Press Release
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LANKA RATING AGENCY

LRA reaffirms BBB_3/L3 ratings to Bartleet Finance Limited

LRA has reaffirmed Bartleet Finance Limited's ("BFL" or "the Company") long- and short-term financial institution ratings at a respective BBB_3 (with a stable outlook) and L3. The ratings reflect the Company's improving financial performance, adequate funding and moderate level of capitalisation. However, the ratings continue to be pressured by the Company's weaker-than-average asset quality.

BFL's asset quality remained fragile during the period under review. Despite having reduced its gross non-performing loans ("NPLs") - on a 6-month classification basis - from Rs 185.68 million as at the end of FYE 31 March 2005 ("FY Mar 2005") to Rs 122.18 million as at end-FY Mar 2006, BFL's NPL ratio of 7.70% (end-FY Mar 2005: 14.80%) was still higher than the industry average of 5.66% as at the same date. LRA's concerns about BFL's asset quality are also reflected in the Company's high level of newly classified NPLs; BFL's ratio of new NPLs against its net loans was double those of its similarly rated peers. Nevertheless the management's recovery efforts have been effective in reducing the Company's NPLs. LRA believes that the sustainability of its recovery efforts is vital, given the Company's risk appetite.

On a more positive note, BFL's profit performance improved in FY Mar 2006; the Company's return on assets ("ROA") and return on equity ("ROE") climbed to 6.09% and 49.78%, respectively, as at the end of the period (end-FY Mar 2005: 2.73% and 28.39%). This improvement was chiefly due to BFL's portfolio, which is dominated by hire-purchase ("HP") financing that fetches broader margins. Going forward, however, LRA expects the Company's profitability to ease, albeit still better than the industry. This is underpinned by BFL's slower loan growth and weak asset quality.

Elsewhere, BFL's capitalisation-strength indicators remained largely stable as at end-FY Mar 2006; the Company's overall risk-weighted capital-adequacy ratio ("RWCAR") and Tier-1 CAR stood at a respective 13.17% and 11.94% as at the same date (end-FY Mar 2005: 11.75% and 13.39%). Although comparable to those of its peers, LRA considers BFL's capitalisation level to be moderate at best, given the Company's frail asset quality. Meanwhile, BFL's liquidity and funding levels remained largely unchanged from the previous year, and are deemed sufficient.

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

LRA is backed by a 40-strong team of analysts at RAM, which has rated almost all the financial institutions in Malaysia and more than 1,000 debt issues by corporates, statutory organisations and subsidiaries of foreign multinationals. These issuers are involved in the leading sectors of the Malaysian economy, which share some similarities with the potential growth sectors in Sri Lanka. In particular, LRA can leverage on RAM's fortes in the ratings of financial institutions, asset-backed securities and Islamic debt securities.