

CREDIT RATING REPORT On LANKAN ALLIANCE FINANCE LIMITED

REPORT: RR/53791/22

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL long-term rating is valid for only one year and short term rating for six months from the date of rating. After the above periods, these ratings will not carry any validity unless the financial institution goes for rating surveillance. CRISL followed Bank/FI Rating Methodology published in CRISL website www.crislbd.com

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Entity Rating

Long Term: AA-
Short Term: ST-2

Outlook: Stable

Date of Rating: June 08, 2022	Valid up to: June 07, 2023	
	Long Term	Short Term
Entity Rating	AA-	ST-2
Outlook	Stable	

1.0 RATING RATIONALE

CRISL has upgraded the Long-Term rating to 'AA-' (pronounced as double A minus) and the Short Term rating to 'ST-2' of Lankan Alliance Finance Limited (LAFL) based on both relevant qualitative and quantitative information up-to the date of rating. The above ratings have been assigned based on some fundamentals such as good capital base, good asset quality, renowned local sponsors, proven track record of the joint venture partner, etc. However, the above factors are constrained to some extent by limited core business and credit portfolio, exposure to credit and deposit concentration risk, and limited branch network etc.

The Long-Term rating implies that entities rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions. The Short-Term rating indicates the high certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.

CRISL also views the company with "Stable Outlook" for its steady business growth and consistent fundamentals.

2.0 CORPORATE PROFILE

2.1 Genesis

Lankan Alliance Finance Limited, a Joint Venture Non-Banking Financial Institution (NBFI), has been operating in Bangladesh since 2017. The company was initially incorporated with the name of Alliance Leasing & Finance Company Limited on September 27, 2003, as a Public Limited Company under the Company Act, 1994. The company has been operating its business activities from the year 2017. Subsequently, the company has formed a Joint Venture in June 2017 with a renowned and largest Sri Lankan non-banking financial institution namely People's Leasing & Finance PLC and changed its name as Lankan Alliance Finance Limited in December 2017.

People's Leasing & Finance PLC (PLF), a subsidiary of Government owned People's Bank, is a publicly quoted listed company with Colombo Stock Exchange. PLF is providing value added financial services to Sri Lankans over the last twenty-six years. Total assets of PLF (Solo basis) stood at Rs.180.7 billion and total credit portfolio stood at Rs.151.2 billion as on March 31, 2022. The net interest income of the company increased to Rs. 13.05 billion from Rs.11.99 billion. Accordingly, net profit after tax of PLF increased to Rs.4.65 billion in 2022 from Rs.4.03 billion in 2021. The total impairment charge of loans and receivables of non-performing advance (NPA) amount has reduced to Rs.656 million as of 31 March 2022 from Rs. 1,044 million as on 31 March 2021 reflecting the efforts & resource channeled to managing the credit risk and improving the recoveries. PLF rated as 'A+' credit rating by Fitch Ratings Lanka.

LAFL was initially formed with a paid-up capital of Tk.10.00 million against an authorized capital of Tk.1,000.00 million. Subsequently, the paid-up capital of the company increased to Tk.1,000 million on December 31, 2017 and remained the same till to date. Total asset size of LAFL improved to Tk.3,464.30 million as on December 31, 2021, compared to Tk.2,505.95 million of previous year. Recently the company has launched a branch at Banani and has a plan to set up a branch and booth during the year 2023. LAFL is currently operating its business activities from its head-office located at Laila Tower (Level-10), 8 South Gulshan Avenue, Gulshan-1, Dhaka 1212.

**LANKAN ALLIANCE
FINANCE LIMITED**

**DATE OF
INCORPORATION**
September 27, 2003

CHAIRMAN
Syed Ali Jowher Rizvi

**CHIEF EXECUTIVE
OFFICER**
Kanti Kumar Saha

PAID UP CAPITAL
TK.1,000.00 million

EQUITY
TK.1,279.04 million

TOTAL ASSETS
TK.3,464.30 million

Public limited company

CREDIT RATING REPORT

On

LANKAN ALLIANCE FINANCE LIMITED

Renowned local Sponsors

Limited core business
and credit portfolio

2.2 Ownership Pattern

The ownership pattern of LAFL has remained the same during the period under surveillance. The company has total 100.00 million ordinary shares of Tk.10.00 each as on December 31, 2021. In the ownership structure, 51% shares are held by foreign institution namely People's Leasing & Finance PLC, SriLanka and remaining 49% are held by local Sponsors. Local-sponsors include Summit Holding Limited (10%), Green Delta Insurance Company Limited (10%), Syed Ali J. Rizvi (10%), Sohana Rouf Chowdhury (10%), Concept Knitting Limited (4%), Dr. Fahmida Akter Khatun (3%) and Lutfe Mawla Ayub (2%).

2.3 Business Profile

The company has diversified portfolio and it is focusing with existing portfolio rather than aggressive marketing strategy to enhance its portfolio. The portfolio exposure of LAFL is segregated on corporate business houses and consumer finances. LAFL has achieved this portfolio by planned investment in diversified sectors such as large manufacturing companies (in the form of lease finance, term finance, project finance and syndication finance), consumer finance (in the form of auto/car loan, personal loan, loan against TDR) and SME (in the form of woman entrepreneur loan, work order financing) through introducing the above lending products. In addition to existing financing facilities, the company is trying to explore SME finance. During the surveillance period, the company enhanced its investment in SME sector to Tk.986.94 million in 2021 from Tk.580.19 million in 2020.

The company is also offering liability products such as Corporate Term Deposit, Professional Deposit Scheme, Senior Citizen Deposit Scheme, Employee Contribution Fund, Double Money, Triple Money and Wealth Builder Scheme.

In addition, by launching Structure Finance Department, LAFL plans to arrange syndicated financing facilities, facilitate issuance of bonds and preference shares, foreign currency financing as well as specialized financing. LAFL has already initiated a number of projects under this department. In 2021, LAFL has also become a Participating Financial Institution (PFI) of the Investment Promotion and Financing Facility II (IPFF II) Project which is a joint collaboration between the Government of Bangladesh and the World Bank to finance the private sector led infrastructure projects with lower cost of financing and longer repayment tenor compared to the existing debt market in Bangladesh. LAFL is currently arranging three syndicated facilities under IPFF II to arrange financing for two digital infrastructure projects and on power generation project.

3.0 CORPORATE GOVERNANCE

CRISL examines and evaluates the following areas under corporate governance practice.

3.1 Board of Directors

The Board of Directors of LAFL consisted of 13 members. The members of the Board carries local and international exposure and hold excellent knowledge in the area of Bank, NBFI, Insurance, Textile and Garments, Food and allied business as well as have high exposure in the field of Accounting profession. The current Chairman of the Board is Mr. Syed Ali Jowher Rizvi, who has more than 45 years of experience in banking and finance sector. Mr. Rizvi started his professional career with Bank of Credit and Commerce International (BCCI) in 1977. He also served Union Bank Zambia Ltd., Zambia as its founder Managing Director from 1991 to 1997. Within a short span of 7 years, Mr. Rizvi took the new bank to the 2nd leading position (amongst local private banks) in the competitive Zambian banking sector and accordingly he was awarded as prestigious Banker of the Year. Mr. Jowher Rizvi completed his MBA degree in International Finance and Accounting from Indiana University, USA. He also earned an MA in Economics with Honors from Dhaka University. He was also engaged with Institute of Business Administration (IBA) as a part time (Honorary) Lecturer.

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The Board of Directors are collectively responsible for governance which includes setting out the Company's strategic goals, providing the necessary leadership to implement such goals, supervising the management of the business and reporting to shareholders on their stewardship. The Board deals with establishing overall policies and procedures and approves/reviews financial facilities. The Board conducted seven meetings in YE2021 against four meetings in YE2020.

3.2 Key Board Committees

In order to discharge functions more effectively, the Board constituted two sub committees namely Executive Committee (EC) and Audit Committee (AC). The Board formed five members EC Chaired by Mr. Lutfe M. Ayub. The Committee conducted 03 meetings during 2021 against 5 meetings during 2020. EC approves the credit and business proposals of up to Tk.200.00 million as per approved policy of the Board as well as reviews the policies and guidelines issued by Bangladesh Bank. EC also assists the Board in formulating the executive policy and reviewing, evaluating and making recommendations about key strategic issues as well.

The Board also formed five members Audit Committee Chaired by Mr. Sujeewa Rajapakse. The AC conducted 04 meeting (as approved by Bangladesh Bank) during 2021. AC reviews any matter relating to the financial affairs of the company, all audit and inspection reports including external audit reports and Bangladesh Bank inspection reports, internal control systems and procedures as well as draft annual financial report reviews by the external auditor. AC also examines the status of implementation of the company's internal policies and manuals, Bangladesh Security and Exchange Commission (BSEC) regulations and Bangladesh Bank's guidelines etc.

3.3 Corporate Management

The management team of LAFL is headed by Mr. Kanti Kumar Saha who has joined as Chief Executive Officer (CEO). Mr. Kumar has completed Bachelor's and Master's degree in Economics from University of Dhaka. He also holds a Postgraduate Management Degree from Nottingham Trent University, U.K. His work in Corporate & Institutional Banking, Public Sector and Offshore Banking and above all his capabilities in corporate customer solution building has earned him many laurels. He also attended major developmental assignments in India and Thailand during his mid-career. Mr. Kumar attended several advanced training courses, workshops and seminars in Risk Management, Leadership, Relationship Management and International Trade at home and abroad. He is also a Certified Trade Expert by Standard Chartered Bank and a Risk Officer assigned by Citibank N. A. Before joining Lankan Alliance Finance Limited, he represented the Board as a Managing Director and CEO of NDB Capital Limited, an investment banking arm of National Development Bank PLC of Sri Lanka. Mr. Kumar worked as Director & Head of Global Corporate Banking in Citibank N. A. Bangladesh for a considerable time and also served as Deputy Managing Director and Chief Business Officer of Prime Bank Limited previously. The activities of the company are being operated under different departments namely, HR, Finance & Accounts, Treasury, Deposit Mobilization, CRM, Business, IT & ICC. The management of LAFL has formed different committees in order to run the day to day operations smoothly as Core Management Committee, Assets Liability Committee (ALCO), Management Credit Committee, Procurement Committee, ICT Steering Committee, ICT Security Committee, Provident Fund Committee, Anti-Money Laundering, Sustainable Finance Unit, and Risk Management Committee.

Experienced
management team

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3.4 Human Resources Management

LAFL has been operating with a total HR base of 35 as on December 31, 2021. During the year under surveillance, the company recruited 14 employees mostly at senior level and 09 employees left from the company, mostly junior level. Top one employee who left the organization were in the position of Chief Operating Officer (COO). Mr. Kanti Kumar Saha has joined as a CEO in August 2020. The company has already implemented Board approved Service Rules for the employees to create congenial working environment. It has incorporated provident fund, gratuity, festival bonus and Group insurance for the employees. Human Resources activities are supervised by the Human Resource Unit. To improve the human resources quality, LAFL sends its employees to attend the different training and workshops arranged by Bangladesh Bank and BLFCA. During 2021, the company has arranged training to the officers at different training institutes for 35 participants on different topics to improve the efficiency of the human resources of the company.

3.5 IT and its use to MIS

The use of information technology including MIS of the company is at the deployment stage. The necessary IT support is being provided by both the IT team of PLC (Sri Lanka) and IT team of LAFL. Presently, LAFL's IT infrastructure includes necessary hardware and software such as PCs, Laptops, UPS for backup power, Core Banking Solution EFS, Tally, Office 365 software, CIB software, e-KYC, EDS Money, EC Portal etc. Currently Core Banking Solution EFS is running parallel live and expecting to go full-fledged operation by the end of 2022. Currently the company is using 2 Dell 740 servers for CBS test implementation using Microsoft Hyper-V technology, cisco switches as a distribution switch for user workstation and a Mikrotik router as a gateway for Internet. Moreover, the company has implemented Fortinate Firewall, Cisco Router and Dell Server, Active directory, File Server, Print Server. LAFL has Board approved ICT policy in 2019. The management of the company is on the process of setting up a disaster recovery site after going live of core banking software as part of Business Continuity Plan (BCP). Currently the company is planning to take schedule database backup from one server to another server. Moreover, the company has established the ICT Steering Committee and ICT Security Committee.

IT infrastructure at developing stage

Moreover, LAFL, under a strategic alliance with CASHe, is planning to introduce an app-based lending platform which will be able to instantly underwrite and disburse short-term personal loans mostly to people who may not have had a formal credit history or Bank Account or is in need of emergency financial needs, through a digital app.

4.0 INDUSTRY ANALYSIS: NON BANK FINANCIAL INSTITUTIONS (NBFIs)

4.1 Economy Projection

The overall performance of banking and non-banking sector in Bangladesh showed mixed trend in 2021 and is passing through a tough time to control increasing NPL and manage capital adequacy. Tough COVID 19 situation improved significantly due to high rate of massive vaccination and lower infection, the increasing food & non-food inflation in local economy, rising oil & other essential commodities price hike in international market amid ongoing war between Russia & Ukraine posed a fresh threat to both local and international economy. Despite many hurdles and shortcomings Bangladesh's gross domestic product (GDP) grew 6.94 per cent in the fiscal year 2021. The World Bank (WB) said in its recent released of Global Economic Prospects projected that Bangladesh's economy is expected to grow 6.9 per cent in fiscal year 2022-23 by strong export growth and a rebound in domestic demand. World Bank observed that strong export growth, supported by returning readymade garment demand from abroad, and a rebound in domestic demand-with improving labor income and remittance inflows-supported the recovery in Bangladesh Economy.

The multilateral lender forecasted that gross domestic product (GDP) would expand 6.4 per cent in the current fiscal year of 2021-22, up 1.3 percentage points from its June projection of 5.1 per cent for the fiscal. Apart from many internal and external problems, impact of COVID 19 and ongoing war between Russia & Ukraine added fuel to the above situation. The Bangladesh Bank has been forced to act and issued a large number of circulars recently to combat the situation arising from liquidity, stressed assets, over borrowing by the government etc. to tackle the financial impact of COVID -19.

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After the global growth contraction for 2020 at -3.4 percent, the global economy growth was estimated at 5.5 percent in 2021 and is projected to grow at 4.1 percent in 2022 as per World Bank Report. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis.

4.2 Sector at June 30, 2021

A total of 35 (thirty-five) NBFIs are operating in Bangladesh. Out of the total, 3 (three) are fully government owned, 19 are private domestic and 13 are joint venture and the total branch network stood at 277 as on June 30, 2021. The minimum paid up capital of NBFIs stood at Tk.1,000.00 million as per the Financial Institution Regulation, 1994. FIs are regulated under Financial Institution Act, 1993 and controlled by Bangladesh Bank. Certain provisions of the key acts like Companies Act 1994 and Bangladesh Securities and Exchange Commission Act 1993 have implications for NBFIs. Though, Bangladesh Bank is the regulatory and supervisory authority of both banks and NBFIs; the Ministry of Finance (MoF) of the government exercises notable control over government-owned banks and NBFIs.

The financial health of at least one-third of NBFIs are alarming due to weak governance structure, over borrowings, insider lending, wrong client selection for approving the loan, lack of security coverage against loan amount, lack of documentation, massive fall in earnings and series of scams in the NBFIs sector. Though central bank has taken a number of steps and policy measures to curb the situation, but people's confidence has been eroded to a great extent due to liquidation by one listed leasing company and another near to die.

4.3 Profitability

Profitability performances of the NBFIs industry are not satisfactory especially significant deterioration from the last two years. Total profit of the NBFIs sectors declined by 61% to Tk.356 crore in 2020 resulting to Return on Asset (ROA) and Return of Equity (ROE) of overall industry stood at only 0.40% and 4.30% respectively in 2021 against 0.40% and 3.90% respectively in 2020. Cumulative last five years average profitability performance in the form of ROA and ROE stood at 1.1% and 9.84%. Transparency of the owner, lack of skill management, substantial loan-loss provision are influenced the performance of profitability.

NBFIs are allowed to invest in capital market up-to 25% of paid up capital and reserve as per section 16 of Financial Institution Act, 1993. Capital market investment in NBFIs stood at Tk.22.96 billion at the end of June, 2021 against Tk.21.64 billion in the YE2020. The gloomy state of the capital market, which is another source of income for some NBFIs, caused a huge loss which worsened financial performance of the industry. On the other hand, Government has fixed up the maximum lending and deposit rate for the Banks which subsequently impacted majority of the NBFIs to maintain the spread due to weak public confidence on NBFIs industry. Though small number NBFIs may hold a short tenor deposit book, the maturing deposits would be re-priced at lower rates while to re-price the loan book would take long a period than for deposit. Therefore, the coming year may be beneficial for few NBFIs from maturity mismatches of the portfolio.

4.4 Asset Quality

The asset base of the industry increased by 6.28% in 2021 which stood at Tk.914.30 billion compared to Tk.860.30 billion in 2020. The composition of investment of NBFIs are in different sectors of the economy like industrial sector (47.24%), real estate (18.96%), trade and commerce (13.90%), merchant banking (3.09%), agriculture (2.46%), margin loans (1.15%) and others (13.20%) as on June 30, 2021. The volume of classified loan increased significantly to Tk.103.3 billion in June, 2021 against Tk.89.1 billion in the corresponding year. Non Performing Loan (NPL) of NBFIs stood at 15.4%, 13.3% and 11.9% respectively in June 2021, 2020 and 2019. The volume of defaulted loans in the country's NBFIs sector has been swelling amidst a series of scams and irregularities. 9 companies had their classified loan ratio higher than 15%, 12 companies over 10% while 15 companies could limit their NPL below 5%.

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The loan loss provisions amounted to Tk.4,440 crore against a requirement of Tk.5,180 crore representing a coverage ratio of 44.12% of total bad loans. The coverage was 7.6 percentage points higher than in the previous year. Six companies could not maintain the required provision, causing a provision shortfall of Tk.740 crore for the industry.

4.5 Capital Adequacy

BB has implemented the Basel-II framework from January 01, 2012 for FIs in keeping with the global standard. Under the above directives, all the FIs are required to maintain 10% of the Risk Weighted Assets (RWA) or Tk.1.00 billion whichever is higher. Capital Adequacy Ratio (CAR) of NBFIs stood at 10% with 5% from core capital. At the end of December 2019, out of 35 FIs, the composite CAMELS rating of 14 were "2 or Satisfactory", 11 were "3 or Fair", 6 were "4 or Marginal" and 2 were "5 or Unsatisfactory". One FI is yet to come under this rating & another one is on liquidation process. In addition, NBFIs plays a significant role in the development of bond market through issuing of different types of bonds.

4.6 Liquidity

Total deposits of NBFIs stood at Tk.445.4 billion in 2021 against Tk.441.20 billion in 2020 while industry's total loan/lease stood at Tk.671.20 billion in 2021 against Tk.670.20 billion in 2020. At present, term liabilities are subject to a statutory liquidity requirement (SLR) of 5.0% inclusive of average 2.5% (at least 2.0% in each day) cash reserve ratio (CRR) on bi-weekly basis. The SLR for the NBFIs operating without taking term deposit is 2.5%.

Deposit as percentage of total liability has gradually decreased in the industry, which stood at 53.74%, 57.40% and 60.00% respectively as on June 30, 2021, 2020 and 2019. Decreasing trend of deposit base ultimately indicates the question of sustainability of the industry and increase the cost of fund at higher rate. Currently, the industry is facing continuous deposit withdrawal move due to the liquidation of one NBFi and another is in the process to be liquidated which ultimately is intensifying the liquidity crisis.

Like elsewhere across the globe, the COVID-19 pandemic has brought uncertainties in financial and economic sector in Bangladesh. Bangladesh Bank has taken several policy measures to mitigate the impact of COVID-19 on non bank financial institutions and their clients. Some of the key policies are: relaxation on loan/lease/advance classification, lowering the CRR from 2.5 percent to 1.5 percent on bi-weekly basis and from 2.0 percent to 1.0 percent on daily basis, restructuring and revolving loan renewal facilities on easy terms and conditions. Moreover, Bangladesh Bank facilitates interest rate subsidy and refinance scheme for pandemic affected clients of non bank financial institutions and banks under the government stimulus packages for providing working capital in industry and service sector and cottage, micro, small and medium enterprises (CMSME) sector. These prompt policy supports and responses from Bangladesh Bank in sync with the government's stimulus packages and other policies helping widely to mitigate COVID's negative impact on Bangladesh's economy.

5.0 RISK MANAGEMENT

Risk management is one of the core operational pillars of financial institutions. The primary objective of risk management is to take calculative risk in order to safeguard its capital and well manage the financing business. In order to go for more risk sensitive financing, Bangladesh Bank has formulated Core Risk Management Guidelines on the basis of best practices in the industry and advised FIs to comply with the above. The risk management modules circulated by the BB cover core risk areas i.e. Credit Risks, Asset and Liability/Balance Sheet Risks, Internal Control and Compliance Risks, IT Security Risk and Money Laundering and Terrorist Financing Risks. The risk related observations of CRISL are narrated below:

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5.1 Credit Risk Management

Credit Risk Management as one of the core risk is designed and regularly updated to identify, measure, manage and mitigate credit risk to maintain and improve the quality of loan portfolio, reduce actual loan losses and to ensure that approved processes are followed through appropriate due diligence in appraising and subsequent approving of new credit facilities. Internal Credit Risk Rating System (ICRRS), Credit Risk Grading (CRG) are important tool for credit risk management. The aggregate score of CRG can provide a better assessment of the quality of credit portfolios of LAFL. Another tool of minimizing credit risk is to obtain and review credit rating of a company before extending credit facilities. The Risk Management Committee is responsible to review the credit rating of the borrower annually.

While reviewing the risk weight wise distribution of on balance sheet exposure under credit risk, it was revealed that 1.56% of the exposures fall under 0% risk category, 25.02% under 20% risk, 28.56% under 50% risk, 31.12% under 75% risk, 4.90% under 100% risk, 1.61% under 125% risk and 7.23% under 150% risk. It is a positive sign that the company has invested in all rated clients and total on balance sheet exposure stood at Tk.208.76 million as on December 31, 2021.

5.1.1 Credit Approval Process

LAFL has formulated a credit policy manual to describe the policy and procedures for the handling of credit related operation. Relationship Manager (RM) acts as an initiator to contact borrowers at the primary stage and proactively analyze the financial performance and transaction behavior of the borrowers (at this stage proposal can be rejected). After receiving the business proposal, RM places the application to Credit Risk Management (CRM) Department for identification and assessment the risk. Credit Risk officer visits the client physically and check all data and verify the credit worthiness of the client to make an initial decision whether the proposal can be forwarded or not. After getting a recommendation from CRM, the file is forwarded to the Credit Risk Management Committee for their recommendation which is then subsequently forwarded to Management Credit Committee (MCC)/Executive Committee (EC) and Board of Directors based on delegation limit for approval. EC can approve up to Tk.200.00 million but the Board has supreme authority to approve any amount.

5.2 Operational Risk Management

5.2.1 Internal Control and Compliance

LAFL has formulated internal control manual, policies and guidelines in order to establish a clear line of responsibility between each division and sub-division according to the Bangladesh Bank core risk management guidelines. As a part of core risk management, total operation of internal Control and Compliance has been segregated into three departments namely- Compliance, Monitoring and Audit & Inspection. The compliance division ensures that LAFL has complied with all regulatory requirements, maintained a liaison with the regulatory bodies and notified any regulatory changes to all concerned in the company. Monitoring Department ensures loan documentation checklist and Quarterly Operation Report (QOR). Internal control and compliance division undertakes periodical and special audit of all departments at Head office for the deficiencies in operations, weakness in the control system and report to the authority to review the operation and compliance requirements. In view of the above, LAFL has already established separate Internal Control & Compliance Unit.

5.2.2 Prevention of Money Laundering

LAFL has been following Anti-Money laundering guidelines which are approved by the Board "Prevention of Money Laundering & Terrorist Financing" under the care of Chief Compliance Officer who independently reviewed the transactions. The company has formed a Six members Central Compliance Unit (CCU) headed by Mr. Mostofa Meer Khaled Omar, EVP & Head of CRM, as a Chief Anti-Money Laundering Compliance Officer (CAMLCO). CAMLCO regularly submits the status report to CEO and Department of Off-Site Supervision of Bangladesh Bank on the basis of abnormal transactions made, Suspicious Transaction Report (STR), Cash Transaction Report, Know Your Client (KYC) procedures etc. Moreover, LAFL has an effective Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) policy. CCU conducts its meeting by monthly basis to ensure AML & CFT practice in LAFL.

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There was no Suspicious Transaction Report (STR) during the year 2021. To implement the present Anti Money Laundering policy, employees are being trained by the relevant department of Bangladesh Bank.

5.3 Asset Liability Management

LAFL has an Asset Liability Manual (ALM), which was developed in line with Bangladesh Bank best practice guideline. ALM is a strategic management tool to manage interest rate risk and liquidity risk faced by NBFIs. Asset Liability Management Committee (ALCO) of LAFL comprises of five members headed by Mr. Kanti Kumar Saha, Chief Executive Officer as Chairman. The ALCO reviewed and resolved issues relating to money market situation, balance sheet gap, analysis of performance result, assets growth, sensitivity analysis, business plan for investment, deposit mobilization etc. During the year 2021, ALCO conducted 11 meetings.

5.4 Spread Management

Financial market of Bangladesh has experienced a volatile interest rate during in recent years. Pressure from regulators to reduce the lending rate forced the FIs to rearrange interest rate of financing agreements in many cases, which ultimately squeezed the margin of FIs. Subsequent interest rate adjustment capability of the company plays a vital role in minimizing the interest rate risk. LAFL has a clause in its all credit agreement for necessary interest rate adjustment in accordance with the market pressure, which provides flexibility to the company to adjust the interest rate. The weighted average lending rate of the company stood at 11.25% and cost of fund stood at 7.14% indicating 4.11% spread as on December 31, 2021. Paid up capital and depositor funds are already invested in existing portfolio and for further investment LAFL will depend on credit lines like other FIs operating in the market.

6.0 PERFORMANCE

6.1 Financial Performance

The overall financial performance of LAFL has been found to be stable during the period under surveillance. CRISL evaluates the financial performance in terms of Return on Average Assets (ROAA), Return on Average Equity (ROAE) and Net Profit Margin (NPM) etc.

The interest income of the company increased to Tk.252.82 million in YE2021 from Tk.204.95 in YE2020 due to increase in loan and advance. As a newly startup company, LAFL has to compete in the highly competitive money market where the regulatory authority fixed the lending rate for the banks making the situation more competitive for NBFIs. The interest income composed of 88.75% income from term finance and rest 11.25% income from balance with other banks and financial institutions. Against the same, the company paid Tk.118.42 million interest on deposit in YE2021 against Tk.78.05 million in YE2020. Thus the net interest income of the company increased to Tk.134.41 million in YE2021 from Tk.126.89 million of previous year. Moreover, due to considerable income generated from structured finance (Tk.11.02 million) as well as above reason; the total operating income increased to Tk.187.59 million in YE2021 from Tk.167.90 million of last year indicating 11.73% growth. Operating income composition revealed that, 71.65% (75.58% in 2020) of total operating income has been generated from net interest income, 19.43% (20.47% in 2020) from investment income in shares and rest 8.92% (3.95% in 2020) from other operating income (structured finance, documents fees, overdue interest, early settlement etc.). On the other hand, the operating expenses increased to TK.88.69 million in YE2021 against TK.75.30 million in YE2020 mainly due to increase in salaries and other administration and maintenance expense. The company kept provision of Tk.7.35 million in YE2021 against Tk.3.73 million in YE2020 for general and other provision. The profit before tax of the company stood at TK.91.55 million in YE2021 against TK.88.87 million in YE2020 while net profit after tax of LAFL has been to be stable and stood at TK.58.55 million in YE2021 against TK.56.78 million in YE2020.

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Consequently, all the profitability indicators (such as ROAA, ROAE etc.) declined during the year 2021 due to lower growth in net profit than the growth of equity and assets. ROAA after tax decreased to 1.96% in YE2021 against 2.39% in YE2020. Similarly, ROAE after tax stood at 4.68% in 2021 from 4.76% in 2020. Consequently, net profit margin decreased to 31.21% in YE2021 against 33.82% in YE2020.

CRISL also evaluated un-audited accounts as on March 31, 2022 and revealed that the reported operating income of Tk.50.50 million against operating expenses of Tk.26.05 million and generating net profit after tax of Tk.6.03 million. The net interest income stood at Tk.41.21 million during the same period. Total loans and advances has increased to Tk.3,190.58 million as on March 31, 2022 from Tk.2,324.62 million as on December 31, 2021.

The company has projected the financial performance for YE2022. According to the company's projection, the net interest income will be Tk.222.70 million. The operating income will be Tk.182.30 million against the operating expense of Tk.157.50 million and will generate net profit of Tk.105.40 million. Total loans and advances will be Tk.6,287.00 million at the end of December, 2022 and total asset will be Tk.7423.00 million as on December 31, 2022. To meet up the above projection company already added new branch at Banani, Dhaka through collecting deposit and providing lending facilities.

6.2 Operating Efficiency

The overall operating efficiency of LAFL has still been found moderate with improving some related indicators from last year. CRISL measures operating efficiency in terms of efficiency ratio (cost to income ratio), time interest earned ratio, yield per Tk.1.88 staff cost etc. The efficiency ratio of the company stood at 47.28% in YE2021 from 44.85% in YE2020. The time interest earned ratio stood at 0.84 times in 2021 which was 1.19 times in 2020. Yield per taka staff cost of LAFL decreased to Tk.1.88 in YE2021 from Tk.2.24 in YE2020.

7.0 ASSET QUALITY

Asset quality of the company has been found to be good as there are no rescheduling assets and no non-performing loan except overdue amount of Tk.33.74 million in their portfolio during the surveillance period.

The total assets of LAFL increased to Tk.3,464.30 million as on December 31, 2021 against Tk.2,505.95 million as on December 31, 2020 indicating 38.24% growth. The above asset base was financed by 57.75% deposit, 36.92% equity capital, 0.22% borrowing from other banks and FI's while rest 5.11% by outside liabilities as on December 31, 2021. Total assets have been composed of 67.10% lease, loan & advances, 8.83% investment in shares, 16.37% balance with Bangladesh bank and FIs, 1.56% fixed assets, 2.36% other assets and rest 3.78% cash & cash equivalent and money at call & short notice.

The overall investment portfolio of the company is small compared to the peers. The loan portfolio (TK.2,324.62 million in YE2021) of LAFL reveals that service industry holds the largest portion (Tk.905.41 million, 38.95% of total portfolio); power, gas, water & sanitary service (Tk.378.54 million, 16.28% of total portfolio); housing (Tk.164.26 million, 7.07% of total portfolio); iron, steel & engineering (Tk.146.35 million, 6.30% of total portfolio); food products and processing industry (Tk.59.21 million, 2.55% of total portfolio); glass, glassware and ceramic (Tk.53.13 million, 2.29% of total portfolio); pharmaceuticals & chemicals (Tk.52.06 million, 2.24% of total portfolio); leather & leather goods (Tk.47.49 million, 2.04% of total portfolio); telecommunication & information technology (Tk.44.03 million, 1.89% of total portfolio); transport & aviation (Tk.43.57 million, 1.87% of total portfolio); nominal investment in garments and knitwear, trade & commerce (Tk.22.86 million, 0.98% of total portfolio) and others (Tk.407.71 million, 17.54% of total portfolio) Again, the product wise composition of portfolio revealed that 42.83% investment are in corporate (Tk.995.66 million), 42.45% are in SME (Tk.986.93 million), 6.77% are in retail (Tk.157.48 million) and rest 7.95% are in others (Tk.184.55 million). As on December 31, 2021, eight accounts are in the large loan category amounting Tk.672.87 million (28.95% of total portfolio).

Good asset quality

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Top 10 borrowers hold 76.13% of total portfolio (Tk.1,769.63, as company has limited client portfolio) which indicates concentrated to limited borrowers. As at the initial stage and due to selective penetration in the market; LAFL has no classified investment, rescheduled loan and infected assets in its portfolio as on December 31, 2021.

Currently the total portfolio is concentrated only in Dhaka zone as there is only one branch at Banani indicating geographic concentration of loan disbursement. During the surveillance period LAFL disbursed loans to some new corporate clients such as People's Oriented Program Implementation, Aamra Networks Limited, Acorn Infrastructure Services Unit-2 Limited, UDDIPAN, Padakhep Manabik Unnayan Kendra, Resource Integration Centre, Property Development Ltd. etc.

8.0 CAPITAL ADEQUACY

Good capital base

As a newly operated company, LAFL has been operating with good capital base. The equity base of the company increased to Tk.1,279.04 million as on December 31, 2021 against Tk.1,220.85 million as on December 31, 2020. CRISL also reviews the Risk Based Capital Adequacy Framework of Basel-II reporting as on December 31, 2021 and it was revealed that, the Risk Weighted Assets stood at Tk.2,945.84 million of which 70.87% was emanated from credit risk, 20.52% from market risk and rest 8.61% from operational risk. Against the same, the eligible capital stood at Tk.1,294.78 million based on which Risk weighted Capital Adequacy Ratio stood at 43.95% as on December 31, 2021 against 57.75% as on December 31, 2020. Moreover, Capital Adequacy ratio of the company has been found to be in declining trend and stood at 42.43% as on March 31, 2022 due to increase in risk weighted assets (Tk.3,096.75 million). Shareholder's equity to total assets of the company decreased to 36.92% in YE2021 from 48.72% in YE2020. Internal capital generation ratio of LAFL decreased to 1.96% in YE2021 against 2.39% in YE2020. Moreover, the total gearing ratio of the company increased to 1.71 times in YE2021 against 1.05 times in YE2020.

Stress Testing Analysis

LAFL is maintaining sound capital according to the Basel III capital requirement. The following table shows the sensitivity of risk factors on CAR (based on the actual CAR of 43.95%) as on December 31, 2021.

Indicators	Magnitude of Sensitivity (Minor to Major Level %)
Interest rate risk	44.55 ~ 45.27
Increase in NPL	43.41 ~ 40.09
Downward Shifts in Loans	44.10 ~ 43.92
Fall in the Value of Eligible Securities	44.19 ~ 44.19
Increase of NPLs in the Other sector & in the Transport and Aviation sector	42.66 ~ 39.36
Increase in NPLs due to Top 10 Borrowers	26.88 ~ (0.90)
Equity Price Risk	43.60 ~ 41.13
CAR After Shock (combined) %	21.92~(55.23)

LAFL is maintaining sound capital according to the Basel III capital requirement. From the above analysis it has been revealed that the CAR of the company is significantly sensitive to the top 10 borrowers due to the concentrated portfolio.

9.0 FUNDING AND LIQUIDITY

9.1 Fund Management

LAFL has been operating with both deposit and equity concentrated funding base. The overall funding composition of LAFL as on December 31, 2021 includes total deposit of Tk.2,000.44 million (57.74% of total funding), shareholder's equity of Tk.1,279.04 million (36.92% of total funding), borrowing from other bank and FIs of Tk.7.75 million (0.22% of total funding) and other liabilities (provision, payable etc.) of Tk.177.06 million (5.12% of total funding). The deposit was mainly composed of term deposit (99.89%) and insignificant portion were other deposits.

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The shareholder's equity was contribution of paid-up capital of 78.18%, share premium of 13.46%, statutory reserve of 2.85% and remaining 5.51% was retained earnings in YE2021. The overall deposit base is in increasing trend for last three years (due to increase in other institutions deposit) resulting less dependency on borrowings from other banks and FIs and increase in credit portfolio. Top 20 depositors held 60.37% of total deposits as on December 31, 2021 indicating concentration risk.

LAFL has credit line with 2 banks namely Commercial Bank of Ceylon and NCC Bank Ltd. with limit of Tk.180.00 million in the form of term loan at the interest rate of 7% to 8%. The bank has already availed of Tk.170.00 million against which outstanding balance stood at Tk.167.33 million as on March 31, 2022 for investment in the corporate sector, auto loan and home loan.

9.2 Liquidity Management

The liquidity position of the company has been found to be improved due to positive operating cash flow. The operating cash flow increased to Tk.292.13 million in YE2021 from Tk.1.31 million in YE2020 due to increase in interest received, term and other deposit etc. While analyzing the assets liability maturity bucket as on December 31, 2021, it has been observed that liquidity bucket of (1-3) and (3-12) months have been showing a positive balance of Tk.664.25 million. On the other hand, it has been observed that the company has overall net liquidity surplus of Tk.1,279.04 million. The required Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have been kept at satisfactory level. The company has surplus CRR and SLR of Tk.1.06 million and Tk.490.23 million respectively in YE2021. Again, liquid assets to total assets of LAFL stood at 53.08% in YE2021 against 49.77% in YE2020. It is worthy to mentionable that both the deposit and loan portfolio have been found in increasing trend for last three years. Investment portfolio to deposit ratio stood at 1.16 times in YE2021 against 1.49 times in YE2020.

Average liquidity

10.0 OBSERVATION SUMMARY

<p>Rating Comforts:</p> <ul style="list-style-type: none"> • Good capital base • Good asset quality • Renowned local Sponsors • Improve liquidity position • Proven track record of the joint venture partner • Experienced management team 	<p>Rating Concerns:</p> <ul style="list-style-type: none"> • Limited core business and credit portfolio • Exposed to credit and deposit concentration risk • IT infrastructure at developing stage • Limited branch network
<p>Business Prospects:</p> <ul style="list-style-type: none"> • Scope to explore fee based products • Scope of exploring cheaper cost funding sources • Good rated FIs carry easy access in case of fund requirement from commercial Banks 	<p>Business Challenges:</p> <ul style="list-style-type: none"> • Regularize in recovery performance • Increased competition in the market • Low spread • Conservative perception of the industry • Commercial banks portfolio expansion to lease financing

11.0 PROSPECTS

Having many hurdles and challenges and with the corona virus pandemic, Bangladesh Economy registered a growth of 5.24% in FY2019-20 and 8.15% in FY2018-19. Bangladesh has been graduating to a middle income country after passing 43 years as a least developed country. The government has been implementing massive development works in light of the "Vision-2021" and "Vision-2041" with an objective to become an upper middle-income country. Country's export earnings (mainly RMG, jute goods, leather, frozen shrimps & fish) fell substantially in 2019-20.

CREDIT RATING REPORT **On** **LANKAN ALLIANCE FINANCE LIMITED**

However, due to good agricultural production and shattered records in remittances sent by the expatriates, the country was able to achieve this growth rate which was initially expected to be between 2.0 per cent and 3.0 per cent in fiscal 2020, followed by 1.2 per cent to 2.9 per cent in fiscal 2021. After the second wave of COVID-19 impact, the economy again is expected to further decline in consumption and domestic demand, along with fall in investment, which will ultimately affect all major economic sectors. Apart from corporate manufacturing and service sector industry, small & medium business segment and even retail business segment of bank industry is likely to be affected to a great extent. Workers remittance from Gulf countries have already started falling and will continue further which is expected to hit banks' and NBFIs earnings to a great extent from remittance inflow. The capital market has been passing through a very tough time and despite the regulatory intervention and motivational direct policy support by central bank, NBFIs' earning through direct investment or through its subsidiary operations (like brokerage house, merchant bank and asset management company) from capital market may not be up to the mark. Against all the above backdrops, successful running for the newly licensed commercial bank along with other major scheduled banks will be a big challenge in the next year.

However, the Government has rightly taken various stimulus packages to curb the massive impact of the Corona virus outbreak on the local economy. Bangladesh Bank is engaged in devising various policies and formulating different guidelines and strategies along with policy decisions, which has already directed all scheduled banks and financial institutions not to downgrade the classification of any borrowers for defaulted loans between the period of 1 January 2020 and 31 December 2020. This is undoubtedly a helpful step taken by the Bangladesh Bank, which will aid the defaulting borrower's situation given the current circumstances. Moreover, Bangladesh Bank again issued a circular to provide the flexibility to the borrower to repay the outstanding interest. The borrower can repay the accumulated interest during January 01, 2020 to December 31, 2020 with current imposed interest in installment basis to remain unclassified till June, 2022 for continuous loan and for December, 2022 for term loan. This measure will help not to increase the amount of default loan as much.

Being one of the prospective Financial Institutions in the market, LAFL has all the potentials to enhance its market share and tap growth opportunities by exploring its franchise value and make proper marketing drives. Above all, the long run sustainability of the company depends, to a great extent, on maintenance of sound asset quality, adequate capital base, timely decision making and effective implementation of risk management tools.

END OF THE REPORT

(Information used herein is obtained from sources believed to be accurate and reliable. However, CRISL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. All rights of this report are reserved by CRISL. Contents may be used by news media and researchers with due acknowledgement)

[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the BSEC rules as prescribed by the Bangladesh Securities and Exchange Commission.]

CREDIT RATING REPORT On LANKAN ALLIANCE FINANCE LIMITED

12. CORPORATE INFORMATION:

Date of Incorporation : September 27, 2003
Date of Commencement of Operation : December 03, 2017

Board of Directors:

Mr. Syed Ali Jowher Rizvi	Chairman
Ms. Azeeza Aziz Khan	Director
Ms. Sohana Rouf Chowdhury	Director
Ms. Farzanah Chowdhury	Director
Mr. Sujeewa Rajapakse	Director
Mr. Shamindra Marcelline	Director
Mr. Clive Fonseka	Director
Mr. Mohamed Azzam Ali Ahamat	Director
Mr. Ranjith Kodituwakku	Director
Ms. Fahima Akhter	Director
Mr. Lutfe M. Ayub	Director
Mr. Rohan Pathirage	Director
Mr. Udesh Gunawardena	Director

Auditor:

Hoda Vasi Chowdhury & Co.
Chartered Accountants

Management:

Kanti Kumar Saha	Chief Executive Officer
Don Wishva Kantha Wickramarachchi	Chief Financial Officer
Shahanur Rashid	Head of Business
Mostofa Meer Khaled Omar	Head of CRM
Mohammad Shahidul Islam Mazumder	Head of ICT
Iqbal Ahmed	Head of ICC
Mohammad Ali Ashraf	Head of Accounts
Md. Sayful Islam	Head of SME
Ali Tasben Haque Riyad	Unit Head of Corporate Finance
Abu Shofian	Head of Deposit Mobilization

Capital History:

Year	Authorized Capital (Million Taka)	Issued, Subscribed and Paid-up Capital (Million Taka)	Source of Capital
2016	1,000.00	10.00	Paid-up Capital
2017	1,000.00	1,000.00	Paid-up Capital
2018	1,000.00	1,000.00	Paid-up Capital
2019	1,000.00	1,000.00	Paid-up Capital
2020	1,000.00	1,000.00	Paid-up Capital
2021	1,000.00	1,000.00	Paid-up Capital


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13. FINANCIAL INFORMATION

Balance Sheet (As on December 31)

Tk. in million

Particulars:	2021	2020	YE2019
Cash:	30.88	16.85	20.92
Cash in hand	0.03	0.04	0.01
Balance with Bangladesh Bank	30.85	16.82	20.92
Balance with other Banks and Financial Institutions:	567.10	293.35	322.54
Inside Bangladesh	567.10	293.35	322.54
Money at Call & Short Notice	100.00	100.00	200.00
Investments in Securities	305.79	295.00	300.65
Government	-	-	-
Others	305.79	295.00	300.65
Lease, Loans and Advances:	2,324.62	1,675.42	1,269.62
IN Bangladesh	2,324.62	1,675.42	1,269.62
Fixed Assets including Premises, Furniture & Fixtures	54.19	62.59	83.66
Other Assets	81.72	62.73	47.05
Non Banking Assets	-	-	-
Total Assets	3,464.30	2,505.95	2,244.45
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other Banks, Financial Institutions and Agents	7.75	4.75	140.00
Deposits and Other Accounts	2,000.44	1,123.84	769.78
Other Liabilities	177.06	156.50	169.25
Total Liabilities	2,185.26	1,285.09	1,079.04
Capital/Shareholders' Equity	1,279.04	1,220.85	1,165.41
Paid-up Capital	1,000.00	1,000.00	1,000.00
Share Premium	172.20	172.20	172.20
Statutory Reserve	36.44	24.73	13.38
Retained Earnings	70.40	23.92	(20.17)
Total Liabilities & Shareholders' Equity	3,464.30	2,505.95	2,244.45



 Muzaffar Ahmed, FCMA, FCS
 President and CEO
 Credit Rating Information and Services Ltd.

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Income Statement (Year end December 31)

Tk. In million

Particulars:	YE2021	YE2020	YE2019
Interest Income	252.82	204.95	215.40
Less: Interest paid on Deposits & Borrowings etc.	118.42	78.05	78.71
Net Interest Income	134.41	126.89	136.69
Income from Investment	36.44	34.37	11.30
Commission, Exchange and Brokerage	-	-	-
Other Operating Income	16.74	6.64	3.79
Total Operating Income	187.59	167.90	151.78
Salaries and Allowances	48.60	39.65	38.67
Rent, Taxes, Insurances, Electricity etc.	4.38	4.19	2.20
Professional Charges	0.67	1.34	0.42
CEO's Salary and Benefits	12.90	9.30	16.25
Postage, Stamps, Telecommunication etc	0.43	0.42	0.67
Stationery, Printings, Advertisements etc	0.97	1.16	2.52
Directors' Fees	0.80	0.45	0.25
Auditors' Fees	0.35	0.44	0.44
Depreciation & Repairs of FI's Assets	13.48	13.72	14.65
Other Operating Expenses	6.13	4.63	6.89
Total Operating Expenses	88.69	75.30	82.96
Profit before Provision	98.90	92.60	68.82
Provision for Loans, Advances & Leases	(0.36)	3.73	0.98
2% Special Provision	4.21	-	-
Provision for the diminution in the value of investments	3.50	-	-
Total Provision	7.35	3.73	0.98
Total Profit before Provisions for Taxation	91.55	88.87	67.84
Provision for Income Tax	32.99	32.09	30.67
Current Tax Expenses	35.70	35.11	33.13
Deferred Tax Expenses	(2.70)	(3.02)	(2.46)
Net Profit after Taxation	58.55	56.78	37.17


Muzaffar Ahmed, FCMA, FCS
President and CEO
Credit Rating Information and Services Ltd.

CREDIT RATING REPORT On LANKAN ALLIANCE FINANCE LIMITED

CRISL RATING SCALES AND DEFINITIONS LONG-TERM – BANK AND FINANCIAL INSTITUTIONS

RATING	DEFINITION
AAA Triple A (Highest Safety)	Bank/FIS rated in this category are adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of banks.
AA+, AA, AA- (Double A) (High Safety)	Bank/ FIS rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- (Single A (Adequate Safety)	Bank/FIS rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Bank/FIS rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a bank is under-performing in some areas. These entities are however, considered to have the capability to overcome the above-mentioned limitations with special care and cautious operation. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
BB+, BB, BB- Double B (Inadequate Safety)	Bank/FIS rated in this category are adjudged to lack of key protection factors, which results in an inadequate safety. This level of rating indicates a bank as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (Risky)	Bank/FIS rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support.
CCC+, CCC, CCC- Triple C (Vulnerable)	Bank/FIS rated in this category are adjudged to be with vulnerable protection factors. This rating indicates that the degree of certainty regarding timely payment of financial obligations is doubtful unless circumstances are favorable.
CC+, CC, CC- Double C (Highly Vulnerable)	Bank/FIS rated in this category are adjudged to be with high vulnerable position. This rating indicates that the degree of certainty regarding timely payment of financial obligations is quite lower unless overall circumstances are favorable or there is possibility of high degree external support.
C (Near to Default)	Bank/FIS rated in this category are adjudged to be with near to default in timely repayment of financial obligations. This type rating may be used to cover a situation where a insolvency petition has been filed or similar action has been taken, but payments on the obligation are being continued with high degree of external support.
D (Default)	Bank/FIS rated in this category are adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entities are unlikely to meet maturing financial obligations and calls for immediate external support of a high order.

(For long-term ratings, CRISL assigns + (Positive) sign to indicate that the issue is ranked at the upper-end of its generic rating category and - (Minus) sign to indicate that the issue is ranked at the bottom end of its generic rating category. Long-term ratings without any sign denote mid-levels of each group.)

SHORT-TERM- BANK AND FINANCIAL INSTITUTIONS

ST-1	Highest Grade Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.
ST-2	High Grade High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	Good Grade Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	Satisfactory Grade Satisfactory liquidity and other protection factors qualify issues as to Investment grade. Risk factors are larger and subject to more variation.
ST-5	Non-Investment Grade Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
ST-6	Default Issuer failed to meet scheduled principal and/or interest payments.