

RAM

CREDIT RATING RATIONALE

September 2013

HDFC BANK

- Financial Institution Ratings
- Proposed LKR 2 Billion Secured Senior Listed Debenture

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RAM

RATINGS



CREDIT RATING RATIONALE

FINANCIAL INSTITUTION RATINGS

September 2013

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Principal Activities:
Provision of housing loans

Financial Institution Ratings:

Long-term: BBB
[Reaffirmed]
Short-term: P3
[Reaffirmed]

Rating Outlook:
Stable

Instrument:
Proposed LKR 2.0 billion
Secured Senior Listed
Debenture (2013/2018)

Ratings:
BBB [Assigned]

Rating Outlook:
Stable

Coupon Rates:
Type A: 14.50% per annum
with coupons payable
quarterly
Type B: 15.00% per annum
with coupons payable
quarterly
Type C: 15.50% per annum
with coupons payable
annually

HDFC BANK – Credit Update

■ Summary

RAM Ratings Lanka has reaffirmed the respective long- and short-term financial institution ratings of BBB and P3 to the Housing Development Finance Corporation Bank (“HDFC” or “the Bank”); the long-term rating carries a stable outlook. Concurrently long-term issue ratings of BBB have been assigned to the proposed LKR 2 billion secured senior listed debenture (2013/2018). The ratings are upheld by the majority state ownership and the ongoing support derived from the government of Sri Lanka (“GOSL”) as well as its good capital cushioning. On the other hand, the ratings are tempered by HDFC’s below-average asset quality and performance as well as its small stature.

HDFC is a licensed specialised bank (“LSB”) under the provisions of Housing Development Finance Corporation, Act No 07 of 1997 and falls under the purview of Ministry of Finance and Planning. Meanwhile, the GOSL remains its largest shareholder accounting for a share of 51% through National Housing Development Authority (“NHDA”). Notably, HDFC is one of the only 2 LSBs authorized to provision of housing loans backed by the borrower’s Employee Provident Fund (“EPF”). The financial flexibility derived from the state is reflected by the EPF’s annual reimbursement of all dues on EPF-backed loans that had fallen in to arrears for over 3 months. This together with majority shareholding of the GOSL and its vision of providing affordable housing to masses underpins HDFC’s systemic important to the government. In view of this, we opine that the state support would be forthcoming should the need arise, however to a lesser extent compared to other larger state-owned banks which are deemed to be more systemically important.

HDFC’s asset quality is deemed below average owing to the high delinquency rates of its mortgage-backed and guarantor-backed housing loans and the inherent risks associated in housing finance, owing to possible delays in repossession and disposal of collateral. The Bank’s overall gross non-performing loans (“NPL”) ratio clocked in at 20.00% as at end-August 2013, however, is

The newly assigned rating is preliminary, based primarily on information provided by the issuer and its agent, or the rated institution. RAM Ratings Lanka 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. The preliminary rating is contingent upon final documents conforming to information already received, and the resolution of outstanding matters deemed pertinent by RAM Ratings Lanka. Subsequent information may result in the assignment of the final rating that differs from the preliminary rating. RAM Ratings Lanka’s rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings Lanka.

Tenure/Maturity dates:

Type A: 3 years
 Type B: 4 years
 Type C: 5 years

Security:

Secured against the mortgage backed housing loan portfolio

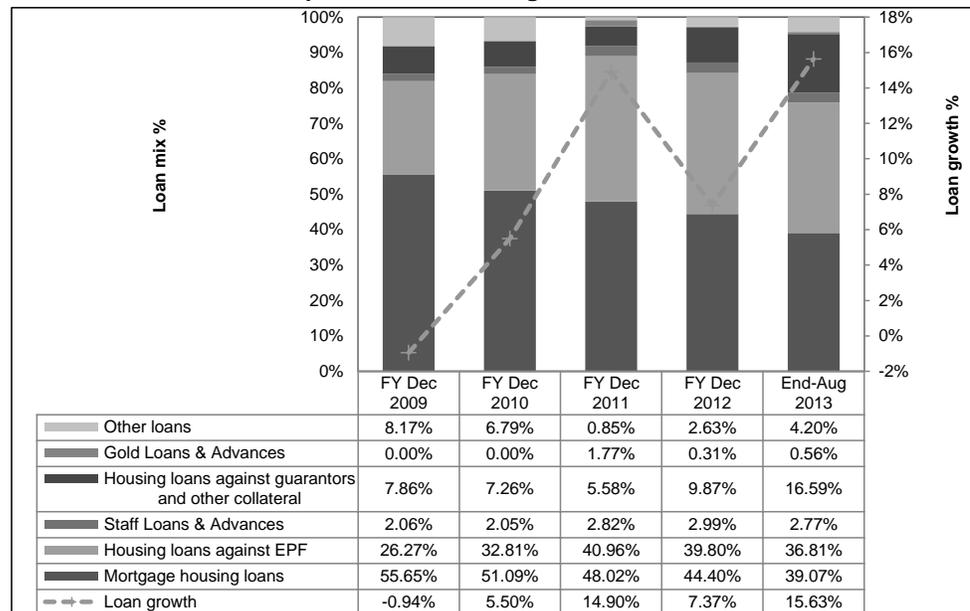
Last Rating Action:

July 2013

skewed by the high default rate of EPF-backed loans, which bear minimal credit risk as all dues on loans in arrears for over 3 months are reimbursed by the EPF annually. The Bank's gross NPL ratio excluding the latter stood at 7.44% 7.95% as at end-August 2013 improving from 8.14% as at end-March 2013 amid recoveries.

While the management envisaged aggressive growth plans following sluggish credit demand in FY Dec 2012, its credit assets grew by only 15.63% amid slower credit growth. As such, our concerns on loan seasonality are also mitigated. However we note that the Bank continues to grow its portfolio in housing loans with personal guarantees and other collateral (Chart 1). While these loans bear a higher risk profile compared to its other credit assets, we deem that the risk is somewhat mitigated given the granularity of such loans.

Chart 1: HDFC's loan composition and credit growth



Source: HDFC

Following a dampened performance in FY Dec 2012, the Bank's core performance improved in the 8M FY Dec 2013 stemming from moderate loan growth; as such, its pre-tax profits recorded LKR 185.86 million during the period as opposed to LKR 72.77 million recorded in FY Dec 2012. While previously the Bank suffered thinning margins owing to fixed rate loans granted, it benefited in 8M FY Dec 2013 as rates dropped enabling the bank to secure cheaper customer deposits while benefiting from the previously granted rates. Meanwhile the increasing proportion of higher interest yielding loans secured by guarantees also improved its yields. As such overall the Bank's NIMs improved to 4.80% in 8M FY Dec 2013 compared to 4.16% in FY Dec 2012. In tandem with improved net interest income ("NII") growth, the Bank's cost to income levels improved to 72.95% in 8M FY Dec 2013 (FY Dec 2012:92.62%). However the ratio still

compared weaker than most banking peers and its historic levels. Improved credit growth as rates decline, is expected to improve the ratio going forward.

Presently, the Bank's funding needs are largely fulfilled by more stable customer deposits, which made up 72.80% as at end-August 2013 remaining relatively unchanged from end-March levels. The uptrend in deposit base is reflected in the Bank's diminishing LD ratio which stood at 109.34% as at the same date compared to 126.06% as at end-FY Dec 2012. The proposed LKR 1 billion debenture would be partly used to replace high interest borrowings while the balance is to be utilised for future loan growth. While the LD ratio is expected to weaken in the short term, we expect it to revert to current levels in the medium term. Meanwhile the funding mix is not expected to alter significantly, given the partial utilisation of the debenture to pare down high cost borrowings.

On the other hand, we understand that HDFC's exposure to liquidity risk is somewhat higher compared to other LSBs given the longer tenure of housing loans that are funded by much short-term customer deposits; this has led to a sizeable ALMM in its short- and medium-term maturities. The Company's statutory liquid asset ratio stood 23.45% well above its banking peers.

HDFC's capitalisation is deemed good, underscored by capital-adequacy ratios that compare better than peers. The Bank recorded respective tier-1 and overall RWCARs of 20.06% and 20.71% as at end-August 2012 well above its banking peers. Besides, we acknowledge that capital-adequacy levels are also upheld by the zero-risk weighted EPF-backed loans that made up around 50% of its entire loan portfolio.

■ Corporate Information – HDFC Bank

Date of Incorporation: 1984

Commencement of Business: 2003

Major Shareholders as at end-December 2012:

| | |
|--|--------|
| National Housing Development Authority | 49.73% |
| Lanka Orix Leasing Company PLC | 15.00% |
| Perpetual Capital (Pvt) Ltd | 14.03% |
| Legalinc Trustee Services Pvt Ltd | 5.39% |

Directors:

Mrs. SN Wickramasinghe
 Mr. WJLU Wijayaweera
 Mrs. C Wijayawardhana
 Mr. WDRD Goonaratne
 Mr SAJ Samaraweera
 Mr. AJ Aloysius
 Mr. LES Silva
 Mr. GLS Senadeera

Auditor: Auditor General – Department of Auditor General

Listing: Colombo Stock Exchange

Key Management:

| | |
|-----------------------|----------------------------|
| Mr . N Mamaduwa | Chief Executive Officer |
| Mr. S Dissanayake | Chief Operations Officer |
| Mr. DV Pathirana | Chief Financial Officer |
| Mr. WMA Bandara | Chief Information Officer |
| Mr. AJ Athukorala | Chief Internal Auditor |
| Mr. L Edirisinghe | Chief Manager – HR & Admin |
| Mrs. WWDC Perera | Chief Manager – Legal |
| Mrs. HS Gunathilake | Chief Manager – Marketing |
| Mr. CRP Balasooriya | Chief Manager – Treasury |
| Mr. DMDMK Dissanayake | Chief Manager - Credit |

Major Subsidiaries: None

Capital History:

| Year | Remarks | Amount (LKR million) | Cumulative Total (LKR million) |
|------|-------------|-------------------------|-----------------------------------|
| 2012 | Balance c/f | 962.09 | 962.09 |

FINANCIAL SUMMARY

HDFC Bank – Company

unaudited

| STATEMENT OF FINANCIAL POSITION (LKR million) | 31-Dec-09 | 31-Dec-10 | 31-Dec-11 | 31-Dec-12 | 31-Aug-13 |
|--|------------------|------------------|------------------|------------------|------------------|
| Cash & Short-Term Funds | 163.19 | 51.73 | 420.58 | 425.56 | 101.42 |
| Deposits & Placements with Financial Institutions | 0.00 | 371.38 | 107.49 | 93.52 | 640.49 |
| Securities Purchased Under Resale Agreements | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial Investments at Fair Value Through Profit or Loss | 1,246.62 | 1,173.93 | 84.91 | 872.14 | 0.00 |
| Financial Investments Available-For-Sale | 0.00 | 0.03 | 3,346.86 | 2,287.73 | 4,401.55 |
| Financial Investments Held-To-Maturity | 0.00 | 0.00 | 692.55 | 738.68 | 720.14 |
| Gross Loans & Advances | 12,185.40 | 12,872.36 | 15,171.99 | 16,289.99 | 17,987.89 |
| <i>Collective Impairment Provisions</i> | (94.47) | (89.65) | (72.57) | (61.45) | (68.44) |
| <i>Individual Impairment Provisions</i> | (104.51) | (214.47) | (250.37) | (262.88) | (75.92) |
| Net Loans & Advances | 11,986.41 | 12,568.24 | 14,849.05 | 15,965.67 | 17,843.54 |
| Statutory Deposits | 0.00 | 322.64 | 0.00 | 0.00 | 0.00 |
| Property, Plant & Equipment | 720.66 | 755.67 | 250.01 | 288.12 | 286.82 |
| Other Assets | 184.56 | 143.41 | 157.61 | 129.20 | 168.51 |
| Total Assets | 14,301.44 | 15,387.02 | 19,909.07 | 20,800.61 | 24,162.46 |
| Customer Deposits | 6,114.80 | 8,526.33 | 12,336.02 | 12,922.91 | 16,319.40 |
| <i>Current Account Deposits</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Savings Account Deposits</i> | 591.62 | 1,042.18 | 12,336.02 | 12,922.91 | 16,319.40 |
| <i>Fixed Deposits</i> | 5,521.43 | 6,659.59 | 0.00 | 0.00 | 0.00 |
| <i>Negotiable Instruments of Deposits</i> | 0.00 | 823.41 | 0.00 | 0.00 | 0.00 |
| <i>Other Deposits</i> | 1.75 | 1.16 | 0.00 | 0.00 | 0.00 |
| 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 |
| Senior Debt Securities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Subordinated Debt Securities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Hybrid Capital Securities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Borrowings | 5,150.22 | 3,629.13 | 3,555.87 | 3,189.30 | 3,597.86 |
| Other Liabilities | 1,315.22 | 1,382.89 | 1,680.76 | 2,297.20 | 1,746.90 |
| Total Liabilities | 12,580.24 | 13,538.36 | 17,572.64 | 18,409.40 | 21,664.16 |
| Equity Share Capital | 962.09 | 962.09 | 962.09 | 962.09 | 962.09 |
| Share Premium | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Treasury Shares | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Statutory Reserve | 39.62 | 46.39 | 61.87 | 61.99 | 61.99 |
| Revaluation Reserve | 0.00 | 35.89 | 0.00 | 0.00 | 0.00 |
| Available-For-Sale Reserve | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Reserves | 52.86 | 22.63 | 142.61 | 228.32 | 262.94 |
| Retained Profits/(Accumulated Losses) | 666.62 | 781.66 | 1,169.83 | 1,138.80 | 1,211.28 |
| Non-Controlling Interests | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Equity | 1,721.20 | 1,848.66 | 2,336.40 | 2,391.21 | 2,498.30 |
| Total Liabilities + Total Equity | 14,301.44 | 15,387.02 | 19,909.04 | 20,800.61 | 24,162.46 |

FINANCIAL SUMMARY

HDFC Bank – Company

| STATEMENT OF COMPREHENSIVE INCOME (LKR million) | 31-Dec-09 | 31-Dec-10 | 31-Dec-11 | 31-Dec-12 | unaudited |
|---|---------------|---------------|-----------------|---------------|-----------------------|
| | | | | | 31-Aug-13 8 months |
| Interest Income | 2,216.37 | 2,164.98 | 2,260.97 | 2,634.76 | 2,285.55 |
| Interest Expense | (1,582.11) | (1,339.35) | (1,354.29) | (1,805.32) | (1,580.28) |
| Net Interest Income | 634.26 | 825.63 | 906.67 | 829.44 | 705.27 |
| | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Fee Income | 35.13 | 50.47 | 66.20 | 48.34 | 135.38 |
| Investment Income | 0.02 | 27.20 | 0.00 | 0.00 | 0.00 |
| Other Income | 17.18 | 7.63 | 58.44 | 8.30 | 0.00 |
| Gross Income | 686.59 | 910.93 | 1,031.31 | 886.08 | 840.64 |
| Personnel Expenses | (230.24) | (271.03) | (360.80) | (458.12) | (350.29) |
| Other Operating Expenses | (311.33) | (344.10) | (339.79) | (353.69) | (262.98) |
| Operating Income before Impairment Charges | 145.02 | 295.80 | 330.72 | 74.27 | 227.37 |
| Net Impairment Charges on Loans | (53.95) | (106.90) | (10.06) | (1.50) | (41.51) |
| Net Impairment Charges on Financial Investments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Impairment Charges on Commitments, Contingencies & Other Assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Operating Income after Impairment Charges | 91.07 | 188.91 | 320.66 | 72.77 | 185.86 |
| Non-Recurring Items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Share of Associates/Jointly-Controlled Entities Profits/(Losses) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Pre-Tax Profit/(Loss) | 91.07 | 188.91 | 320.66 | 72.77 | 185.86 |
| Taxation | (34.62) | (53.57) | (104.64) | (70.32) | (78.19) |
| Net Profit/(Loss) | 56.45 | 135.34 | 216.02 | 2.45 | 107.68 |
| Gain/(Loss) on Available-For-Sale Financial Investments | 0.00 | 0.00 | 0.00 | 53.08 | 0.00 |
| Changes in Cash Flow & Net Investment Hedges | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Foreign Currency Translation Differences | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Share of Other Comprehensive Income/(Loss) of Associates/Jointly-Cont | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Income Tax Relating to Other Comprehensive Income/(Loss) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Components of Comprehensive Income/(Loss) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Comprehensive Income/(Loss) | 56.45 | 135.34 | 216.02 | 55.53 | 107.68 |

FINANCIAL RATIOS

HDFC Bank – Company

| | | | | | unaudited |
|---|------------------|------------------|------------------|------------------|------------------|
| KEY RATIOS | 31-Dec-09 | 31-Dec-10 | 31-Dec-11 | 31-Dec-12 | 31-Aug-13 |
| PROFITABILITY (%) | | | | | |
| Net Interest Margin | 4.75% | 5.99% | 5.39% | 4.16% | 4.80% |
| Non-Interest Income to Gross Income | 7.62% | 9.36% | 12.09% | 6.39% | 16.10% |
| Cost to Income | 78.88% | 67.53% | 67.93% | 91.62% | 72.95% |
| Return on Assets | 0.64% | 1.27% | 1.82% | 0.36% | 1.24% |
| Return on Equity | 5.33% | 10.58% | 15.32% | 3.08% | 11.40% |
| Dividend Payout Ratio | 57.32% | 0.00% | 14.98% | 0.00% | 0.00% |
| ASSET QUALITY (%) | | | | | |
| Gross NPL ratio | 22.49% | 20.64% | 22.30% | 20.95% | 20.00% |
| Credit Cost Ratio | 0.44% | 0.85% | 0.07% | 0.01% | 0.36% |
| Impairment Charge Ratio | 0.40% | 0.78% | 0.06% | 0.01% | 0.29% |
| Gross NPL coverage ratio | 7.26% | 13.43% | 9.84% | 9.85% | 4.01% |
| Loan Loss Reserve Coverage Ratio | 1.63% | 2.36% | 2.13% | 1.99% | 0.80% |
| Collective Loan Loss Reserve Coverage Ratio | 0.78% | 0.70% | 0.48% | 0.38% | 0.38% |
| LIQUIDITY & FUNDING (%) | | | | | |
| Liquid Asset Ratio | 21.18% | 20.92% | 21.15% | 25.44% | 23.45% |
| Customer Deposits to Total Interest Bearing Funds | 54.28% | 70.14% | 77.62% | 80.21% | 81.94% |
| Loans to Deposits Ratio | 204.68% | 154.86% | 122.99% | 126.06% | 110.22% |
| CAPITALISATION & LEVERAGE (%) | | | | | |
| Internal Rate of Capital Generation | 1.41% | 7.58% | 8.78% | 0.10% | 6.61% |
| Leverage Ratio (times) | 8.31 | 8.32 | 8.52 | 8.70 | 9.67 |
| Common Equity Ratio | 17.82% | 21.06% | 22.49% | 22.76% | 19.54% |
| Tier-1 Regulatory Risk-Weighted Capital Adequacy Ratio | 17.63% | 21.09% | 21.34% | 21.91% | 20.06% |
| Overall Regulatory Risk-Weighted Capital Adequacy Ratio | 18.66% | 22.18% | 21.95% | 22.58% | 20.71% |

FINANCIAL RATIOS

HDFC Bank – Company

| KEY RATIOS | FORMULAE |
|---|---|
| PROFITABILITY (%) | |
| Net Interest Margin | Net Interest Income / Average Interest Earning Assets |
| Non-Interest Income to Gross Income | Non-Interest Income / Gross Income |
| Cost to Income | (Personnel Expenses + Other Operating Expenses) / Gross Income |
| Return on Assets | Pre-Tax Profit/(Loss) / Average Total Assets |
| Return on Equity | Pre-Tax Profit/(Loss) / Average Total Equity |
| Dividend Payout Ratio | Dividends / Net Profit/(Loss) |
| Non-Interest Income | Fee Income + Investment Income + Other Income |
| Interest Earning Assets | Cash & Short-Term Funds + Deposits & Placements with Financial Institutions + Securities Purchased Under Resale Agreements + Total Financial Investments + Net Loans & Advances |
| Total Financial Investments | Financial Investments at Fair Value Through Profit or Loss + Financial Investments Available-For-Sale + Financial Investments Held-To-Maturity |
| ASSET QUALITY (%) | |
| Gross Impaired Loan Ratio | Total Impaired Loans / Gross Loans & Advances |
| Net Newly Classified Impaired Loan Ratio | Net Newly Classified Impaired Loans / Average Gross Loans & Advances |
| Credit Cost Ratio | Net Impairment Charges on Loans / Average Gross Loans & Advances |
| Impairment Charge Ratio | (Net Impairment Charges on Loans + Net Impairment Charges on Financial Investments) / (Average Gross Loans & Advances + Average Total Financial Investments) |
| Gross Impaired Loan Coverage Ratio | Total Provisions / Gross Loans & Advances |
| Collective Loan Loss Reserve Coverage Ratio | Collective Impairment Provisions / (Gross Loans & Advances - Individual Impairment Provisions) |
| Total Provisions | Collective Impairment Provisions + Individual Impairment Provisions |
| Net Newly Classified Impaired Loans | Newly Classified Impaired Loans - Recoveries on Impaired Loans - Impaired Loans Reclassified As Performing |
| LIQUIDITY & FUNDING (%) | |
| Liquid Asset Ratio | Liquid Assets / (Customer Deposits + Short-Term Funds) |
| Interbank Deposits to Total Interest Bearing Funds | Interbank Deposits / Interest Bearing Funds |
| Customer Deposits to Total Interest Bearing Funds | Customer Deposits / Interest Bearing Funds |
| CASA Deposits to Total Deposits | (Current Account + Savings Account Deposits) / Customer Deposits |
| Loans to Deposits Ratio | Gross Loans & Advances / Customer Deposits |
| Liquid Assets | Cash & Short-Term Funds + Deposits & Placements with Financial Institutions + Quoted Financial Investments (excluding Financial Investments Held-To-Maturity) |
| Short-Term Funds | Interbank Deposits + Bills & Acceptances Payable + Securities Sold Under Repurchase Agreements |
| Interest Bearing Funds | Customer Deposits + Interbank Deposits + Bills & Acceptances Payable + Securities Sold Under Repurchase Agreements + Total Borrowings |
| Total Borrowings | Senior Debt Securities + Subordinated Debt Securities Hybrid Capital Securities + Other Borrowings |
| CAPITALISATION & LEVERAGE (%) | |
| Internal Rate of Capital Generation | (Net Profit/(Loss) - Dividends) / Average Total Equity |
| Leverage Ratio (times) | Total Assets / Total Equity |
| Common Equity Ratio | (Equity Share Capital + Share Premium + Retained Profits/(Accumulated Losses)) / Risk-Weighted Assets |
| Tier-1 Regulatory Risk-Weighted Capital Adequacy Ratio | (Tier-1 Capital Base - Proposed Dividends) / Risk-Weighted Assets |
| Overall Regulatory Risk-Weighted Capital Adequacy Ratio | (Total Capital Base - Proposed Dividends) / Risk-Weighted Assets |



CREDIT RATING DEFINITIONS

Financial Institution Ratings

A Financial Institution Rating ("FIR") is RAM Ratings Lanka's current opinion on the overall capacity of a financial institution to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take in to account the expressed terms and conditions of any specific financial obligation.

Long-Term Ratings

| | |
|------------|--|
| AAA | A financial institution rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term FIR assigned by RAM Ratings Lanka. |
| AA | A financial institution rated AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments. |
| A | A financial institution rated A has an adequate capacity to meet its financial obligations. The financial institution is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. |
| BBB | A financial institution rated BBB has a moderate capacity to meet its financial obligations. The financial institution is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category. |
| BB | A financial institution rated BB has a weak capacity to meet its financial obligations. The financial institution is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments. |
| B | A financial institution rated B has a very weak capacity to meet its financial obligations. The financial institution has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments. |
| C | A financial institution rated C has a high likelihood of defaulting on its financial obligations. The financial institution is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations. |
| D | A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations. |

Short-Term Ratings

| | |
|-----------|--|
| P1 | A financial institution rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term FIR assigned by RAM Ratings Lanka. |
| P2 | A financial institution rated P2 has an adequate capacity to meet its short-term financial obligations. The financial institution is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category. |
| P3 | A financial institution rated P3 has a moderate capacity to meet its short-term financial obligations. The financial institution is more likely to be weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category. |
| NP | A financial institution rated NP has a doubtful capacity to meet its short-term financial obligations. The financial institution faces major uncertainties that could compromise its capacity for payment of financial obligations. |
| D | A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations. |

For long-term ratings, RAM Ratings Lanka applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the financial institution ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the financial institution ranks at the lower end of its generic rating category.

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