



Lanka Rating Agency

Rating Report

SANASA DEVELOPMENT BANK PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
28-Apr-2026	BBB-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects Sanasa Development Bank PLC's ("SDB" or "the Bank") established position within Sri Lanka's Licensed Specialized Bank (LSB) segment, supported by a cooperative-based franchise, focus on personal and SME loans and adequate presence with ~94 branches as at CY25. The Bank accounted for ~10.7% of the LSB sector's loan book as at CY25. The rating also incorporates improvement in SDB's core spreads to ~6.4% (CY24: ~5.1%) in CY25, which also supported the improvement in total operating income. However, overall profitability has declined with SDB reporting a slight reduction of ~1.1% in net profit to LKR ~404.9mn (CY24: LKR~409.5mn) in CY25. The reduction in net profitability reflects pressure on income generation and cost structures, which constrains earnings resilience and limits internal capital generation relative to peers with higher profitability.

Asset quality has shown gradual improvement, with the gross Non-Performing Loan (NPL) ratio declining to ~11.4% (CY24: ~13.3%) in CY25. While this trend reflects progress in credit management, asset quality indicators remain weaker than the overall banking sector average of ~9.7% and are also comparatively weaker than those of higher-rated banks. Despite the improvement in net NPLs to equity ratio of the Bank to ~43.2% (CY24: ~49.3%) in CY25, it still highlights higher potential drag on the equity. Moreover, majority of SDB's loan book comprises personal, including loans given to public sector employees and pensioners under Upahara scheme, and SME loans. While the Upahara segment exhibits low NPLs of ~0.5% and remains a strong niche of the bank, personal loans under fixed and floating rate structures report elevated NPLs of ~25.1% and SME loans record NPLs of ~14.2% in CY25. This concentration in higher-risk personal and SME lending, despite improvements in headline asset quality metrics, constrains the Bank's credit profile and makes it vulnerable to economic shocks.

Market risk is moderated by the Bank's conservative investment strategy, with ~100% of the investment portfolio allocated to government securities, which limits credit risk exposure and supports liquidity. At the same time, this concentration increases sensitivity to interest rate movement and constrains diversification of earnings. Liquidity remains adequate, with the Liquidity Coverage Ratio (LCR) recorded at ~151.9% in CY25 which remains above the Central Bank of Sri Lanka's (CBSL's) regulatory minimum of 100%, providing a buffer against short-term funding stress.

Capitalization is adequate and above the regulatory thresholds. Tier 1 and Total Capital Adequacy Ratios (CARs) stand at ~14.2% (CY24: ~15.0%) and ~15.2% (CY24: ~16.4%) in CY25, respectively, exceeding the minimum requirements of 8.5% and 12.5%. Nevertheless, capital buffers are below industry averages of ~18.7% in CY25 and comparatively lower than those of peers rated at stronger investment-grade levels. This limits the room for growth for the Bank and also its loss-absorption capacity. The Bank's dispersed ownership structure, with shareholdings spread across multiple investors and no majority sponsor, reduces the likelihood of timely extraordinary shareholder support in stress scenarios.

Going forward, the assigned rating will remain sensitive to trends in profitability, asset quality, and capitalization. Sustained improvement in earnings performance, accompanied by a reduction in NPLs and CAR aligning more closely with industry averages, could support upward rating momentum. Conversely, a further weakening in profitability, deterioration in asset quality, or sustained pressure on capital buffers could result in a downward rating action.

Disclosure

Name of Rated Entity	SANASA DEVELOPMENT BANK PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Financial Institution Rating(Aug-24)
Related Research	Sector Study Commercial Bank (Feb-26)
Rating Analysts	Richmond Reginald richmond@lra.com.lk +94 114 500099

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Profile

Structure Sanasa Development Bank (“SDB” or “the Bank”) was established in 1997 under the Sanasa Development Bank Act No. 1 of 1997, functioning as a key player in rural and cooperative finance. The Bank operates as a Licensed Specialized Bank (LSB) under the Banking Act No. 30 of 1988, regulated by the Central Bank of Sri Lanka (CBSL).

Background Originating from the Sanasa Movement's cooperative principles, the Bank was rebranded as SDB bank and serves as an apex financial institution for Sanasa cooperatives, with steady growth focused on rural development over the years.

Operations SDB maintains ~94 branches across all provinces, supported by over 1,263 individuals and indirect reach to ~3mn via the SANASA network. Its principal activities include savings/deposits, cooperative development loans to Primary Thrift and Credit Cooperative Societies (PTCCS)/district unions, Small and Medium Enterprise (SME)/retail lending (e.g., gold loans, housing), leasing for vehicles/equipment, UPay digital payments, bank guarantees, bancassurance, and remittances.

Ownership

Ownership Structure As of CY25, SDB's diversified public listing features LOLC Investment Holdings One (Private) Limited (~15.00%), Senthilverl Holdings (~15.00%), Finco Holdings (~15.0%), Belgian Investment Company for Developing Countries (~10.0%), and dispersed Sanasa entities (~3.1%). This dispersed ownership structure with no dominant sponsor reduces the likelihood of timely extraordinary shareholder support in stress scenarios.

Stability As a publicly listed entity with stable, diversified private-sector, and cooperative shareholders like LOLC and Senthilverl, SDB demonstrates resilience and independence in its SME/rural banking operations.

Business Acumen The Board draws strength from private financial expertise, cooperative leadership, and Independent Non-Executive Directors (NEDs), providing balanced governance and specialized knowledge in microfinance, leasing, and rural banking without government control.

Financial Strength Key sponsors LOLC Investment Holdings One and Senthilverl Holdings, and development investors offer robust financial support, bolstering capital and resilience in financial services and diversified operations.

Governance

Board Structure SDB's Board includes one Executive Director (ED), five Independent NEDs, and three non-independent NEDs, offering moderate independent oversight relative to best practices.

Members' Profile Chaired by Independent NED Ms. Dinithi Ratnayake (30+ years in banking, Citibank roles), the Board features Mr. Chaaminda Kumarasiri (chartered accountant, governance expert), Mr. Prasanna Premaratna (SME/rural development), and Non-Independent Directors with cooperative, fintech, and risk expertise.

Board Effectiveness The BoDs oversees via seven subcommittees: Board Integrated Risk Management Committee (BIRMC), Board Audit Committee (BAC), Board Human Resources and Remuneration Committee (BHRR), Board Selection and Nomination Committee (BSNC), Board Related Party Transactions Review Committee (BRPTRC), Board Strategic Planning Committee (BSPC), and Board Credit Committee (BCC), ensuring non-executive focus on risk, audit, and strategy.

Financial Transparency External auditors Ernst & Young provided an unqualified opinion on CY25 financial statements.

Management

Organizational Structure Led by Chief Executive Officer (CEO) Mr. Kapila Prasanna Ariyaratne (Board member), the structure channels departments through Deputy General Managers; Risk/Compliance reports to BIRMC, Internal Audit to BAC, Information Technology (IT) to IT Committee, Credit to BCC.

Management Team The qualification of CEO Mr. Ariyaratne comprises bachelor's in science (BSC) in Natural Sciences and Postgraduate (PG) Diploma in Business/Finance with 41 years of banking and insurance experience. The experience of the management of SDB averages to 25+ years, with Chief Risk Officer (CRO) Mr. D P Wijesinghe and Chief Compliance Officer (CCO) Mr. Bahnu Wijayarathne has 29 and 33 years of experience, respectively.

Effectiveness Seventeen management committees cover credit, risk, IT, Human Resource (HR), procurement, and recovery, fostering focused oversight and decision-making.

MIS SDB employs the industry-tested Integrated Computerized Banking System (ICBS) core platform, enabling reliable operations and digital service growth like UPay.

Risk Management Framework BIRMC, CRO, and Chief Credit Officer (CRO) Mr. A.D.S Yapa who holds 41 years of experience, oversee the risk management framework with the help of policies for credit risk in development lending.

Business Risk

Industry Dynamics As of CY25, Sri Lanka's Banking Industry includes ~30 banks (CY24: ~30 banks) out of which ~24 (CY24: ~24) are Licensed Commercial Banks (LCBs) and ~6 (CY24: ~6) are LSBs. Out of ~24 LCBs, ~11 banks operate as foreign banks, ~11 operates as private banks while ~2 banks operate as public banks. Overall banking sector assets witnessed a ~12.7% Year on Year (YoY) growth in CY25 reporting to LKR ~24.9tn. In CY25, the overall banking sector deposits rose by ~15.0% to LKR~19.9tn, respectively.

Relative Position In the LSB segment, SDB captures ~6.0% of assets, ~11.1% of loans/advances, and ~5.0% of deposits as of CY25.

Revenues For CY25, the Bank reported a total operating income of LKR~9.5bn (CY24: LKR~8.8bn), an ~8.0% growth on account of ~5.3% higher net interest income, ~15.5% increase in net fee and commission income, ~26.0% increase in net fair value gain of financial assets at fair value through profit or loss, and a slight increase in net other operating income. A ~5.3% increase in net interest income, despite lower total interest income and slightly lower net interest margin, was mainly due to increase in core spread on advances to ~6.4% (CY24: ~5.1%) as lower funding costs more than offset the decline in lending and investment yields.

Performance Despite an ~8.0% growth in total operating income in CY25, the Bank witnessed an ~1.1% decline in net profit reporting to LKR~404.9mn (CY24: LKR~409.5mn). In CY25, SDB recorded higher net interest and operating income, supported by an increase in core lending spreads, despite a slight decline in net interest margin (NIM). The decrease in NIM reflects a lower yield on investments and expansion of earning assets, while higher personal expenses moderated net profitability.

Sustainability SDB makes fostering efforts for the growth of SME/micro-entrepreneurs via PTCCS network, branch expansion, and training, targeting rural/underserved inclusion.

Financial Risk

Credit Risk In CY25, the gross Non-Performing Loans (NPLs) improved to ~11.4% (CY24: ~13.3%). Furthermore, the Stage 3 Impairment Coverage Ratio (ICR) rose to ~52.6% (CY24: ~47.8%) in CY25, reducing the Stage 3 gross loan balance to LKR ~13.5bn (CY24: LKR ~13.8bn), reflecting better collections.

Market Risk In CY25, SDB maintained a conservative investment portfolio comprising treasury bills of ~LKR~15.3bn (CY24: LKR ~22.0bn), mutual funds of LKR ~7.5bn (CY24: LKR ~6.5bn), and treasury bonds of ~LKR~905.8mn (CY24: LKR ~3.2bn).

Liquidity And Funding SDB's funding structure relies predominantly on deposits, which comprise ~84.0% (CY24: ~89.0%) of total funding as at CY25. Within total deposits, time deposits account for ~79.2%, and the top 20 depositors represent ~10.9% (CY24: ~9.4%). Liquidity is robust, with Liquidity Coverage Ratio (LCR) at ~151.9% as at CY25 (CY24: ~279.65%), exceeding the 100% regulatory minimum of CBSL.

Capitalization Capitalization remains compliant with regulatory thresholds, with Tier 1 and Total Capital Adequacy Ratios (CARs) of ~14.2% (CY24: ~15.0%) and ~15.2% (CY24: ~16.4%, CY23: ~16.4%) in CY25, respectively, exceeding the minimum requirements of 8.5% and 12.5%. Nevertheless, capital buffers remain below industry averages of ~20.3% and ~18.7% in CY25.



Financials (Summary) in LKR mln

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LKR mln

Sanasa Development Bank PLC

#

Sep-25

Dec-24

Dec-23

Dec-22

9M

12M

12M

12M

A BALANCE SHEET

1 Stage I Advances - net	91,375	84,248	82,824	95,969
2 Stage II Advances - net	4,013	3,700	6,637	6,051
3 Stage III Advances (NPLs)	14,932	13,767	15,624	12,493
4 Stage III Impairment Provision	(7,135)	(6,578)	(6,217)	(3,988)
5 Investments	20,355	32,597	34,707	21,686
6 Debt Instruments	476	980	607	103
7 Other Earning Assets	12,152	9,084	15,388	18,205
8 Non-Earning Assets	7,507	7,358	7,386	9,002
Total Assets	143,675	145,156	156,957	159,521
6 Deposits	105,859	106,990	108,118	107,533
7 Borrowings	17,005	19,075	31,054	35,760
8 Other Liabilities (Non-Interest Bearing)	5,971	4,504	3,520	2,569
Total Liabilities	128,835	130,569	142,692	145,862
Equity	14,840	14,586	14,266	13,659

B INCOME STATEMENT

1 Mark Up Earned	12,925	20,005	29,905	23,101
2 Mark Up Expensed	(6,683)	(12,185)	(21,403)	(16,262)
3 Non Mark Up Income	960	1,011	852	906
Total Income	7,202	8,831	9,354	7,745
4 Non-Mark Up Expenses	(5,519)	(6,821)	(6,054)	(5,366)
5 Provisions/Write offs/Reversals	(619)	(559)	(1,820)	(1,898)
Pre-Tax Profit	1,064	1,451	1,480	481
6 Taxes on Financial Services	(640)	(767)	(708)	(384)
Profit Before Income Taxes	424	684	772	97
7 Taxes	(170)	(275)	(305)	(36)
Profit After Tax	254	410	467	61

C RATIO ANALYSIS

1 Revenues

Advances' Yield	12.5%	14.7%	20.4%	16.3%
Spread Asset Yield - Cost of Funds	6.1%	5.6%	6.0%	5.3%

2 Performance

Cost of Funds [Mark Up Expensed / Average (Deposits + Borrowings)]	7.2%	9.2%	15.2%	11.3%
ROE	2.3%	2.8%	3.3%	0.4%

3 Capital Adequacy

Capital Adequacy Ratio	N/A	16.4%	16.4%	15.4%
Net Stable Funding Ratio [Available Stable Funding / Required Stable Funding]	149.8%	173.0%	192.8%	241.6%

4 Funding & Liquidity

Demand & Saving Deposit Coverage Ratio	1.3	2.1	3.1	2.9
Top 20 Deposits / Deposits	10.3%	9.4%	0.0%	0.0%

5 Credit Risk

Impaired Loan Ratio [Stage III Advances (NPLs) / Net Advances]	4.1%	2.4%	2.8%	2.5%
Provision Coverage Ratio [Impairment Provision / Stage III Advances (NPLs)]	47.8%	47.8%	39.8%	31.9%



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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

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) LRA 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.
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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. Rating actions may include "maintain", "upgrade", or "downgrade".

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

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

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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

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

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