



Microfinance Institutions Rating Criteria Methodology

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Summary

LRA's methodology documents lay out the umbrella framework guiding its Credit Rating Process. This document provides an overview of LRA's approach to assigning Credit Ratings to Licensed Microfinance Companies (LMFCs) and Microfinance Non-Governmental Organizations.

LRA's opinion is based on a mix of qualitative and quantitative assessment factors that include Profile, Ownership, Governance, Management, Business Risk and Financial Risk. While standalone credit quality is addressed, LRA incorporates the relative position of a microfinance institution and prospects of any external support to arrive at the final rating.

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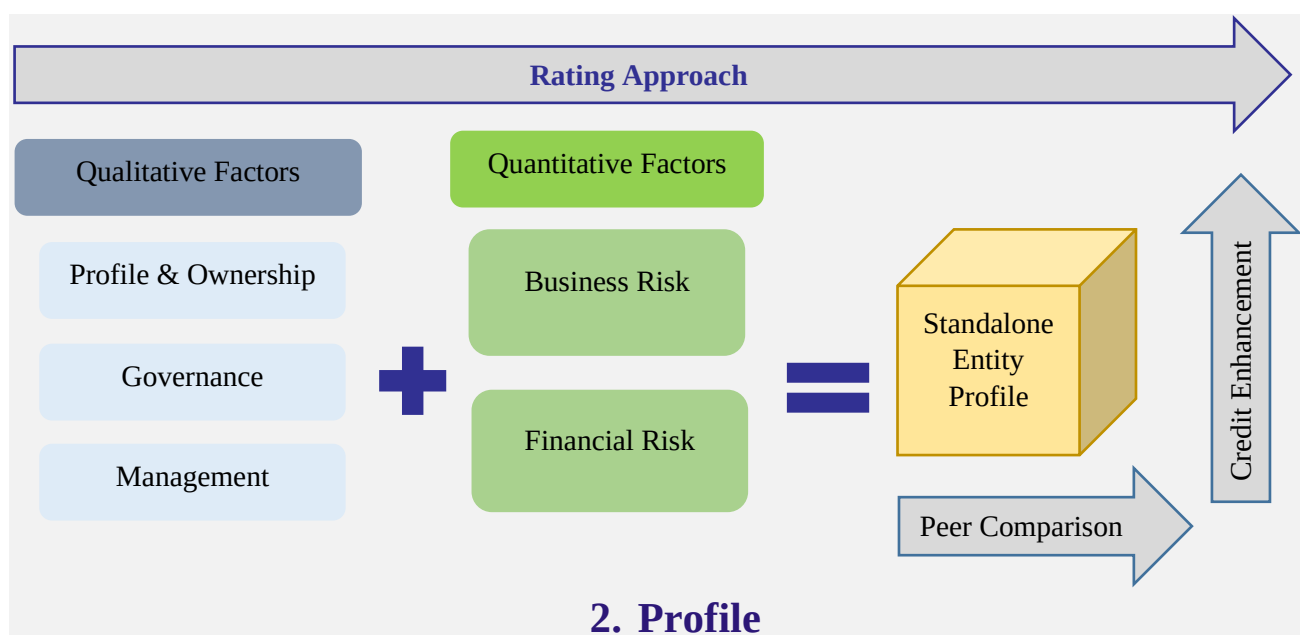
1. Introduction

1.1 Scope: Licensed Microfinance Companies (LMFCs) and Microfinance Non-Governmental Organizations (Microfinance NGO) are Financial Institutions (FIs) serving the bottom of the pyramid borrowers with the intention of improving financial inclusivity providing finances to underserved segments and eradicating poverty. LMFCs and Microfinance NGO fund microentrepreneurial activities, which resultantly empower small industries such that they contribute to the socio-economic development of the country. These segments are mostly overlooked by large financial institutions, like commercial banks, for a number of reasons including small loan size, outreach to communities and low-income households and lack of expertise for microfinance client evaluation. As amounts involved per borrower are significantly small but the volumes are large, LMFCs and Microfinance NGOs operate under a different risk framework.

1.2 This methodology is applicable to Licensed Microfinance Companies (LMFCs) and Microfinance Non-Governmental Organizations (Microfinance NGOs). LMFCs and Microfinance NGOs are regulated by the Department of Supervision of Non-Bank Financial Institutions. **Rating Framework:** LRA grounds its analysis of LMFCs on a number of factors comprising six key areas; Profile, Ownership, Governance, Management, Business Risk and Financial Risk. The qualitative factors consist of Profile, Ownership, Governance, and Management. Meanwhile the quantitative factors include Business Risk and Financial Risk. No one factor has an overriding importance or is considered in isolation, rather these are viewed holistically to form an opinion. The quantitative factors help in achieving objectivity in the rating process while the qualitative factors help in establishing the sustainability of the relevant factors in the foreseeable future. Neither all factors can be quantified nor do quantitative values necessarily portray the whole story. LRA, therefore, seeks to employ an optimal combination of both and apply it to all LMFCs to ensure comparability between ratings over time.

1.3.1 The basic precept of this rating methodology is to establish a framework for the evaluation of the business model of an LMFC, including its inherent risks, the dedication of its owners or sponsors, the strategy adhered to by its management, and the operational controls implemented. Similarly, macro-economic environment regulatory framework and developments in the industry are incorporated. The relevant positioning of the LMFC, established in comparison to its peers in the industry, is a key consideration under this methodology to reach a final rating for an LMFC.

1.3.2 While the rating process does not entail an audit of a LMFC's financial statements, it does examine the control environment to establish to which extent they accurately reflect a LMFC's financial performance and balance sheet integrity. We make adjustments where necessary, to make LMFC's financial data comparable with those of its peers. In order to carry out adequate analysis of a particular LMFC, it is helpful to establish a "peer group" of comparable LMFCs. Lastly, short-term and long-term ratings are based on a set of fundamental credit characteristics. A correlation exists between the two rating types. (*Reference: LRA's Criteria Document: "Correlation between Short-term and Long-term Rating Scale"*).



2. Profile

2.1 Background: LRA evaluates the evolution of an LMFC from where it started and where it currently stands. LRA analyzes how and through what means the LMFC has achieved the desired expansion. The significant factor here for LRA is to assess whether the LMFC has achieved the desired expansion through organic growth or acquisitions. Meanwhile, the source of funding for desired growth is also critical. LRA looks at the sustainability of this strategy, going forward.

2.2 Operations: The assessment of operational standards and capabilities of an LMFC depend upon the diversity of its borrowers, geographic spread, product offerings, asset mix, size of the franchise/portfolio and technological innovations. The size of the institution may be an important factor if it confers major advantages in terms of operating efficiency and competitive position. Operational leverage advantage, brought about by economies of scale, is considered in relation to peers; LMFCs.

3. Qualitative Factors

3.1 The qualitative assessment establishes the sustainability of the rating in the foreseeable future as well as the feasibility of the strategic direction an institute plans to follow. Qualitative considerations, in this context, refer to rating factors that do not pertain to an entity's business or financial risk. Instead, they focus more so on internal processes, people and systems, and thus are essential to incorporate a forward-looking perspective into the rating opinions.

3.2 This section provides a brief overview of how LRA generally factors qualitative considerations into its assessment, insofar as they can impact an issuer's ability to meet its financial obligations. *LRA's detailed approach* undertaken to conduct this analysis is documented in its *methodology* titled "*Qualitative Considerations*".

3.3 Incorporating the potential impact of qualitative considerations into the rating opinion can be challenging because it is generally inferred or estimated based on information which may not be standardized and is difficult to quantify. This often requires some degree of subjectivity and analyst judgement, supplemented by LRA's own experience, knowledge of industry and international best practices and peer comparison of entities with similar profile and risks. LRA has identified best practices in this regard, and has converted them to objective parameters, where possible. This minimizes the level of subjectivity and ensures uniform application

of rating criteria across the board. The three factors underlying LRA's qualitative analysis for an entity include Ownership, Governance, and Management.

3.4 Ownership: This section provides an overview of the risks pertaining to the structure and stability of the entity's ownership, owners' experience and prowess in the entity's industry, and willingness and ability to extend extraordinary financial support in distressful circumstances. LMFCs are companies registered under the Companies Act No 07 of 2007 not being a company limited by guarantee, a private company, an offshore company, or an overseas company. Micro credit non-government organization means a non-government organization registered under the Voluntary Social Service Organizations (Registration and Supervision) Act No 31 of 1980 and engaged in lending activities and not permitted to accept deposits. Above companies should adhere to Microfinance Act, No 6 of 2016

3.5 Governance: This section evaluates the Board of Directors and their role in establishing a robust oversight and control framework, thereby ensuring appropriate management oversight and alignment between shareholder and management objectives. Furthermore, the BOD's establishment of transparent reporting and disclosures, and adherence to applicable regulatory requirements. LRA considers the social mission of the entity and steps taken at the board level to ensure its sustenance.

3.6 Management: This section evaluates the risks associated with management. This includes, but is not limited to, strategy execution, the ability to maintain strong information systems for operational efficiency and decision making and laying the framework for successive expansion while ensuring adherence to the entity's ethical and quality standards.

3.6.1 Field Staff: In the case of LMFCs, the field staff is crucial for maintaining strong asset quality indicators, as they hold the relationship with the borrower. Any misconduct on their part may not only deteriorate asset quality, but also create reputational risk for the entity. This operational aspect becomes even more important as LMFCs compete in similar geographies. Thus, the ability to retain good field staff is critical while assessing human resource management. Moreover, LRA attempts to understand the LMFC's staffing and employment policies, the ability of field staff to converse in local languages and dealing with borrower, and their training on social aspects, particularly important to the area of their operations.

3.6.2 Risk Management Framework/Control Environment: This includes an analysis of the LMFC's appetite for risks alongside the systems in place to manage these risks. LRA examines the independence and effectiveness of the risk management function, the procedures and limits that have been implemented, limits setting authority and the degree to which these procedures are adhered to. LRA endeavors to assess the senior management's understanding of and involvement in the risk management issues and examine the reporting lines and structure in place.

The regulatory framework has historically been stronger for LMFCs with comparatively strict regulatory and Capital Adequacy requirements in place. Directions, circulars and guidelines on Microfinance were issued through Department of Supervision of Non-bank Financial Institution.

Credit Risk

- Asset Quality Indicators: Primary tool to assess the level of risk being taken.
- These indicators are viewed in the context of returns achieved.
- Credit risk management is assessed to determine how the risk return equation evolves in different phases of financial institutions' business cycle.

Market & Interest Risk

- Asset & liability management strategy is reviewed.
- Board and Management policy limits - typically expressed as earnings at risk - are evaluated along with reports from management systems.
- Market risk on its own may not be a rating driver, however, poor market risk management or aggressive market risk-taking without mitigants would likely pressure an institution's rating.

Operational Risk

- Operational risk analysis includes:
 - Financial institution's definition of such risk;
 - The quality of its organizational structure;
 - Operational risk culture;
 - Approach to the identification and assessment of key risks;
 - Data collection efforts, and
 - Overall approach to operational risk quantification and management.

Reputational & other Risks

- May emanate from operational problems or failure in any of the LMFC's Risk Management systems.
- Results in withdrawal of deposits in case of strain on reputation.
- Difficult to evaluate but could adversely affect an institution's rating in cases where it is significant.
- Any regulatory non-compliance may lead to potential legal ramifications as well.

3.6.3 Technological Infrastructure: Technological progress in order to enhance service standards and delivery processes is crucial for a progressive LMFC's strategy. It aids in scalability of financial services to remote and far-flung areas, thereby increasing outreach. Furthermore, technology assists and strengthens risk management protocols. For instance, having an organization wide accessible database on borrowers capturing various attributes of loans and borrower behavior is an advantage. Utilizing the available data to supplement in decision making and product offerings, adds real value.

LRA pays attention to the effectiveness of technological infrastructure in terms of efficiency, scalability, and controls. Meanwhile, the ability of the platform for additional services including offering digital financial services, enhanced customer experience, and efficiency for employees is considered. LRA evaluates the disaster recovery and business continuity plan in place to ensure continuity of operations in case of any disruptions.

3.6.4 LRA evaluates the efforts of LMFCs to inculcate technology-based solutions to remain competitive and enhance risk controls. Similarly, impact of these technological initiatives on operational efficiency and market reach is assessed in relative terms.

Digital Financial Services and Branchless Banking: With recent influx of digital financial services providers, LRA's evaluates the effectiveness of these for LMFCs. Similarly, considering the growth in branchless banking (BB) segment by LMFCs, LRA evaluates BB operations in detail. In addition to surveilling its profitability, LRA gives importance to, i) Agent networks, ii) Regulatory reporting, and iii) related Systems and controls. Besides adding diversity to the revenue stream, it has been observed that BB operations can generate low-cost deposits; thus, further strengthening the profitability.

4. Business Risk

4.1 Industry Dynamics: The process for anchoring the credit rating of an LMFC encompasses LRA's understanding of the industry dynamics. This understanding, following an in-depth research approach is documented and published as a sector study. The analysis incorporates macro-economic indicators that can impact the sector and also captures the placement of the local industry in the international context to see the points of identity and distinction. In points of identity, the risks and challenges identified for the international players are re-evaluated for the local players, with a view to see whether the local players have established effective mitigant's against those risks and taken due measures to meet the challenges. At the same time, we identify the risks and challenges specific to the local context of the industry. While conducting the analysis, LRA takes a view on the industry alone, independent of the market players. This exercise helps LRA to form a view on industry's significance in the economic environment of the country, its regulatory environment and likely support, if needed.

4.1.1 LRA explores the possible risks and opportunities for LMFCs resulting from social, demographic, regulatory and technological changes. It considers the effects of geographical diversification and trends in industry expansion or consolidation required to maintain a competitive position. The analysis includes the role of the regulators, their supervision of regulated entities, reporting requirements and regulations relating to specific type of institutions and to specific financial products. For instance, regulators in Sri Lanka have started emphasizing Environmental, Social and Governance (ESG) related requirements and disclosures for entities. This will have an impact on disclosure and reporting requirements for all entities that come under their ambit.

4.1.2 Economic Risk: LRA analyzes basic economic indicators of the country including size and composition of economy, performance of important sectors, gross domestic product (GDP) growth, inflation, saving and investment trends and potential credit demand. An important part of economic analysis is positioning of industry and impact assessment of economic risk factors on the industry

4.1.3 Regulatory Environment: A well-regulated environment is pivotal for the credibility and stability of LMFCs even when the operating environment is unfavorable. LRA's evaluation of the regulatory system includes review of capital and other countercyclical measures implemented to absorb risk and the extent of regulatory supervision and changes in response to the macro environment; key norms (such as Portfolio-at-Risk (PAR), Non-Performing Loans (NPL) recognition, provisioning, capital adequacy, liquidity, benchmark lending rate and expansion) and their impact on LMFCs.

4.2 Relative Position: Relative position reflects the standing of the LMFC against its peers. This accounts for, among other factors, market share, growth trend, performance, and franchise/brand value created by an LMFC. The stronger the standing of a LMFC, stronger is its ability to sustain pressures on its business volumes, profit margins and funding.

4.2.1 Market Share: Market share represents the LMFC's penetration in the chosen market. There generally is a positive correlation between market penetration and brand value. Key factors that are evaluated to assess the market share of a financial institution include its share in the sector's total advances, total deposits and franchise presence. Market share in terms of deposits is only applicable to LMFCs.

While absolute size is important, it is basically the relative proportion which provides a clear yardstick to analyze the comparative strength of the market players. In a dynamic industry, which is not characterized by concentration, LRA believes that relative size would better capture the strength of the LMFC's standing.

4.2.2 Growth Trend: While evaluating the growth of a LMFC, LRA looks at various trends to be curious about the trends for a variety of elements. They are evaluated for metrics like revenue, the gross loan portfolio, deposit base, geographical presence etc. Growth is important as it ensures that the LMFC continues to have the ability to meet the industry's benchmarks. As the industry grows, it uplifts the scale of its operational context which may be reflected by an increase in the number of deposits, allow the financial institution to grow geographically, and diversify its loan portfolio. To lag the industry's growth trend means to remain short on these avenues, putting pressure on the market position. LRA monitors higher-than-industry growth to understand the quality of the incremental business including impact on key business segments and if it has resulted in higher concentration due to added business. High growth correlated with declining portfolio quality is perceived negatively.

4.2.3 Franchise/Brand Value: The strength of a franchise determines its capacity to grow while maintaining a reasonable cost to income ratio and profitability, thus providing resilience of earnings. LRA evaluates the franchise strength in terms of scale of operations and market share for various activities, performance and strengths relative to competition, complexity of key segments, diversification across various performance metrics like branches, advances, liabilities, sources of other income etc. A strong franchise is expected to result in a granular asset and liability base. LRA also considers the brand recognition and life of institution for its franchise strength analysis.

4.3 Revenues: In measuring revenue quality of a LMFC, diversification and stability are very important factors. An LMFC with a diverse product slate with more than one revenue streams is considered better than an MFI with a concentrated earning profile. Composition of revenue from core business activities – advances – is considered critical. LRA sees concentration at product, customer and geographic levels. Stability is measured through historical trend analysis of the LMFC's revenues.

4.3.1 Diversification: Diversification is desirable since it enhances the LMFC's ability to meet challenges, both present and upcoming. Lack of diversification gives rise to concentration risk, reflecting vulnerability of the LMFC to few elements. LRA uses a number of approaches to gauge concentration risk. These include sectoral concentration, geographic concentration, asset base and funding concentration. In this regard, the contribution of top 20 advances in total loan portfolio and top 20 depositors in deposits is looked at. Similarly, reliance on a single source of funding or a single donor is considered risky.

4.3.2 Minimum Lending Rate Margin: LRA uses this measure to ascertain an institution's ability to cover its operating and financial expenses by optimally pricing its loan portfolio in terms of interest charged. The MLRM is the minimum that an entity needs to sustain its operations through its core lending operations.

4.3.3 Non-Markup Income: For most LMFCs, interest income from the loan portfolio and investments makes up much of the revenue base. However, non-interest income from fees, service charges, and commissions

also represent an important and growing source of revenue. LRA views earnings profile that complements interest income favorably given the relative stability of this income stream. However, LRA also assesses the LMFC's ability to complement its interest income with fee income. A large fee income allows greater diversification which can improve LMFC's resilience of earnings and earning profile.

4.4 Cost Structure: Cost structure is analyzed for the amount of flexibility provided when market conditions are less favorable. In this regard, LRA considers how much of the cost base is variable. LRA also evaluates the LMFC's performance ratios relative to those of its peers to understand whether costs have been contained while growing assets and revenue. If expense ratios are high, it could be an indicator that the LMFC has a significant fixed cost burden. In this context, key measure that LRA looks at is the (Non-Mark-Up Expenses / Total Income) ratio. Non-mark-up expenses are also compared where possible with earning assets, to the number of branches and to the number of employees. Performance measures are not assessed in isolation as there may be variations that are caused by business model differences and the importance of ongoing investment in the LMFC's franchise. A low-cost base relative to peers offers the LMFC greater flexibility to deal with competitive pricing pressures. LRA also considers Provisioning levels, together with the capacity of the LMFC's earnings to absorb provisions.

4.4.1 Margins: LMFCs carry high credit risk on their balance sheet due to the nature of their operations. Moreover, due to certain limitations, inter-alia including, small size, and limited outreach, their ability to mobilize low-cost funding remains weak. Thus, in addition to risk profile, their cost structure is high. These institutions serve a large client base with small loan size. This results in higher operational costs, including staff costs, for LMFCs. Therefore, LMFCs charge fairly high price to their customers. Although their interest margins seem higher as compared to other FIs; once loaded with business acquisition and servicing cost, their pre-provision profit margins are comparable to other FIs.

4.4.2 LRA evaluates an LMFC's ability to convert its earnings into profits as well as efficiency ratios, such as, operational self-sufficiency, cost per borrower, ROE, and others. Moreover, the quality and stability of the earning streams are assessed. An adequately diversified product slate is considered good as compared to concentration in a single loan product. In case LMFC can generate revenue from some business other than lending, it is seen positively. But its contribution towards bottom-line is measured to incorporate its impact on overall performance. In addition, the drag of provisioning expenses is incorporated to see the level of pre-tax profitability for the current as well as future periods.

4.4.3 Where necessary in its rating analysis, LRA makes adjustments to the LMFC's reported income statement figures, so that financial performance indicators are comparable across similar entities.

4.5 Sustainability: LRA evaluates management strategy, its viability, and key performance indicators developed to assess the identified milestones. Earnings prospects are monitored, based on budgets and forecasts prepared by the management. LRA pays particular attention to underlying assumption taken by the management as well as management's track record in providing reliable budgets and forecasts. Adjustments are made where necessary for comparable results or reality check. In addition, measures taken by the LMFC to cultivate long-term relationships with existing clients along with efforts to enhance coverage of vulnerable communities to expand outreach are important indicators of sustainability.

4.5.1 Event Risk: Incorporating the risk of unforeseen events into an LMFC's rating opinion is challenging. These events may be external (M&As, regulatory changes, litigations or a natural disaster) or may be internally driven (unrelated diversification or strategic restructuring) and can lead to substantial rating changes. LRA

applies analytical judgment and assessment in analyzing the likelihood of such occurrences and potential impact, insofar as may be possible, and assesses the LMFC's track record, expertise of management team and level of financial discipline to incorporate the same into its ratings. For instance, if an LMFC operates in flood prone area, measures taken against this risk and potential impact of floods on the portfolio is ascertained.

Business Risk – Key Ratios	
Revenues	•Product/Sector Concentration (%) •Geographic Concentration (%) •Portfolio Yield (%) •Minimum Lending Rate Margin (%) •Non-Mark Up Income/Total Income (%)
Cost Structure Earnings	•Operational Self-sufficiency (%) •Return on Equity (%) •Cost per Borrower •Return on Assets (%) •Non-Mark Up Expenses/Total Income (%) •Compensation Expense/Total Income (%)
Relative Position	•Deposits' Market Share (%) •Gross Loan Portfolio Market Share (%) •Number of Branches •Profit After Tax / Microfinance Industry's Profit After Tax (%)

Information Required on Business Risk

- Type of License
- Target Market
- Outreach, Market Share including details pertaining to operations in key geographical areas
- Key Figures; Agents, Deposit Attributes (amount, volume, & number), Number of Transactions, & Portfolio Concentration
- Industry information for loan portfolio, depositors, number of borrowers
- Top 20 Advances & Deposits
- Branchless Banking Operations
- Two Year Projections with detailed underlying assumptions
- Future Strategic Plan and Relevant Milestones/KPIs

5. Financial Risk

5.1 LRA's financial risk assessment is a quantitative measure and comprises four sub-factors: i) Credit Risk; ii) Market Risk; iii) Liquidity & Funding; and iv) Capital Structure.

5.2 Credit Risk: Credit risk is significant to any lending institution. As LMFC's caters to micro-borrowers, this entails different approach towards credit risk assessment. Micro-borrowers tend to have little or no documentation. Moreover, the tenor of loans is usually short, one year or less. Thus, an LMFC's risk evaluation system should be able to appraise the ability of such borrowers to repay on time. The relationship of

LMFC's loan staff with the borrower himself or with the people around him is critical to assessing the means of the borrower for repayment of loans.

5.2.1 The review of credit risk involves assessment of policies and procedures before taking an exposure, post-disbursement monitoring mechanism, criteria for ongoing surveillance, and recovery process. Credit risk analysis includes reviewing of credit portfolio at all levels. Portfolio is evaluated with respect to its size to establish market share. LRA evaluates the size of loan per borrower to get an understanding of the risk profile of the book. Analysis of product mix in terms of secured and unsecured is done. Collateralized loan book is considered superior as compared to non-collateralized portfolio. Loans having staggered repayment structure are considered better vis-à-vis loans with bullet payment at maturity.

5.2.2 Asset Quality: Assessing asset quality is an important pillar of credit risk. In this regard, LMFC's overdue, restructured, and written off loans are taken into account to see the overall performance of the portfolio. LRA analyzes True Infection Ratio and other matrix to assess lending portfolio quality. Regarding provisioning criteria, LRA takes comfort from stringent regulatory requirements. Post-delinquency, the level of reserves maintained for provisioning requirements is considered important. LMFCs' asset quality remains exposed to risk of undocumented earning streams vis-a vis the amount of loans obtained by the borrowers from different LMFCs. Thus, assessment of over-indebtedness remains a challenging task. Nevertheless, structuring of in-house evaluation framework and availability of micro finance exclusive credit information reports lend help to LMFCs in this regard.

5.3 Market Risk: LMFCs generally exhibit limited exposure to market risk as they invest primarily in government securities or place funds with FIs (mainly banks) to meet regulatory liquidity, cash reserve requirements and other day-to-day needs.

5.4 Liquidity and Funding: LMFCs finance their assets mainly through deposits – micro savings as well as corporate deposits – in addition to other funding sources and funding lines, where available. The proportion of different funding sources (deposits, borrowings, debt instruments etc.) utilized by the LMFC is analyzed. LRA analyzes funding mix and concentration levels therein. For LMFCs, the mix of deposits in terms of retail vs. institutional and current vs. savings/fixed term deposits is considered. A large, granular pool of micro savers is considered stable in comparison to large institutional deposits. Due importance is given to management's strategy to keep risks related to funding at a manageable level. High concentration of top 20 depositors in the deposit base is considered negative.

5.4.1 LRA analyses the maturity profile of liabilities in tandem with related asset base to analyze liquidity profile of an LMFC. LRA believes higher asset turnover as compared to liabilities is good for liquidity management. The LMFC's compliance to regulatory reserve requirements is a minimum. The presence of Asset Liability Committee is essential to ensure effective monitoring of liquidity mismatches. Liquid assets are looked at in terms of coverage against demand deposits and Top 20 depositors among other ratios.

5.5 Capital Structure: Compliance with minimum capital requirement is key to obtaining and sustaining the license. For LMFCs, the requirement for capital increases with the operational scale i.e., district, provincial, or national. Like in case of other financial institutions, LRA considers LMFCs capitalization as a cushion to absorb unreserved losses. These include the impact of foreseeable future business losses, if any, and the expected level of provisioning on bad loans.

5.5.1 While analyzing capitalization, LRA sees a higher capital adequacy ratio positively. As ratings are not point-in-time, LRA sees the ability of the institution to generate capital from internal sources.

Financial Risk – Key Ratios

Credit Risk

- Non-Performing Advances/Gross Advances (%)
- Non-Performing Finances/Gross Finances (%)
- True Infection Ration (%)
- Top 20 Advances/Advances (%), where applicable
- Exposure per Borrower

Market Risk

- Government Securities/Investment (%)
- Non-Performing Debt Instruments / (Debt Instruments + Non-Performing Debt Instruments) (%)
- (Investment + Debt Instruments)/Total Assets (%)

Liquidity and Funding

- Liquid Assets/(Deposits & Short-term Borrowings) (%)
- Demand Deposit Coverage Ratio (for MFBs)
- Liquid Assets / Top 20 Depositors (for MFBs)
- Advances / Deposits (%)

Capitalization

- Capital Adequacy Ratio (%)
- Uncovered Capital Ratio (Net NPL / Equity) (%)
- Capital Formation Rate (%)

Information Required on Financial Risk

- Outstanding exposures amount along with segment wise/product-wise details of the classified advances portfolio
- Industry-wise concentration and exposure
- Party wise detail of classified advances portfolio (Top 20)
- Industry loan portfolio
- Total available money market lending and borrowing lines along with average rates and repayment schedules
- Details of 50 largest depositors along with their maturity profile and profit rates
- Industry information for deposit portfolio
- Committed donor funds and avenues of funds (MNGOs)
- Quarterly returns filed including i) The top 20 accommodation and ii) Other Information
- Monthly wise report submitted to Department of Supervision of Non-bank Financial Institutions on liquid asset ratio
- Maintenance of Core Capital
- Spread calculations
- Projected funds inflows vs projected liabilities

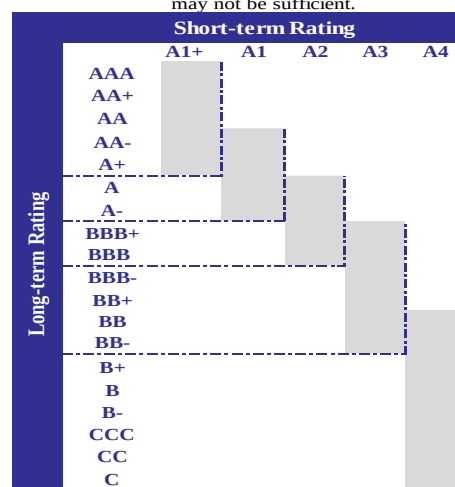


Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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