new offering in line with most of the commercial banks’ in terms of market reach. Along with its ability to offer better interest rates, the new savings product should enable the Company to establish its presence in the savings market.

Despite its astute management, the Company still lacks a formal system for strategic planning and budgetary control. Moreover, there is also room for a written underwriting policy which would ensure the preservation of Senkadagala’s profitability and asset quality.

Asset Quality

The Company’s asset base stood at Rs 2.11 billion as at end-FY Mar 2005, of which 82.85% comprised net loans and advances while the balance represented liquid (4.68%) and other (12.47%) assets.

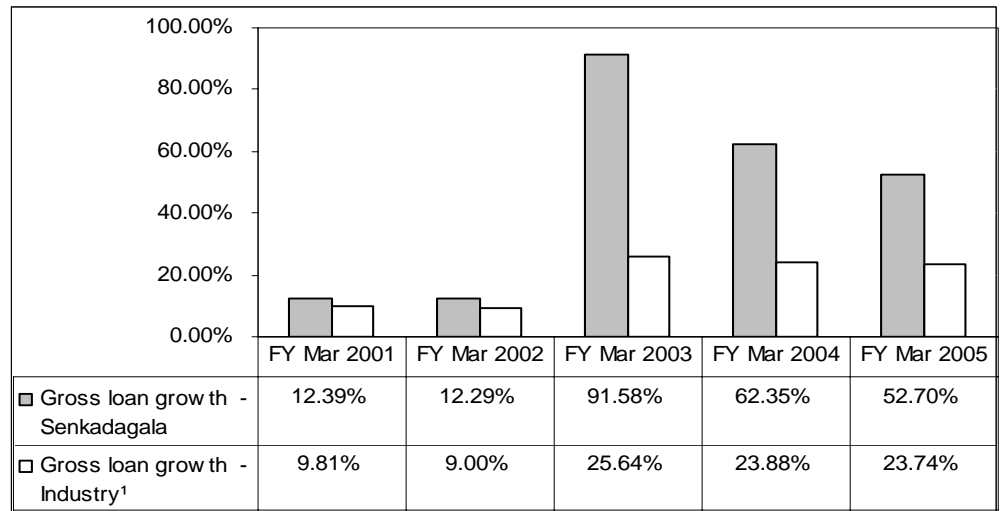
In FY Mar 2005, the total assets of Senkadagala augmented by 40.59% compared to the industry’s 23.34% growth; the above-average performance was driven by the expansion of the Company’s loan portfolio.

Loan growth well above industry’s

The growth of the Company’s loan portfolio has been outpacing that of the industry, especially since 2003 (refer Chart 1), underpinned by the expanding branch network and the growing demand for HP facilities. In the FY Mar 2005, its gross loans and advances surged 52.70%, well above the industry’s 23.74% growth. The provisional figures for Senkadagala also reflect a 55.07% jump in its assets and a 47.33% increase in net loans and advances for 1H FY Mar 2006. We expect this trend to be sustained in the medium term, especially with the Company’s expansion strategy.

As at end-FY Mar 2005, lease facilities constituted 83.46% of the Company’s net loans and advances while HP took up 8.88%. Meanwhile, non-HP loans (loans extended for working-capital requirements) accounted for another 4.30% of its net loans and advances, while loans to related company employees (secured against their provident funds) comprised 3.36%.

Chart 1: Loan growth



Healthy loan portfolio

Over 90% of Senkadagala's lease and HP advances are for motor vehicles with acceptable second-hand market values. Portfolio concentration is relatively low, with only 8% of lease accounts and 1% of HP accounts being above Rs 1 million. In terms of value, this category accounts for about 25% of the Company's net outstanding leases and about 5% of its net outstanding HP facilities. On the other hand, we note excessive concentration in the non-HP category, where about 5% of the customers account for almost 50% of the outstanding amounts. However, LRA is not overly concerned about this concentration given its low portfolio exposure of 4.30% to such a product. Furthermore, the provisional figures for 1H FY Mar 2006 indicate a slight change in the Company's portfolio mix, with leases claiming 74.90% and HP taking up 19.32% of its net loans and advances. We expect this trend to continue given the advantage of value-added tax ("VAT") to customers with HP facilities.

Good portfolio management results in commendable asset quality

Senkadagala's asset quality remains one of the best in the industry, primarily due to its sound lending practices and efficient portfolio monitoring. The Company's IT system provides a "collection index" that indicates the total rentals collected as a percentage of rentals due on a particular day for each branch. This has enabled the Company to effectively manage overdue advances, which is reflected in the ageing profile of its performing portfolio. We note that on average, 60% of the portfolio falls within their due dates whilst about 35% comes within the "3 months in arrears" bracket. Only 2% of the portfolio is 5 – 6 months in arrears, which is still deemed as performing. To further tighten controls, internal audits are carried out by an independent audit firm on a monthly basis. The auditor identifies and reports (to the CEO) discrepancies against the underwriting policies, documentation requirements and operational standards of all branches.

More stringent policy on writing off bad debts

Senkadagala adopts a full write-off policy on advances that have been in arrears for more than 6 months. This is more stringent than the requirements of the regulator². Despite its expanding portfolio, Senkadagala has been able to curb the writing off of its annual bad debts at below 2% of the Company's gross loans and advances (refer to Chart 2), recording 1.11% in FY Mar 2005 against 1.46% in FY Mar 2004. As a prudent measure, the Company makes a general provision of 10%

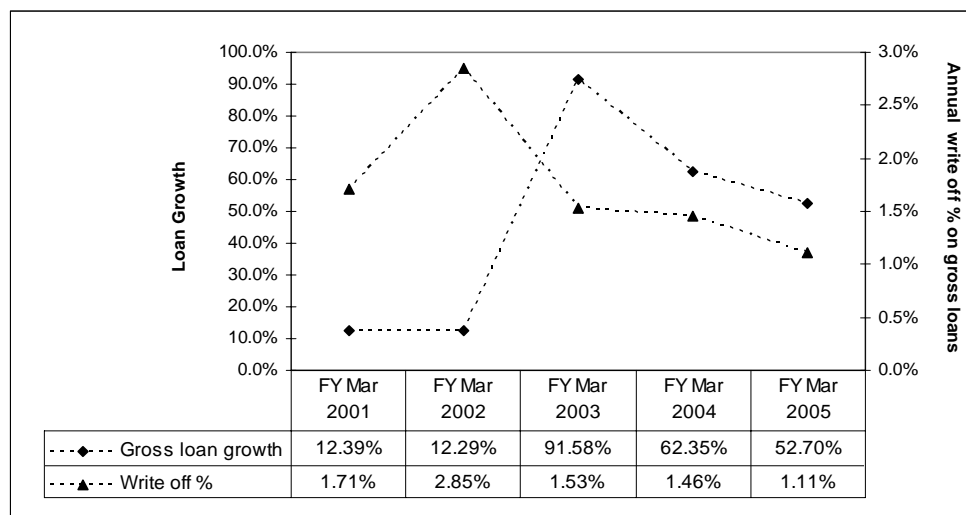
¹ Industry Information is based on Central Bank Statistics.

² Refer to page 12 for relevant Central Bank regulations on registered finance companies.

on the outstanding capital of leases which have been in arrears for 4 - 6 months. Further, we note that staff loans amounting to Rs 3.65 million were in arrears for over 6 months as at FY Mar 2005. These loans are secured by the employees private provident fund and are being recovered by the company. Hence, we are not overly concerned.

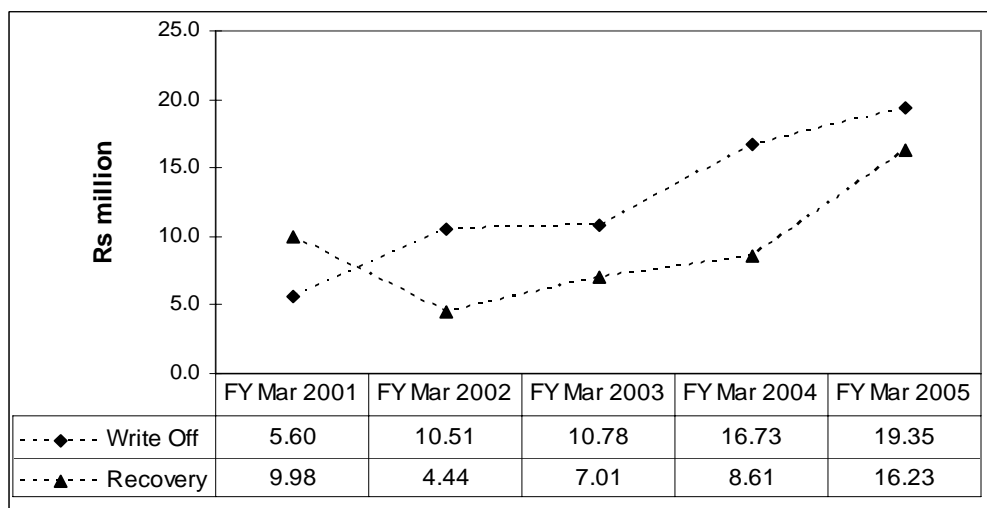
Chart 2: Growth in gross loans and advances vs annual write-offs

Strong debt recovery



Although the Company writes off bad debts annually, it continues to pursue these customers for the recovery of such amounts. As a result, the recovery rate for the previous year's write-offs improved from 79.27% in FY Mar 2002 to 97.01% in FY Mar 2005. After recovering Rs 16.23 million in the FY Mar 2005 (refer to Chart 3), effective write-offs only amounted to Rs 3.12 million.

Chart 3: Bad debts written off and recovered



Performance

90% of revenue from interest income

Senkadagala derives 90% of its gross revenue from interest-generating operations. Non-interest income only contributes 10% on average, derived from insurance commissions, profit on seized vehicles, and other finance charges.

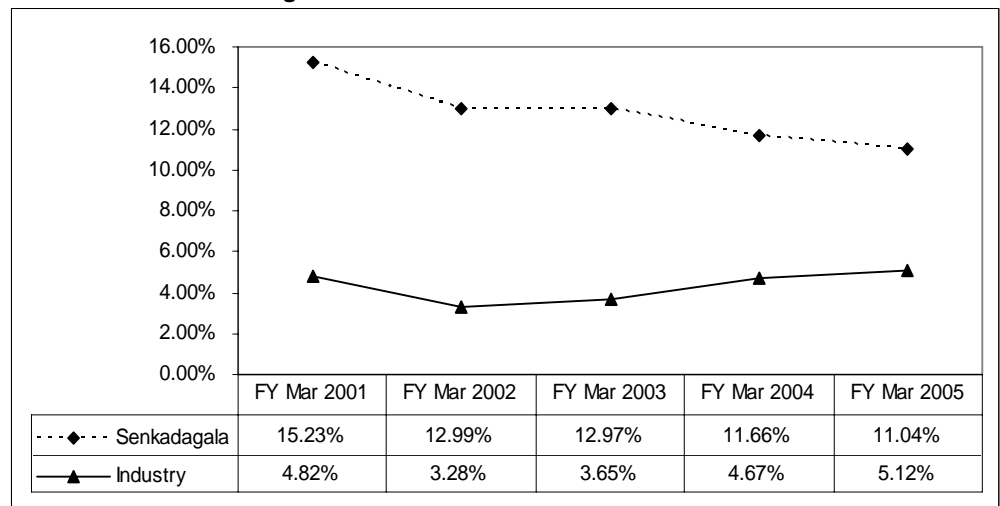
Focus changing to HP segment

The Company's pre-tax profit soared to Rs 93.63 million in FY Mar 2005, representing a 48.22% jump over the previous year. Lease income contributed 76.47% (FY Mar 2004: 82.08%) while HP accounted for 11.87% (FY Mar 2004: 3%) of its gross interest income in FY Mar 2005; non-HP loans and staff loans formed another 4.86% and 4.99%, respectively. As a result of the tax advantage on HP facilities, there has been an industry-wide explosion in HP business in 2005. Given the higher effective rate chargeable on such products, HP has become very attractive among finance companies. In line with this, the value of Senkadagala's HP business more than tripled from Rs 155.13 million in FY Mar 2005 to Rs 497.22 million in 1H FY Mar 2006. However, the growth of its lease portfolio has been above 50% over the last 2 years. This shift in the Company's business focus may well continue in the absence of any imminent change to the existing tax regulations.

Sturdy net interest margin

On another note, the Company's 11.04% net interest margin ("NIM") in FY Mar 2005 remained better than the industry's average of 5.12% (refer to Chart 4). Senkadagala monitors its lending margins on a daily basis, at both branch and portfolio levels, with the help of its real-time information system. With the growth in the Company's HP business, we expect this margin to improve further as HP yields are much higher than those of many other products, including leasing.

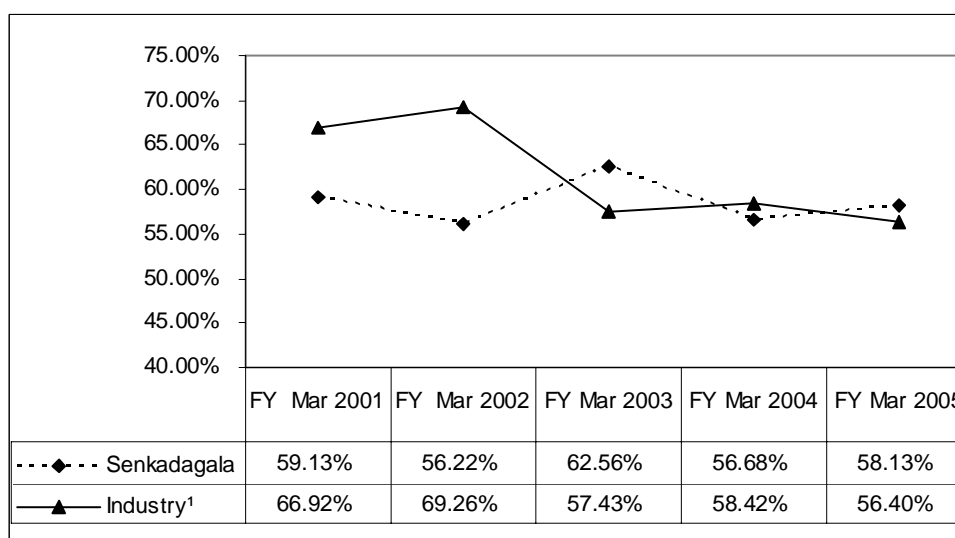
Chart 4: Net interest margin



Cost-to-income ratio at par with industry's

Senkadagala's cost-to-income ratio has stayed at par with the industry's. As a result of new branches, its cost-to-income ratio went up from 56.68% in FY Mar 2004 to 58.13% in FY Mar 2005 (refer to Chart 5). Nonetheless, this is deemed acceptable given its expanding branch network. This level of cost-to-income ratio had been achieved through the use of the Company's IT system and elevated staff productivity. However, overhead costs may rise further in the medium term as more new branches are set up. Once these branches break-even, the Company's cost-to-income ratio is expected to improve.

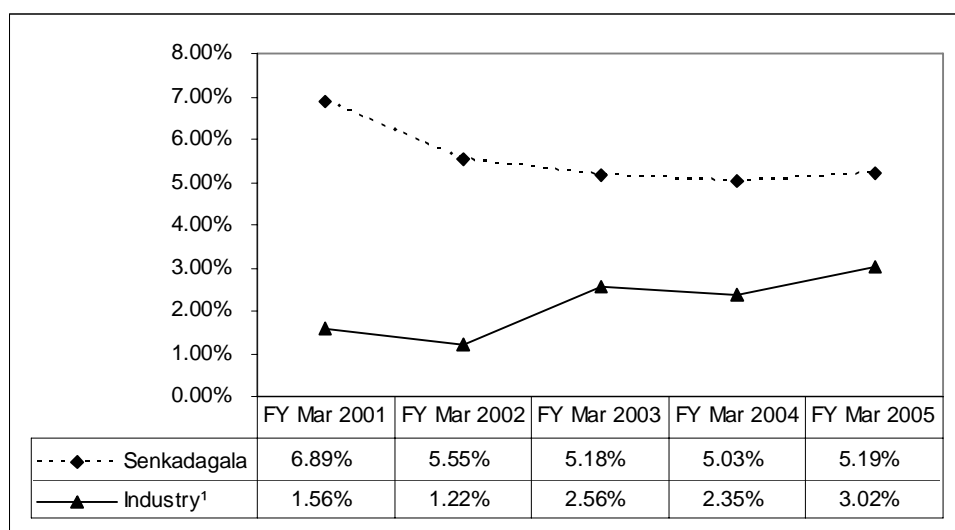
Chart 5: Cost-to-income ratio



ROA above industry average

As a result of its healthier NIM and cost-to-income ratio, Senkadagala has been able to maintain its ROA at above 5% over the last 5 years (Chart 6). The Company recorded an ROA of 5.19% as at end-FY Mar 2005, which compares well against the industry average of 3.02%.

Chart 6: Return on assets

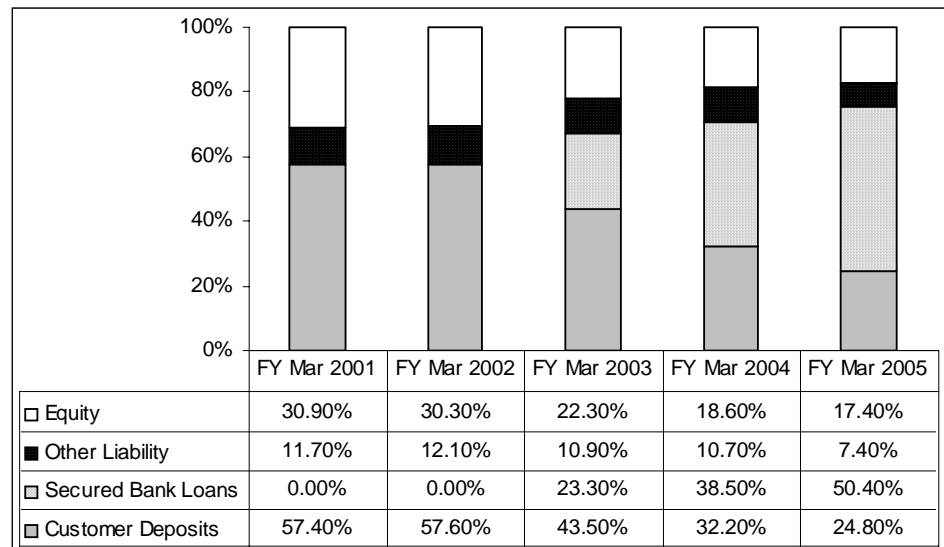


Funding & Liquidity

Prone to interest-rate risk

Senkadagala has been relying on secured borrowings since 2003. In FY Mar 2002, its funding portfolio comprised deposits (57.60%), shareholders' funds (30.30%) and other liabilities (12.10%). In FY Mar 2005, the proportion of secured borrowings mounted to 50.40% of its total liabilities while its deposit base receded to 24.80% (refer to Chart 7). Most of these secured loan facilities have tenures of 3 - 4 years, and have enabled Senkadagala to minimise maturity mismatches. However, the Company is exposed to interest-rate risk as the bulk of these loans carry quarterly revisable floating rates that are pegged to government treasury bill rates or the weighted-average prime lending rate ("WAPLR").

Chart 7: Funding structure



Funding structure skewed towards bank loans

As at end-FY Mar 2005, about 45% of the Company's liabilities and over 85% of its secured borrowings were funded by 3 major commercial banks. These are long-term facilities, each collateralised by over 125% with Senkadagala's lease receivables. Thus, nearly the entire lease portfolio had been pledged against borrowings as of the same date, subordinating depositors' credit standing to that of lenders. This is likely to jeopardise depositors in the short term, and is reflected in the Company's short-term rating. As a going concern, however, Senkadagala should be able to enlarge its deposit base and improve its loan-to-deposit ratio to acceptable levels in the longer term.

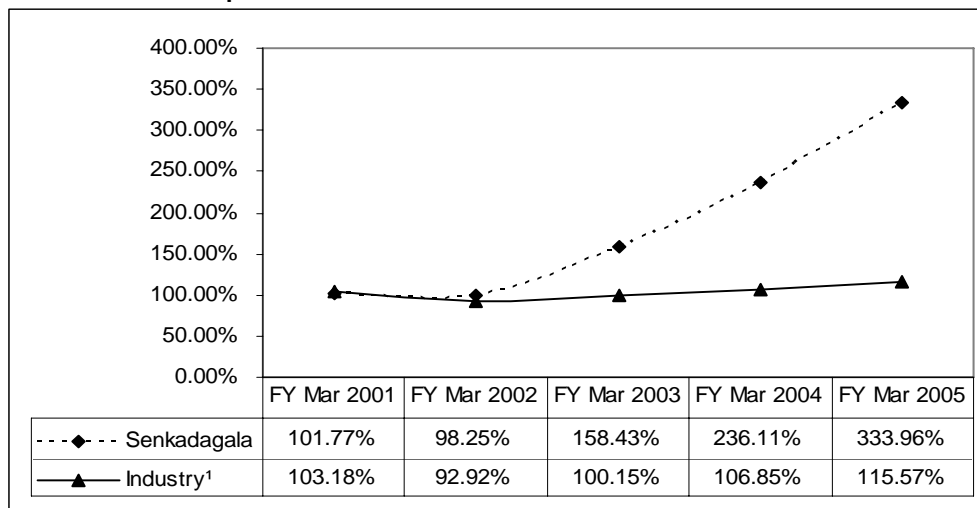
Credit concentration may endanger liquidity

Meanwhile, credit concentration vis-à-vis the 3 'creditor' banks is also a concern as these funding lines include "on demand" clauses, which could endanger the liquidity position of the Company. However, given Senkadagala's rapport with these banks, we believe that such an abrupt withdrawal of facilities is unlikely.

New deposit mobilisation to level off high loan-to-deposit ratio

We note that Senkadagala's high loan-to-deposit ratio had climbed to 333.96% as at end-FY Mar 2005, in contrast to 98.25% as at end-FY Mar 2002 (refer to Chart 8). The Company's increasing reliance on secured borrowings since 2003 and its passive deposit mobilisation can be cited as the main reasons for this deterioration. However, with the launch of its savings product, Senkadagala plans to mobilise deposits on a larger scale, backed by its extensive branch network. We also believe that the Company's new savings product, along with its value-added benefits and also its tie-ups with leading commercial banks, will provide Senkadagala more leverage in mobilising deposits in the future. Consequently, we expect Senkadagala's loan-to-deposit ratio to ease to a more comfortable 80% - 90%.

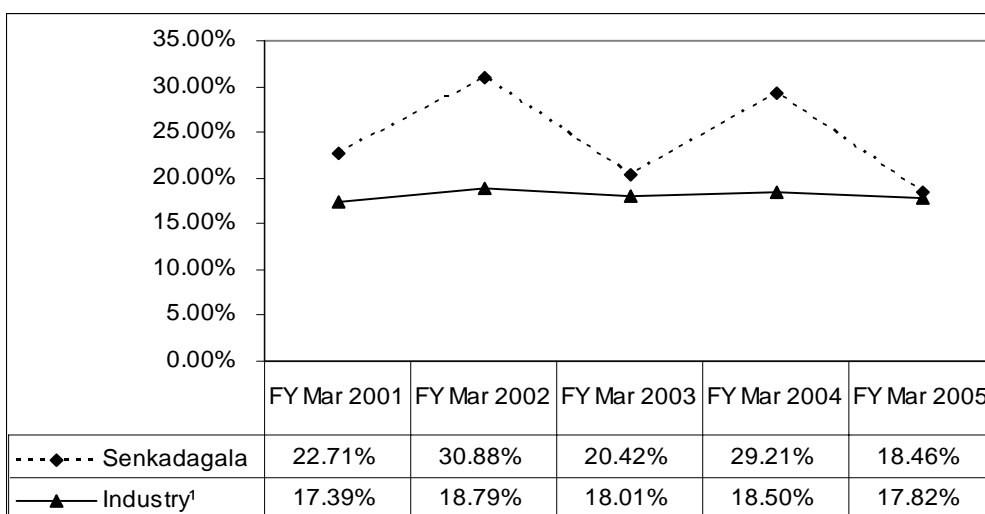
Chart 8: Loan-to-deposit ratio



Adequate liquidity

Due to its rapid expansion, the Company's liquid asset ratio retreated from 29.21% as at end-FY Mar 2004 to 18.46% as at end-FY Mar 2005 (refer to Chart 9), and was comparable to the industry's 17.82%. However, we note that Senkadagala's liquidity ratio remains well above the statutory requirement of 15%, and has been maintained at acceptable levels.

Chart 9: Liquid asset ratio



Capital Adequacy

Strong profitability underscores adequate capitalisation

The share capital of the Company has been expanding via internally generated funds. Although the Company has been declaring dividends, backed by its rising bottom line, its internal rate of capital generation has been improving, standing at 27.19% as at end-FY Mar 2005. Given its strong income-generating ability and conservative dividend policy, we believe that Senkadagala should be able to maintain this level of capitalisation.

In the meantime, the risk-weighted capital adequacy ratio ("RWCAR") of the Company has remained well above the statutory minimum of 10%. In light of the accelerated growth of its portfolio, however, its RWCAR receded to 19.04% as at end-FY Mar 2005 relative to 21.46% a year earlier.

Industry Overview

Sri Lanka's gross domestic product ("GDP") expanded at a rate of 4.8% for the first half of 2005, and is expected to pick up to 5.3% (as per Central Bank estimates) in the latter part of 2005. This pace of growth is somewhat slower than the originally estimated 6% at the beginning of the year, mainly due to the slow progression of post-tsunami construction activities, high inflation, escalating oil prices and political instability. However, the financial sector has grown despite the circumstances, with registered finance companies ("RFCs") augmenting their collective asset base by Rs 13 billion in the first 8 months of 2005. This can be attributable to the high growth in the country's trade, services and transportation sectors, on which the RFCs focus their operations.

Inflationary pressures have been high during the year, leading to negative interest earned by savers. The country's annual average inflation reading came up to 12.10% in November 2005, compared to an average interest rate of around 8%. As a result, the Central Bank has been raising its policy rates from time to time in a bid to curb inflation. The RFCs too have increased their rates on deposits accordingly, simultaneously bearing the burden of long-term, fixed-rate loans that had been extended earlier.

The profitability of the RFC sector, as measured by its average ROA and ROE, improved to 3.02% and 21.16%, respectively, as at end-March 2005 compared to 2.35% and 17.63% a year earlier. Its NPL ratio, meanwhile, improved from 9.08% as at end-March 2004 to 8.14% as at end-March 2005³.

The Central Bank has stipulated a minimum capital requirement of Rs100 million for all existing RFCs; this is likely to be raised to Rs 200 million with a view to further strengthening local finance companies. The Central Bank has also imposed a minimum capital requirement of Rs 200 million on new entrants, which we opine would reduce the number of debutantes in the future.

Competition stemming from commercial banks has increased as they have also ventured into the leasing arena, the key business segment of RFCs. Finance companies try to compete against banks by providing customised and efficient service. Nevertheless, it is worth noting that finance companies cater more to customers whom banks are reluctant to deal with. This is therefore seen as an inherent risk for finance companies as their credit quality is relatively weaker than that of commercial banks. As a result, depositors of RFCs demand higher interest rates for their deposits. Given that RFCs have been permitted to accept savings deposits since February 2005, they now have access to cheaper funds. Most finance companies are planning to promote savings deposits aggressively in the coming year. On the other hand, liquidity management would be crucial to finance companies that accept savings deposits due to the unpredictability of the timing of withdrawals by depositors.

Elsewhere, unregistered finance companies that do not come under the purview of any regulatory authority are also eroding the market shares of RFCs; the former offer much higher interest rates on deposits. On the other hand, the competition

³ Computed based on Central Bank reports.

from unregistered finance companies should reduce as the Central Bank is constantly educating the public about these companies, with a view to discouraging them from placing deposits with such organisations.

Relevant Central Bank Directions Applicable to Registered Finance Companies

<p>Liquid Assets</p>	<p>Every finance company should have a minimum holding of liquid assets at any given time. Liquid assets mean:</p> <ol style="list-style-type: none"> Cash in hand. Balances in a current or deposit account in a commercial bank, free from any banker's lien or charge. Sri Lanka Government Treasury Bills free from any charge or lien. Sri Lanka Government Securities maturing within one year and free from any charge or lien. Central Bank of Sri Lanka securities maturing within 1 year and free from any charge or lien. Cash balance, if any, maintained with the Central Bank of Sri Lanka. <p>The minimum limit applicable is:</p> <ol style="list-style-type: none"> For time deposits - 15% of outstanding deposits. For certificates of deposits -15% of the face value of the certificates. For savings deposits – 20% of the outstanding deposits. <p>The companies should maintain the liquid assets in the form of (c), (d) and (e) above equivalent to 10% of its average month end deposit liabilities of the preceding financial year.</p>
<p>Provision of Bad and Doubtful Debts</p>	<p>Every finance company is required to follow either one of the following directions for provisioning for bad and doubtful debts.</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"> 50% of all advances in arrears for a period of 7 to 12 months. 100% of all advances in arrears for 13 months or more. <p>A company may deduct the value of land and buildings held as collateral for a particular advance, in arriving at the provision figure under both (a) and (b) above.</p> <p>Subject to the following conditions,</p> <ol style="list-style-type: none"> The value so deducted should not exceed the value decided by a professional valuer at the time of granting the advance. In case of residential properties occupied by the borrower or a tenant, there should be an agreement to grant vacant possession in the event of the sale of such property. <p><u>Direction No. 2 of 1991</u></p> <p>Bad and doubtful debts provided for under this direction are subject to a minimum of:</p> <ol style="list-style-type: none"> 50% of all advances in arrears for a period of 12 to 24 months. 100% of all advances in arrears for more than 24 months.

<p>Capital Adequacy</p>	<p>Every finance company has to maintain a minimum total risk-weighted capital adequacy ratio of 10% in relation to its risk-weighted assets. The constituents of the capital are divided into:</p> <p>(i) Tier I - Core Capital</p> <p>This represents permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses, including share premiums, retained profits and other reserves. The core capital ratio should constitute not less than 5%, i.e. this has to be at least half of the total risk-weighted capital adequacy ratio.</p> <p>(ii) Tier II - Supplementary Capital</p> <p>Represents revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as hybrid capital instruments and unsecured subordinated term debts. Supplementary capital should not exceed 100% of the core capital.</p> <p>The Central Bank also issues guidelines from time to time, to be used in computing total risk-weighted assets.</p>
<p>Single-Borrower Limit</p>	<p>In the case of an individual borrower, the maximum of a single advance or the aggregate of advances granted to and the aggregate outstanding at any point of time on advances granted to should not exceed 10% of the capital funds of the finance company.</p> <p>This limit is 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>

Corporate Information

Date of Incorporation: 29 December 1968

Commencement of Business: 1968

Major Shareholders:

E W Balasuriya & Co (Pvt) Ltd.	58.9%
Mr E W 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 E W Balasuriya	Chairman/Managing Director
Mr L Balasuriya	Chief Executive Officer/Director
Dr A Balasuriya	Director
Mr R Balasuriya	Director
Dr M Balasuriya	Director
Dr Gayatri Madan Mohan	Director
Mrs L Fernando	Director

Auditor: KPMG Ford, Rhodes, Thornton & Co

Listing: Company is not listed. However, Rs 250 million of redeemable unsecured debentures have been listed since June 2005.

Key Management:

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

Major Subsidiaries and Associates: Hotel Casamara (associate company)

Year	Remarks	Amount	Cumulative Total
		(Rs '000)	(Rs '000)
1969	Ordinary share capital	230.0	230.0
1976	Share Issue	1.2	231.2
1981	Share Issue	25.0	256.2
1984	Share Issue	125.0	381.2
1990	Rights issue	3,049.6	3,430.8
1990	Bonus issue	1906.0	5,336.8
1994	Bonus issue	5,336.8	10,673.6
1998	Bonus issue	21,347.2	32,020.8
2004	Bonus issue	21,347.2	53,368.0

Financial Summary - Company

BALANCE SHEET (Rs Million)	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04	31-Mar-05
ASSETS					
Cash & Money At Call	39.68	29.43	34.67	79.47	30.77
Deposits & Placements With Financial Institutions	0.01	10.00	0.00	0.00	0.00
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00
Securities					
Dealing Securities	39.47	77.40	59.62	63.56	67.95
Investment Securities	0.21	0.21	3.47	2.69	2.06
Gross Loans & Advances	328.19	368.54	706.06	1,146.26	1,750.36
Interest-In-Suspense	0.00	0.00	0.00	0.00	0.00
General Loan Loss Reserves	0.00	0.00	0.00	0.00	0.00
Specific Loan Loss Reserves	5.46	8.37	6.39	6.33	3.78
Net Loans & Advances	322.73	360.17	699.67	1,139.93	1,746.58
Investments in Subsidiaries/Associates	26.22	41.29	19.96	13.96	13.96
Investment Land and Properties	0.00	0.00	0.00	0.00	0.00
Other Assets	64.50	56.94	127.58	127.12	141.21
Property, Plant and Equipment	59.98	61.34	69.33	72.71	105.59
TOTAL ASSETS	552.80	636.78	1,014.30	1,499.44	2,108.12
LIABILITIES					
Customer Deposits					
Savings	0.00	0.00	0.00	0.00	0.00
Fixed	305.82	331.54	403.43	448.01	496.83
NIDs	11.30	35.07	38.19	34.78	26.15
Interbank Deposits	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	0.00	0.00	0.00	0.00
Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00
Other Borrowing	0.00	0.00	236.36	577.63	1,063.17
Subordinated Debt & Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Other Liabilities	64.77	77.26	110.10	160.42	155.68
TOTAL LIABILITIES	381.89	443.87	788.07	1,220.83	1,741.83
Paid-up Capital	32.02	32.02	32.02	53.37	53.37
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	125.31	145.81	176.81	203.96	272.00
Statutory General Reserve	12.55	14.05	16.12	19.51	27.07
Retained Profits/(Loss)	1.03	1.03	1.28	1.76	13.84
Total Shareholders' Funds	170.91	192.91	226.23	278.60	366.28
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	552.80	636.78	1,014.30	1,499.44	2,108.12
COMMITMENTS & CONTINGENCIES	0.00	0.00	0.00	0.00	0.00
TIER 1 CAPITAL	170.91	192.92	226.23	278.61	369.96
CAPITAL BASE	170.91	192.92	226.23	278.61	369.96

Financial Summary - Company

INCOME STATEMENT (Rs Million)	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04	31-Mar-05
Interest Income	111.36	114.47	162.51	251.18	325.55
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	33.50	37.23	55.45	104.68	126.50
Net Interest Income	77.86	77.24	107.07	146.50	199.06
Non-Interest Income	4.92	9.51	11.92	17.91	25.93
Gross Income	82.78	86.75	118.99	164.41	224.99
Personnel Expenses	8.70	9.35	10.18	12.41	18.94
Other Non-Interest Expenses	40.25	39.42	64.26	80.77	111.86
Loan Loss Provisions	(1.42)	4.98	1.79	8.06	0.57
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	35.25	33.00	42.77	63.17	93.63
Taxation	1.92	3.00	1.45	0.12	(2.06)
Profit After Tax	33.32	30.01	41.32	63.05	95.69
Extraordinary Items	0.00	0.00	0.00	0.00	0.00
Prior Year Adjustments	0.00	0.00	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00	0.00
Transfer To Statutory Reserves	1.90	1.50	2.07	3.39	7.56
Transfer To Other Reserves	22.40	19.47	29.97	47.22	66.28
Dividend	8.01	8.01	8.01	10.67	8.01
Retained Profit For The Year	1.02	1.03	1.28	1.76	13.84

Financial Ratios - Company

Key Ratios (%)	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04	31-Mar-05
Profitability					
Net Interest Margin	15.23%	12.99%	12.97%	11.66%	11.04%
Non-Interest Income Margin	0.96%	1.60%	1.44%	1.42%	1.44%
Cost To Income	59.13%	56.22%	62.56%	56.68%	58.13%
Return On Assets	6.89%	5.55%	5.18%	5.03%	5.19%
Return On Equity	22.27%	18.14%	20.41%	25.03%	29.04%
Dividend Payout	24.02%	26.68%	19.37%	16.93%	8.37%
Asset Quality					
Gross NPL Ratio	NA	NA	NA	NA	NA
Net NPL Ratio	NA	NA	NA	NA	NA
3-months Past Due Ratio	NA	NA	NA	NA	NA
Specific Loan Loss Provisions For Current Year	NA	NA	NA	NA	NA
Gross NPL Coverage	NA	NA	NA	NA	NA
Loan Loss Reserve Coverage	1.66%	2.27%	0.90%	0.55%	0.22%
General Loan Loss Reserve Coverage	1.66%	2.27%	0.90%	0.55%	0.22%
Liquidity & Funding					
Liquid Asset Ratio	24.96%	31.87%	22.09%	30.14%	19.23%
Statutory Liquid Asset Ratio	22.71%	30.88%	20.42%	29.21%	18.46%
Interbank Deposits To Total Interest Bearing Funds	NA	NA	NA	NA	NA
Customer Deposits To Total Interest Bearing Funds	100.00%	100.00%	65.14%	45.53%	32.97%
Loans To Deposits Ratio	101.77%	98.25%	158.43%	236.11%	333.96%
Loans To Stable Funds Ratio	79.24%	77.41%	85.19%	90.57%	95.10%
Capital Adequacy					
Shareholders' Funds To Total Assets	30.92%	30.29%	22.30%	18.58%	17.37%
Tier 1 Risk Weighted Capital Adequacy Ratio	35.55%	36.16%	26.04%	21.46%	19.04%
Overall Risk Weighted Capital Adequacy Ratio	35.55%	36.16%	26.04%	21.46%	19.04%
Internal Rate Of Capital Generation	16.00%	12.09%	15.90%	20.75%	27.19%

Note :

NA = Not available / Not applicable

Financial Ratios

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

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.

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