Lanka Rating Agency

Rating Report

Amana Bank PLC

Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
11-Feb-2025	BBB+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects Amana Bank ("AB" or "the Bank") strong asset quality, strengthened capitalization and sustained growth and performance over the years when compared to other banks in its category. Amana Bank is licensed and operates as an Islamic bank in Sri Lanka, the only bank in this space. The Bank draws strength and strategic guidance from its financially sound corporate sponsors, Islamic Development Bank Group ("IsDB"), with around 28% shareholding. The Bank has relatively low ADR (~72%) but maintains robust asset quality with Non-Performing Loan (NPL) ratio of ~3.9% in 6MCY24, well below the sector average. The Bank primarily finances to Retail and SME sectors. The Bank pivoted to less-risky Corporate sector during CY22 and CY23 when the economic indicators were weak and SME sector was more vulnerable. However, the proportion of SME sector is expected to increase, going forward. The earning profile of the Bank is characterized by adequate margins after witnessing faster downward repricing of deposits coupled with having a higher Current Account Saving Account (CASA) ratio than the industry. The funding mix is granular in nature with a depositor base of over LKR~146bn, as the Bank successfully established its presence in highly competitive financial sector. The Capital Adequacy Ratio (CAR) and Tier-1 were recorded at 18.1% and 15.4%, respectively, in 6MCY24 implying adequate capital buffer after completion of recent rights issue. The Bank posted Profit After Tax (PAT) of LKR~763mn during 6MCY24 (6MCY23: LKR~420mn) and is expected to sustain its profitability. There remains a level of constraint in Bank's earning potential arising due to the lack of sharia compliant securities.

The rating is dependent on the Bank's ability to sustain its asset quality, strong capitalization and profitability trend. Any adverse impact on capital and related regulatory ratios and/or deterioration in asset quality would have negative rating repercussions.

Disclosure

Name of Rated Entity	Amana Bank PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-22)
Related Research	Sector Study | Commercial Bank (Dec-24)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Profile

Structure Amana Bank ("AB" or "the Bank") is a Licensed Commercial Bank ("LCB") established under the Banking Act No. 30 of 1988. The Bank was listed on the Colombo Stock Exchange in January 2014.

Background AB commenced its banking operations in 2011. AB is the pioneer of Islamic Banking in Sri Lanka. In 2013, the Bank was able to raise LKR~2.4bn through the IPO. During CY17, the IsDB Group acquired ~30.0% ownership stake in AB, through subscription rights. During the same year, AB managed a 10-fold YoY growth in performance. The deposit base surpassed LKR~100bn mark in CY22.

Operations The Bank's principal operations consist of providing banking and related activities that include accepting deposits, personal banking, lease financing, home and property financing, gold facilities, resident and non-resident foreign currency operations, trade financing, working capital financing, and project financing.

Ownership

Ownership Structure IB Growth Fund (Labuan) LLP remains the largest shareholder with ~25.0% shares. Senthilverl Holdings (Pvt) Ltd has acquired significant stakes in the Bank during CY23 which has made it the second largest shareholder in the Bank with shareholding of ~16.0%. High Net Worth ("HNW") individual sponsors collectively represent ~19.4% of the shareholding pattern.

Stability With a considerable shareholding of AB with IB Growth Fund, it draws stability from the major shareholder. IB Growth Fund, a private equity fund incorporated in Malaysia, is wholly owned by Islamic Corporation for Development of the Private Sector ("ICD"). ICD comes under the corporate umbrella of Islamic Development Bank ("IsDB") Group.

Business Acumen IsDB is a multilateral development bank which is involved in social and economic development projects in 57 member countries of the Organisation of Islamic Cooperation (OIC). After the equity injection of IsDB, AB was able to scale its operation considerably over the years evident from its growth in deposit and asset base.

Financial Strength The Bank's principal shareholders Islamic Development Bank ("IsDB"), together with its private arm, Islamic Corporation for the Development of the Private Sector ("ICD"), holds around ~28% of shares making them significant contributors to Amana Bank's capital base. IsDB has a AAA rating, at par with other Multilateral Development Banks likes of Asian Development Bank ("ADB") and IBRD ("WB").

Governance

Board Structure Amongst the ten members of the Board of Directors, seven are Non-Executive Non-Independent Directors and three are Non-Executive Independent Directors. There is a clear division of responsibilities between the Chairperson and the CEO.

Members' Profile The Chairman of the Bank, Mr. Ali Asghar Akbarally has professional experience in business and management. He is a Fellow Member of the Institute of Certified Professional Managers and he holds a BSc Degree in Industrial Engineering from California State University.

Board Effectiveness The Board of Directors has formed four mandatory Board Sub-Committees, namely, i) Board Integrated Risk Management Committee ("BIRMC"), ii) Board Audit Committee ("BAC"), iii) Board Human Resources and Remunerations Committee ("BHRRC"), and iv) Board Nomination and Governance Committee ("BNAGC").

Financial Transparency The external auditors of the company, Ernst & Young, delivered an unqualified audit opinion to the annual financial statements for CY23.

Management

Organizational Structure The management of the Bank is overseen by the Managing Director ("MD") / Chief Executive Officer ("CEO"). All departments, other than Sharia, Internal Audit, Risk and Compliance report directly to the MD/CEO through their respective departmental heads.

Management Team The management team is headed by the CEO/MD, Mr. M.T.M. Azmeer. He holds a Master of Business Administration from the University of Leicester, UK. He has an experience of over 41 years in the industry and is associated with AB for the past 12 years.

Effectiveness The Bank has formed four management committees, namely, i) Assets and Liabilities Management Committee ("ALCO"), ii) Executive Credit Committee ("ECC"), iii) Executive Risk Management Committee ("ERMC"), iv) Information Technology and Security Committee ("ISSC").

MIS The Bank uses iMAL as the core banking platform which is an Enterprise Islamic Banking and Investment system. The Bank is currently expanding its Self-Service Banking Center ("SBC") network. In order to scale its outreach, AB has a mobile banking app alongside multilingual WhatsApp Banking.

Risk Management Framework The Bank has a risk management framework based on the three lines of defence model. The BIRMC advises the Board of Directors on risk-related matters. The Board approves policies, procedures and directives that provides the guiding principle to manage key risk types across the core businesses.

Business Risk

Industry Dynamics As at 6MCY24, the banking sector recorded an asset base of LKR~20.7tn, which is an improvement of ~7.9%, compared to the same period last year. This growth is driven by an increase in loans and receivables on the back of a monetary easing decision taken by the Central Bank in June 2023. Similarly, deposits have also increased by ~10.2% from LKR~15.4tn at the end of 6MCY23 to LKR~17.0tn at the end of 6MCY24 as depositors opted for low-risk avenues. However, the banking sector borrowings reduced by ~15.4% during the same period, reducing funding concentration and enhancing the financial flexibility of the sector.

Relative Position Categorized as a small bank, AB holds ~0.4% of the sector advances as of CY23. In CY22, the Bank held ~0.4% of the sector advances. Similarly, the deposits of the Bank have also increased to ~0.8% in CY23 from ~0.7% in CY22.

Revenues The Bank's financing income reduced by ~8% to LKR~8.1bn in 6MCY24, while the financing expense dropped by ~16.3% in 6MCY24 compared to 6MCY23. Financing income of the Company stood at LKR~17.2bn in CY23 which is a ~45.4% increase compared to LKR~12.1bn in CY22. The core spread (Advances Yield – Adjusted Deposits Cost) is recorded at ~6.0% (CY23: ~5.8%) in 6MCY24.

Performance Dring 6MCY24, the performance of the Bank was recorded at LKR~763.4mn (6MCY23: LKR~419.6mn). The Bank improved its profitability by ~77.7% to LKR~1.4bn in CY23 (CY22: LKR~788mn). Its cost of funds increased significantly in CY23 to ~8.3% (CY22: ~6.4%), as a result of the interest expense increasing in the first half rapidly compared to CY22. However, it slightly decreased to ~6.5% in 6MCY24.

Sustainability The Bank plans to engage in prudent lending while increasing exposure to both the Retail and Small and Medium Enterprises ("SME") sector. The Bank through digital innovation plans to scale without incurring the additional cost of opening new branches.

Financial Risk

Credit Risk The gross stage 3 loans to total advances have increased from ~3.1% in CY21 to ~3.9% in 6MCY24. It was a result of the lower customer defaults which enabled the Bank to maintain the stage 3 ratio well below the industry average of ~12.8% in 6MCY24. The stage 3 impairment coverage ratio increased from ~37.9% in CY22 to ~56.8% in 6MCY24, providing an adequate buffer against any deterioration in asset quality.

Market Risk The Bank's investment portfolio consists of placement with other banks, placement with licensed finance, and quoted equity securities. Such placements make up ~27% of the total assets as at CY23.

Liquidity And Funding The Bank is more dependent on the deposits as it constitutes more than ~90% of the total funding. The deposit concentration of the funding was ~90.5% in CY22; however, it increased to ~99.8% in CY23 and 6MCY24. The top 20 depositors' concentration as at 6MCY24 remained relatively low.

Capitalization The Capital Adequacy Ratio ("CAR") is recorded at ~19.3% as at CY23 while it was at ~15.8% as at CY22. The Bank's Tier 1 Capital stood at ~16.5% as of CY23 compared to ~13.0% in CY22. The CAR and Tier 1 capital were recorded at ~18.1% and ~15.4% respectively in 6MCY24.

LRA

Financials (Summary) in LKR mln

Lanka Rating Agency

Amana Bank	Sep-24	Dec-23	Dec-22	Dec-21
#	9M	12M	12M	12M
A BALANCE SHEET				
1 Stage I | Advances - net	88,009	75,569	73,892	65,851
2 Stage II | Advances - net	14,525	12,472	7,332	8,470
3 Stage III | Advances (NPLs)	4,354	3,738	3,189	2,386
4 Stage III | Impairment Provision	(2,471)	(2,122)	(1,227)	(890)
5 Investments	837	522	463	921
6 Debt Instruments	-	-	-	-
7 Other Earning Assets	44,891	51,922	29,656	32,102
8 Non-Earning Assets	22,375	17,350	28,383	13,069
Total Assets	172,520	159,452	141,688	121,909
6 Deposits	145,723	132,938	112,546	96,158
7 Borrowings	21	321	11,857	9,010
8 Other Liabilities (Non-Interest Bearing)	3,958	4,496	2,924	3,103
Total Liabilities	149,703	137,755	127,327	108,270
Equity	22,818	21,697	14,361	13,639
B INCOME STATEMENT				
1 Mark Up Earned	11,701	17,238	12,113	7,674
2 Mark Up Expensed	(6,569)	(10,743)	(7,344)	(3,419)
3 Non Mark Up Income	1,369	2,716	1,597	544
Total Income	6,501	9,211	6,366	4,799
4 Non-Mark Up Expenses	(3,421)	(3,871)	(2,991)	(2,569)
5 Provisions/Write offs/Reversals	(386)	(2,121)	(1,638)	(785)
Pre-Tax Profit	2,694	3,219	1,736	1,445
6 Taxes on Financial Services	(711)	(907)	(529)	(364)
Profit Before Income Taxes	1,983	2,312	1,207	1,081
7 Taxes	(864)	(925)	(419)	(256)
Profit After Tax	1,119	1,387	788	825
C RATIO ANALYSIS				
1 Revenues				
Advances' Yield	13.7%	16.9%	13.0%	8.7%
Spread | Asset Yield - Cost of Funds	4.6%	5.4%	4.7%	3.9%
2 Performance				
Cost of Funds [Mark Up Expensed / Average (Deposits + Borrowings)]	6.3%	8.3%	6.4%	3.3%
ROE	6.7%	7.7%	5.6%	6.0%
3 Capital Adequacy				
Capital Adequacy Ratio	18.1%	19.3%	15.8%	15.7%
Net Stable Funding Ratio [Available Stable Funding / Required Stable Funding]	126.0%	187.7%	187.8%	118.5%
4 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	17.4%	15.7%	22.6%	13.2%
Demand & Saving Deposit Coverage Ratio	0.4	0.4	0.6	0.3
Top 20 Deposits / Deposits	12.1%	15.8%	18.7%	21.9%
5 Credit Risk				
Impaired Loan Ratio | [Stage III | Advances (NPLs) / Gross Advances]	3.9%	3.9%	3.7%	3.1%
Provision Coverage Ratio | [Impairment Provision / Stage III | Advances (NPLs)]	56.8%	56.8%	38.5%	37.3%

Credit Rating

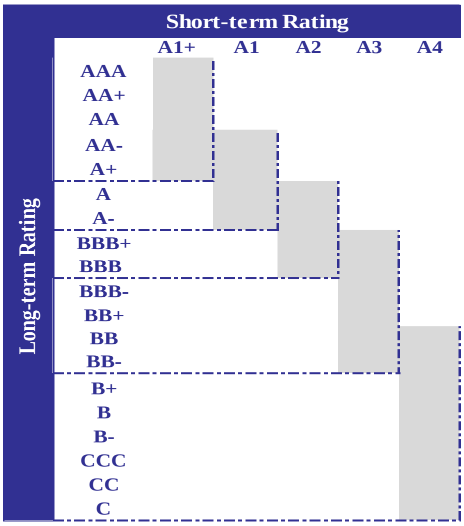
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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 surveill 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

Rating Team Statements
(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. https://www.sec.gov.lk/credit-rating-agency/

Conflict of Interest
(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)
(2) ii.LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)
(2) iii.In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions
(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)
(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:
(a) has a business development function of the Credit Rating Agency; or
(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business
(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest
(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA´s opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review
(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:
(a) all internal records to support its credit rating opinions;
(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and
(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default
(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information