CREDIT RATING REPORT
On
LANKAN ALLIANCE FINANCE LIMITED

REPORT: RR/44037/21

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***

Date of Rating: June 09, 2021	Valid up to: June 08, 2022	
	Long Term	Short Term
Entity Rating	A+	ST-3
Outlook	Stable	

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Entity Rating
Long Term: A+
Short Term: ST-3

Outlook: *Stable*

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.1,220.85 million

TOTAL ASSETS
TK.2,505.95 million

Public limited company

1.0 RATING RATIONALE

CRISL has upgraded the Long Term rating to 'A+' (pronounced as Single A plus) and reaffirmed the Short Term rating to 'ST-3' 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, IT infrastructure at developing stage etc.

The Long Term rating implies that entities 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. The Short Term rating indicates good certainty of timely repayment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to financial and capital markets is good with small risk factors.

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 2018. Subsequently, the company has formed a Joint Venture in June 2017 with renowned and largest state owned 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 (PLC), a subsidiary of Government owned People's Bank, is a publicly quoted listed company with Colombo Stock Exchange. PLC is providing value added financial services to Sri Lankans over the last twenty five years. Total assets of PLC (Solo basis) stood at Rs.171.66 billion and total credit portfolio stood at Rs.147.75 billion as on March 31, 2020. Consolidated net interest income increased to at Rs. 17.17 billion from Rs.16.34 billion while net profit after tax of PLC decreased to Rs. 3.59 billion in 2020 from Rs.5.01 billion in 2019. Total gross Non-Performing Advance (NPA) ratio increased to 7.62% as on 31 March 2020 from 3.91% as on 31 March 2019 due to slowdown of the economy. PLF rated as 'A+' credit rating by Fitch Ratings Lankan and 'B-' rating by Fitch Ratings International.

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 stood at Tk.2,505.95 million as on December 31, 2020 compared to Tk.2,244.45 million of previous year. 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.

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2.2 Ownership Pattern

Renowned local Sponsors

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, 2020. In the ownership structure, 51% shares are held by foreign institution namely People's Leasing & Finance PLC, Sri Lanka and remaining 49% are held by local Sponsors. Local-sponsors include Summit Holdings 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 Rabab Fashion Industry Limited (2%).

2.3 Business Profile

Limited core business and credit portfolio

The company has diversified portfolio and it is focusing with existing portfolio rather than taking any 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, loan against TDR) and SME (in the form of woman entrepreneur loan, green finance, short term loan, long term loan, working capital 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 to Tk.580.19 million in SME sector from Tk.15.84 million in 2019.

The company is also offering liability products such as Corporate Term Deposit, Kallayani dedicatedly for women, Interest First Deposit Scheme, Monthly Deposit Scheme (MDS), Professional Deposit Scheme, Senior Citizen Deposit Scheme, Double Money, Triple Money, Wealth Builder Scheme and DPS Scheme.

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 consists of 13 members. The members of the Board carry 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 44 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 6 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.

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 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 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

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Bangladesh Bank. EC also assists the Board in formulating the executive policy and reviews , evaluates and makes recommendations about key strategic issues as well.

The Board also formed five members Audit Committee Chaired by Mr. Sujeewa Rajapakse. The AC conducted 1 meeting during 2020. 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 Audit Committee. 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

Experienced management team

The management team of LAFL is headed by Mr. Kanti Kumar Saha who has joined in August 2020 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, Investment 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, Structured Finance, HR, Finance & Accounts, Treasury, Deposit Mobilization, CRM, SME, IT & ICC, etc. 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.

3.4 Human Resources Management

LAFL has been operating with a total HR base of 31 as on December 31, 2020. During the year under surveillance, the company recruited 12 employees and 12 employees left from the company. Top two employees who left the organization were in the position of Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Mr. Kanti Kumar Saha has joined as a CEO in August, 2020 and Mr. Kazi Nasim Ahmed was appointed as COO (Chief Operating Officer) in October, 2019. Both of them have vast experience in related field. 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 2020, the company has arranged training to the officers at different training institutes. 36 officers participated on different topics to improve the efficiency of the human resources of the company.

3.5 IT and its use to MIS

IT infrastructure at developing stage

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, Office 365 software etc. However, the IT team of LAFL with the senior management has already placed the purchase order for core banking software and it is expected that it will be deployed by September, 2021. 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 partially implemented Fortigate

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Firewall, Cisco Router and Dell Server, Active directory, File Server, Print Server. Currently, the company generates different reports through excel, MS word rather than through any automated system. LAFL has Board approved ICT policy from 2019. The management of the company is on the process of setting up a disaster recovery site after implementation of core banking software within December, 2021. 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.

4.0 INDUSTRY ANALYSIS: NON BANK FINANCIAL INSTITUTIONS (NBFIs)

4.1 Economy Projection

The banking and Non-banking sector in Bangladesh is passing through a difficult time and beset with many internal and external problems. The impact of COVID 19 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.

World Bank in its latest report on "South Asia Economic Focus" reveals that given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth of Bangladesh Economy for FY21 could range from 2.6 to 5.6 percent depending on the pace of the ongoing vaccination campaign, whether new restrictions to mobility are required and how quickly the world economy recovers.

International Monetary Fund (IMF) in its latest report titled "World Economic Outlook: Managing Divergent Recoveries" has scaled up its projection for the economic growth of Bangladesh to 5 per cent for 2021, up from 4.4 per cent it forecasted in October last year. According to the IMF, the country will return to its high growth trajectory next year, when the gross domestic product (GDP) is projected to expand by 7.5 per cent.

The United Nations Committee for Development Policy (CDP) has recommended graduation of Bangladesh from the category of Least Developed Country (LDC) as it fulfilled the eligibility criteria in terms of per capita income, human assets and economic and environmental vulnerability.

The global growth contraction for 2020 is estimated at -3.5 percent, 0.9 percentage point higher than projected. IMF in its latest publication in 'World Economic Outlook Update' reveals that although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. 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, 2020

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 276 as on June 30, 2020. The minimum paid up capital of NBFIs stood at Tk.1000.00 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 NBFI 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.

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4.3 Profitability:

Profitability performances of the NBFIs industry are not satisfactory. Return on Asset (ROA) and Return of Equity (ROE) of overall industry stood at only 0.24% and 2.21% respectively in 2020 against 0.30% and 2.0% respectively in 2019.

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.17.98 billion at the end of June, 2020 against Tk.18.83 billion in the YE2019. 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 decreased by 1.30% in 2020 which stood at Tk.860.30 billion compared to Tk.871.50 billion in 2019. The composition of investment of NBFIs are in different sectors of the economy like industrial sector (46.45%), real estate (19.41%), trade and commerce (13.84%), merchant banking (3.34%), agriculture (2.30%), margin loans (2.22%) and others (12.44%) as on June 30, 2020. The volume of classified loan has increased significantly to Tk.70.34 billion in June, 2020 against Tk.60.40 billion in the corresponding year. Non Performing Loan (NPL) of NBFIs stood at 10.51%, 11.9% and 9.2% respectively in June 2020, 2019 and 2018. The volume of defaulted loans in the country's NBFI sector has been swelling amidst a series of scams and irregularities. In this backdrop, BB asked the NBFIs to improve their financial health and start recovering their classified loans.

4.5 Capital Adequacy:

BB has already 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 June 2019, out of 34 FIs, the composite CAMELS rating of 14 were "2 or Satisfactory", 10 were "3 or Fair", 7 were "4 or Marginal" and 1 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. Up-to June, 2019 ten instruments of Tk.20.50 billion have been floated in the market.

4.6 Liquidity:

Total deposits of NBFIs stood at Tk.441.20 billion in 2020 against Tk.451.90 billion in 2019 while industry's total loan/lease stood at Tk.669.54 billion in 2020 against Tk. 678.10 billion in 2019. 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 57.40%, 60.90% and 63.00% respectively as on June 30, 2020, 2019 and 2018. 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. Overall global and local economy will face a great crisis due to Covid-19 pandemic effect. Export, import and remittance flow of Bangladesh economy may face a tough time in the up-coming year due to cancellation and lingering of garments order for disruption of global RMG consumption and the number of workers, who may lose their jobs in the Middle East. The aforementioned effect ultimately decreased the deposit base as a whole industry and default loan may increase across multiple zones due to the hampering the business growth.

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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 for LAFL are narrated below:

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. Credit Risk Grading (CRG) is an 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 0.67% of the exposures fall under 0% risk category, 43.68% under 20% risk, 29.85% under 50% risk, 6.36% under 75% risk, 6.86% under 100% risk, 0.04% under 125% risk and 11.75% under 150% risk and 0.78% in CRM. It is a positive sign that the company has invested in all rated clients except one unrated client (Spawn Fisheries Limited) and total on balance sheet exposure stood at Tk.2,511.60 million as on December 31, 2020.

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.

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5.2.2 Prevention of Money Laundering

LAFL has been following Anti-Money laundering guidelines "Prevention of Money Laundering & Terrorist Financing", which are approved by the Board under the care of Chief Compliance Officer who independently reviewed the transactions. The company has formed a five members Central Compliance Unit (CCU) headed by Mr. Kazi Nasim Ahmed, Chief Operating Officer as a Chief Anti-Money Laundering Compliance Officer (CAMLCO). CAMLCO regularly submits the status report to CEO, Bangladesh Financial Intelligence Unit 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. There was no Suspicious Transaction Report (STR) during the year 2020. 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 2020, ALCO conducted 12 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 14.09% and cost of fund stood at 9.55% indicating 4.54% spread as on December 31, 2020. 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 improved during the period due to increase in investment income and decrease in operating expense. 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 decreased to Tk.204.95 million in YE2020 from Tk.215.40 in YE2019 due to decrease in average lending rate. The interest income composed of 86.72% income from term finance and rest 13.28% income from balance with other banks and financial institutions. Against the same, the company paid Tk.78.05 million as interest on deposit in YE2020 against Tk.78.71 million in YE2019 indicating only 0.83% decline which indicates that the company can barely adjust its cost of fund to maintain its fund flow. Thus, the net interest income of the company decreased to Tk.126.89 million in YE2020 from Tk.136.69 million of previous year. However, due to significant increase in investment income from preference share of Confidence Power Rangpur Limited, Kushiara Power Company Limited and Karnaphuli Power Limited; the total operating income increased to Tk.167.90 million in YE2020 from Tk.151.78 million of last year indicating 10.62% growth. Operating income composition revealed that, 75.58% (90.06% in 2019) of total operating income has been generated from net interest income, 20.47% (7.44% in 2019) from investment income

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in shares and rest 3.95% (2.50% in 2019) from other operating income (documentation fees, overdue interest, early settlement etc.). On the other hand, the operating expenses decreased to TK.75.30 million in YE2020 against TK.82.96 million in YE2019. The company kept general provision of Tk.3.73 million in YE2020 against Tk.0.98 million in YE2019. The profit before tax of the company stood at TK.88.87 million in YE2020 against TK.67.84 million in YE2019 while net profit after tax of LAFL improved to TK.56.78 million in YE2020 against TK.37.17 million in YE2019.

Consequently, all the profitability indicators (such as ROAA, ROAE etc.) improved during the year 2020 due to higher growth in net profit than the growth of equity and assets. ROAA after tax increased to 2.39% in YE2020 against 1.92% in YE2019. Similarly, ROAE after tax increased to 4.76% in 2020 from 3.24% in 2019. Moreover, net profit margin increased to 33.82% in YE2020 against 24.49% in YE2019.

CRISL also evaluated un-audited accounts as on April 30, 2021 and revealed that the reported operating income stood at Tk.64.73 million against operating expenses of Tk.25.96 million and LAFL generated net profit after tax of Tk.26.28 million. The net interest income stood at Tk.47.47 million during the same period. Total loans and advances have increased to Tk.1,779.37 million as on April 30, 2021 from Tk.1,675.42 million as on December 31, 2020.

The company has projected the financial performance for YE2021. According to the company's projection, the net interest income will be Tk.200.23 million. The operating income will be Tk.273.31 million against the operating expense of Tk.100.78 million and it will generate a net profit of Tk.100.07 million. Total loans and advances will be Tk.3,884.10 million at the end of December, 2021 and the total asset will be Tk.5,086.04 million as on December 31, 2021. The management of the company has planned to increase its income through focusing on fee based income.

6.2 Operating Efficiency

The overall operating efficiency of LAFL has still been found moderate with improvement in 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.1.00 staff cost etc. The efficiency ratio of the company stood at 44.85% in YE2020 from 54.66% in YE2019. The time interest earned ratio stood at 1.19 times in 2020 which was 0.87 times in 2019. Yield per taka staff cost of LAFL increased to Tk.2.24 in YE2020 from Tk.1.75 in YE2019.

7.0 ASSET QUALITY

Asset quality of the company has been found to be good as there were no rescheduled assets and non-performing loan (NPL) in their portfolio during the surveillance period.

Good asset quality

The total assets of LAFL stood at Tk.2,505.95 million as on December 31, 2020 against Tk.2,244.45 million as on December 31, 2019. The above asset base was financed by 44.85% deposit, 48.72% equity capital, 0.19% borrowing from other banks and FI's while rest 6.24% by outside liabilities as on December 31, 2020. Total assets have been composed of 66.86% lease, loan & advances, 11.77% investment in shares, 11.71% balance with Bangladesh bank and FIs, 2.50% fixed assets, 2.50% other assets and rest 4.66% cash & cash equivalent and money at call & short notice.

The company started lending operation from March 2018 and disbursed its first loan in April 01, 2018. Thus, the overall investment portfolio of the company is small compared to the peers. The loan portfolio (TK.1,675.42 million in YE2020) of LAFL reveals that service industry holds the largest portion (Tk.557.96 million, 33.30% of total portfolio); followed by cement and allied industry (Tk.128.12 million, 7.65% of total portfolio); food products and processing industry (Tk.79.09 million,4.72% of total portfolio); glass, glassware and ceramic (Tk.57.12 million, 3.41% of total portfolio); power, gas, water and sanitary service (Tk.56.31 million, 3.36% of total portfolio); trade and commerce (Tk.43.00 million, 2.57% of total portfolio), nominal investment in garments and knitwear, agriculture and housing (Tk.21.00 million, 1.25% of total portfolio) and others (Tk.732.82 million, 43.74% of total portfolio). Again, the

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product wise composition of the portfolio revealed that 57.12% investment are in corporate (Tk.956.96 million), 35.60% are in SME (Tk.596.56 million), 6.79% are in retail (Tk.113.81 million) and rest 0.49% are in others (Tk.8.09 million). As on December 31, 2020, eight accounts are in the large loan category amounting Tk.874.12 million (52.17% of total portfolio). Top 10 borrowers hold 82% of total portfolio which indicates concentration to limited borrowers. Being 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, 2020. During the surveillance period, LAFL focused its new investment in the Non Government Organization (NGOs) sector and simultaneously enjoyed new deposit from the same sector, resulting to increase in deposit and credit growth.

Currently, the total portfolio is concentrated only in Dhaka zone as there is no branch network indicating geographic concentration in loan disbursement. During the surveillance period LAFL disbursed loans to some new Micro Finance Institutions (MFIs) and corporate clients such as 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.1,220.85 million as on December 31, 2020 against Tk.1,165.41 million as on December 31, 2019 which included paid up capital of Tk.1,000.00 million (81.91% of equity), share premium of Tk.172.20 million (14.10% of equity), statutory reserve of Tk.24.73 million (2.03% of equity) and retained earnings of Tk.23.92 million (1.96% of equity). CRISL also reviewed the Risk Based Capital Adequacy Framework of Basel-II reporting as on December 31, 2020 and it was revealed that, the Risk Weighted Assets stood at Tk.2,140.79 million of which 62.14% emanated from credit risk, 27.56% from market risk and rest 10.30% from operational risk. Against the same, the eligible capital stood at Tk.1,236.40 million based on which Risk weighted Capital Adequacy Ratio stood at 57.75% as on December 31, 2020 against 62.61% as on December 31, 2019. Moreover, Capital Adequacy ratio of the company has been found to be in declining trend and stood at 54.13% as on March 31, 2021 due to increase in risk weighted assets. Shareholder's equity to total assets of the company stood at 48.72% in YE2020 against 51.92% in YE2019. Internal capital generation ratio of LAFL increased to 2.39% in YE2020 against 1.92% in YE2019. Moreover, the total gearing ratio of the company increased to 1.05 times in YE2020 against 0.93 times in YE2019.

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 57.75%) as on December 31, 2020.

Indicators	Magnitude of Sensitivity (Minor to Major Level %)
Interest rate risk	57.75 ~ 57.76
Increase in NPL	57.13 ~ 54.46
Downward Shifts in Loans	57.68 ~ 57.55
Fall in the Value of Eligible Securities	57.75~ 57.75
Increase of NPLs in the Other sector & in the Transport and Aviation sector	56.48 ~ 53.69
Increase in NPLs due to Top 10 Borrowers	46.08 ~ 19.41
Equity Price Risk	57.16 ~ 54.62
CAR After Shock (combined) %	**41.70~-45.21**

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.

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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, 2020 includes total deposit of Tk.1,123.84 million (44.85% of total funding), shareholder's equity of Tk.1,220.85 million (48.72% of total funding), borrowing from other bank and FIs of Tk.4.75 million (0.19% of total funding) and other liabilities (provision, payable etc.) of Tk.156.50 million (6.24% of total funding). The deposit mainly composed of term deposit (99.79%) and insignificant portion were other deposits. The shareholder's equity was contribution of paid-up capital of 81.91%, share premium of 14.10%, statutory reserve of 2.03% and remaining 1.96% was retained earnings in YE2020. 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 78.85% of total deposits as on December 31, 2020 indicating concentration risk.

LAFL has credit line from Woori Bank for loan of Tk.164.0 million (SOD) whereas there is no outstanding balance as on December 31, 2020. Moreover, the company approached Commercial Bank of Ceylon and NCC Bank Ltd. for getting new credit line of Tk.200.00 million in the form of term loan and overdraft to raise fund for investment in the corporate sector, auto loan and home loan.

9.2 Liquidity Management

Good liquidity

The liquidity position of the company has been found to be average. However, it has been found that the operating cash flow decreased to Tk.1.31 million in YE2020 from Tk.25.91 million in YE2019 due to decrease in interest received and increase in interest payment, payment to employees and suppliers and payment of income tax. Moreover, term loan has been withdrawn by Tk.135.25 million during the period. In its consequence, overall cash and bank balance decreased specially in money at call and short notice. While analyzing the assets liability maturity bucket as on December 31, 2020, it has been observed that liquidity bucket of (1-3) and (3-12) months have been showing a deficit balance of Tk.60.72 million. On the other hand, it has been observed that the company has overall net liquidity surplus of Tk.1,220.85 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.1.24 million and Tk.248.64 million respectively in YE2020. Again, liquid assets to total assets of LAFL stood at 49.77% in YE2020 against 41.68% in YE2019. It is 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 1.49 times in YE2020 against 1.65 times in YE2019.

10.0 OBSERVATION SUMMARY

Rating Comforts:	Rating Concern:
• Good capital base • Good asset quality • Renowned local Sponsors • Proven track record of the joint venture partner • Experienced management team	• Limited core business and credit portfolio • Exposed to credit and deposit concentration risk • IT infrastructure at developing stage • Limited branch network
Business Prospects:	**Business Challenges:**
• 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	• Increased competition in the market • Interest rate movement • Low spread • Commercial banks portfolio expansion to lease financing

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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. 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

(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.)

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12. CORPORATE INFORMATION:

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

Board of Directors:

Syed Ali Jowher Rizvi	Chairman
Azeeza Aziz Khan	Director
Sohana Rouf Chowdhury	Director
Farzanah Chowdhury	Director
Mr. Sujeewa Rajapakse	Director
Mr. Shamindra Marcelline	Director
Sudarshan Ahangama	Director
Mr. Mohamed Azzam Ali Ahamat	Director
Mr. Ranjith Kodituwakku	Director
Fahima Akhter	Director
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
Kazi Nasim Ahmed	Chief Operating Officer
Shahanur Rashid	Head of Business
Mohammad Shahidul Islam Mazumder	Head of IT
Iqbal Ahmed	Head of ICC
Mohammad Ali Ashraf	Head of Accounts
Md. Sayful Islam	Head of SME
Ali Tasben Haque Riyad	Deputy Head of Credit
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

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13. FINANCIAL INFORMATION

Balance Sheet (As on December 31)

Tk. in million

Particulars:	2020	2019	YE2018
Cash:	**16.85**	**20.92**	**9.03**
Cash in hand	0.04	0.01	0.03
Balance with Bangladesh Bank	16.82	20.92	9.00
Balance with other Banks and Financial Institutions:	**293.35**	**322.54**	**319.42**
Inside Bangladesh	293.35	322.54	319.42
Money at Call & Short Notice	**100.00**	**200.00**	150.00
Investments in Securities	**295.00**	**300.65**	**0.40**
Government	-	-	
Others	295.00	300.65	0.40
Lease, Loans and Advances:	1,675.42	1,269.62	1,083.10
IN Bangladesh	1,675.42	1,269.62	1,083.10
Fixed Assets including Premises, Furniture & Fixtures	62.59	83.66	13.71
Other Assets	62.73	47.05	51.06
Non Banking Assets	-	-	-
Total Assets	**2,505.95**	**2,244.45**	**1,626.73**
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other Banks, Financial Institutions and Agents	**4.75**	**140.00**	**100.00**
Deposits and Other Accounts	**1,123.84**	**769.78**	**356.01**
Other Liabilities	156.50	169.25	41.09
Total Liabilities	**1,285.00**	**1079.04**	**498.50**
Capital/Shareholders' Equity	**1,220.85**	**1165.41**	**1,128.23**
Paid-up Capital	1,000.00	1,000.00	1,000.00
Share Premium	172.20	172.20	172.20
Statutory Reserve	24.73	13.38	5.94
Retained Earnings	23.92	(20.17)	(49.91)
Total Liabilities & Shareholders' Equity	**2,505.95**	**2,244.45**	**1,626.73**

Income Statement (Year end December 31)

Tk. in million

Particulars:	2020	2019	YE2018
Interest Income	**204.95**	215.40	129.00
Less: Interest paid on Deposits & Borrowings etc.	78.05	78.71	8.13
Net Interest Income	**126.89**	**136.69**	120.87
Income from Investment	34.37	11.30	1.26
Commission, Exchange and Brokerage	.00	.00	.00
Other Operating Income	6.64	3.79	0.35
Total Operating Income	**167.90**	**151.78**	**122.43**
Salaries and Allowances	39.65	38.67	32.04
Rent, Taxes, Insurances, Electricity etc.	4.19	2.20	12.97
Professional Charges	9.30	16.25	15.92
CEO's Salary and Benefits	9.30	16.25	15.92
Directors' Fees	0.45	0.25	0.25
Auditors' Fees	0.44	0.44	0.43
Depreciation & Repairs of FI's Assets	13.72	14.65	2.38
Other Operating Expenses	7.55	10.50	13.80
Total Operating Expenses	**75.30**	**82.96**	**77.80**
Profit before Provision	**92.60**	**68.82**	**44.68**
Provision for Loans, Advances & Leases	3.73	0.98	10.83
Provision for the diminution in the value of investments	-	-	-
Other Provisions	-	-	-
Total Provision	**3.73**	**0.98**	**10.83**
Total Profit before Provisions for Taxation	**88.87**	**67.84**	**33.85**
Provision for Income Tax	**32.09**	30.67	4.14
Current Tax Expenses	35.11	33.13	4.80
Deferred Tax Expenses	(3.02)	(2.46)	(0.65)
Net Profit after Taxation	**56.78**	37.17	29.71

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CRISL RATING SCALES AND DEFINATIONS
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.

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