Lanka Rating Agency

Rating Report

CITIZENS DEVELOPMENT BUSINESS FINANCE PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
07-Aug-2026	A-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Citizens Development Business Finance PLC ("CDB" or "the Company") is one of the leading Licensed Finance Companies in Sri Lanka , supported by an established franchise base and meaningful scale within the Sector. The Company has ~7% market share in both Sector assets and deposits. CDB's credit profile is underpinned by a predominantly secured lending portfolio, with vehicle financing and gold-loans collectively accounting for ~86% of the loan book as of 9MFY26. These asset classes have tangible collateral coverage, which supports recoverability and contributes positively to CDB's asset quality metrics. On the other hand, CDB's recent portfolio shift away from higher-yielding segments, such as 3W financing, and towards more competitive 4W and gold-loans has exerted pressure on spreads, resulting in some moderation in NIM (9MFY26:~7.09% | FY25:~7.97%), which is below industry average (9MFY26:~12.0% | FY25:~12.4%) . Thus, the Company's profitability remains relatively lower than peers, although this is improving. CDB has a dispersed ownership structure and no identified beneficial owner that constrains visibility over potential extraordinary shareholder support.

The Company has managed to keep its NPLs below the industry average and in line with peers. CDB's gross NPL ratio improved to ~4.6% by 9MFY26 (FY25: ~6.3%), remaining below the industry average of ~6.1%. Growth has been redirected towards vehicle and gold-backed lending, with the latter having a low NPL ratio of ~1.0% as of 9MFY26. Despite strong loan book growth of ~36% during 9MFY26, CDB's focus on lower-risk, collateral-backed lending has helped contain NPL formation and preserve asset quality. The lagged impact of lower interest rates supported profitability during the period, with PAT increasing to LKR ~4.0bn in FY25 and reaching LKR ~3.2bn during 9MFY26. ROE improved to ~18.2% and ROA to ~2.8% in FY25, while the industry averages were ~15.2% and ~6.6% respectively. Going forward, profitability is expected to remain range-bound, as the margin pressure from increased exposure to lower-yielding products materializes. The recent increase in interest rates is expected to impact cost of funds quicker than asset repricing.

The total CAR moderated to ~17.84% as at 9MFY26 (FY25: ~18.09%), remaining above the regulatory minimum, though slightly below the industry average of around 18.70% (FY25: ~20.09%). Tier 1 capital also declined to ~12.25% from ~14.47%, while the Tier 2 ratio improved during the period. Going forward, capitalization is expected to improve through internal capital generation and a more balanced capital mix, although CDB's growth appetite could keep CAR under pressure.

A gradual shift in CDB's funding mix has been observed with share of deposits coming down to ~50.8% (FY25: 69.4%) while borrowing has increased. Deposits are largely short-term in nature and would result in higher cost due to interest rate increase. CDB has increased its leveraging to avail financing from the market and also availed foreign-currency funding at attractive rates to recalibrate its funding profile, as the cost of borrowed funds remains lower than deposits. The relatively longer tenor of borrowed funds has also improved maturity profile of the Company in 9MFY26.

The rating remains sensitive to CDB's ability to sustain its asset quality and profitability metrics compared to peers. Any material deterioration in these would result in negative rating outcome. Similarly, maintaining strong capitalization and CAR is essential for the rating. Conversely, sustained structural improvement in NIM and profitability along with strengthening of CAR would be beneficial for the rating.

Disclosure

Name of Rated Entity	CITIZENS DEVELOPMENT BUSINESS FINANCE PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Non-Banking Financial Institution Rating(Jul-24)
Related Research	Sector Study | Leasing & Finance Companies(Apr-26)
Rating Analysts	Ruwanthi Sylva | ruwanthi@lra.com.lk | +94 114 500099

Profile

Structure CDB was incorporated in 1995 and listed on the Main Board of the Colombo Stock Exchange (CSE) in 2010. It operates as a Licensed Finance Company (LFC) under the regulatory oversight of the Central Bank of Sri Lanka (CBSL) and complies with CSE and SEC regulations for listed issuers.

Background Originally established as Ceylinco Development Bank, the institution transitioned into a licensed finance company in 2009. Its growth has been primarily organic, supplemented by the amalgamation of previous subsidiaries, namely CDB Fortune Properties (Pvt) Ltd and Unisons Capital Leasing Limited, to streamline operations

Operations The Company offers a comprehensive suite of financial services including leasing, hire purchase, gold-backed lending (pawning), retail and corporate loans, Islamic finance, and card-based products. Operations are conducted through a nationwide network of 71 physical branches and 86 virtual branches, supported by centralized data-driven processes.

Ownership

Ownership Structure Ceylinco Life Insurance Limited Account No. 03 holds the largest voting stake of ~31.2% as of 9MFY26, while the top five shareholders collectively account for ~62.7% of voting shares. The Company lacks a single traceable beneficial owner, as the largest effective individual ownership (estimated at ~6.2%) falls below the 10% regulatory threshold.

Stability The ownership profile is stabilized by Ceylinco Holdings PLC, which has an effective combined shareholding of ~35.0%. The Group maintains a strong financial profile with assets exceeding LKR ~390bn and minimal reliance on debt.

Business Acumen CDB benefits from the institutional depth of Ceylinco Life Insurance Limited, the market leader in Sri Lanka's life insurance sector. This provides strategic expertise in risk management, capital adequacy, and long-term investment governance.

Financial Strength Assessed as Adequate, reflecting the absence of an explicit financial guarantee or legally binding support framework from the parent group, though the Group's scale provides significant reputational comfort.

Governance

Board Structure The Board comprises 13 directors, with a strong emphasis on non-executive oversight; 8 are non-executive directors, 6 of whom are independent. The Board is led by an Independent Chairman.

Members' Profile Chairman Mr. Alastair Corera is a CFA charter holder and Fellow of CIMA (UK) with prior experience as the Head of Financial Institutions at Fitch Ratings Lanka. The Board includes members with deep expertise in economics, HRM, and telecommunications.

Board Effectiveness The Board has established seven sub-committees to discharge regulatory oversight, with recommendations escalated to the main Board for approval. The Audit Committee is chaired by Ms. P. R. W. Perera, an Independent Non-Executive Director and Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

Financial Transparency For the financial year ended 31 March 2025, external auditors Ernst & Young (EY) issued an unqualified (clean) audit opinion, confirming the reliability and accuracy of financial disclosures.

Management

Organizational Structure The Company maintains a formal reporting hierarchy with clear functional segregation across business lines and independent control functions such as Internal Audit, Risk, and Compliance.

Management Team Led by MD/CEO Mr. Mahesh Nanayakkara, who has over 30 years of experience and has been with CDB since 2001. He is supported by a seasoned executive team, including a Deputy CEO and directors for Corporate Finance and Sales.

Effectiveness Five structured management committees include Corporate Management, ALCO, Risk & Compliance, IT Steering, and Investment which ensure disciplined operational execution and risk oversight.

MIS CDB utilizes an integrated core banking platform that centralizes loan origination and collateral tracking. The system provides real-time dashboards with early-warning triggers for liquidity, NPL movements, and repricing gaps.

Risk Management Framework A Board-approved framework translates risk appetite into specific portfolio limits and concentration thresholds. Independent risk monitoring ensures consistent compliance with limits across capital, liquidity, and credit indicators.

Business Risk

Industry Dynamics Sri Lanka's LFC sector has recovered strongly, with NIMs expanding from ~8.5% to ~12.0% by 9MFY26 on the back of declining funding costs. Borrowings rose from ~17.3% to ~30.6% of total funding as institutions shifted toward longer-tenor funding, while net loans and advances nearly doubled to LKR ~2,228Bn, reflecting robust credit demand. ROE improved from ~9.4% to ~16.3%, and gross NPLs declined sharply from ~15.9% to ~6.1%, indicating a significant improvement in asset quality.

Relative Position CDB maintains a ~6.9% market share in loans and advances, consistently ranking among the top five LFCs in Sri Lanka. While its market share in assets moderated slightly to ~7.3%, its scale remains a competitive advantage.

Revenues Interest income improved to LKR ~19,313mn for 9M FY26. The lending mix has shifted toward vehicle and term loans (~22.5% of income), reducing the historical dominance of finance leases.

Performance CDB's ROA (~2.3%) and ROE (~16.6%) for 9M FY26 reflect a strong rebound from FY23 levels, outperforming or remaining in line with industry averages.

Sustainability Assessed as Very Strong, supported by an extensive distribution network and a digital transformation strategy that includes plans to open 250 virtual operations within two years to optimize costs and reach.

Financial Risk

Credit Risk CDB's asset quality has materially improved, with gross NPL declining from ~12.1% in FY24 to ~4.6% by 9MFY26, outperforming the industry average of ~6.1%. The portfolio has been structurally rebalanced away from high-risk leasing (~63.6% in FY23 to ~33.9% in 9MFY26) toward vehicle loans, term loans, and gold lending, reducing concentration and tenor risk. While most segments show broad-based NPL improvement, residual stress in credit cards (~27.8% NPL) and the sharp reclassification of hire-purchase exposure warrant monitoring.

Market Risk CDB's investment portfolio stood at ~LKR 28.7bn in 9MFY26, predominantly in fixed deposits and government securities, with treasury bill holdings reduced by ~70.0% reflecting active interest rate repositioning. Quoted equity investments grew to LKR ~3.21bn, introducing price risk, though holdings are characterized as strategic long-term positions. Gold price risk (~20.3% of the loan book) is mitigated through a conservative LTV of ~70.0% and frequent repricing, with gold loan NPLs at ~1.0%. Foreign currency borrowings are fully hedged at drawdown, though an ~80% floating-rate liability structure elevates funding cost sensitivity.

Liquidity And Funding CDB's funding mix has shifted toward borrowings (~49.2% of total funding in 9M FY26 from ~25.3% in FY23), with long-term borrowings expanding to ~62.3% of total borrowings, reducing refinancing pressure. Foreign funding of LKR ~19.6bn at ~6.7% pre-hedging has enhanced diversification, with all foreign currency exposures fully hedged. Deposit concentration remains low at ~3.8% for the top 20 depositors. Short-term liquidity is strong with a LKR ~17.2bn positive gap in the 1–3 month bucket.

Capitalization The Total Capital Ratio of ~17.84% is well above the regulatory requirement. However, the Tier 1 ratio has compressed to ~12.25% due to risk-weighted asset growth and increased reliance on Tier 2 capital.

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Citizens Development Business Finance PLC	LKR mln	LKR mln	LKR mln	
	Dec-25	Mar-25	Mar-24	Mar-23
Listed Public Limited	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	148,036	106,371	78,163	70,934
2 Investments	8,369	9,560	7,662	9,018
3 Other Earning Assets	28,141	21,742	22,922	8,385
4 Non-Earning Assets	14,345	14,240	12,230	11,286
5 Non-Performing Finances-net	5,007	5,023	7,801	5,543
Total Assets	203,897	156,936	128,778	105,166
6 Funding	171,705	126,943	104,808	84,168
7 Other Liabilities	5,571	6,057	3,762	2,807
Total Liabilities	177,276	133,000	108,570	86,975
Equity	26,621	23,936	20,208	18,190
B INCOME STATEMENT				
1 Mark Up Earned	19,314	22,885	22,220	20,133
2 Mark Up Expensed	(9,725)	(11,494)	(13,127)	(12,577)
3 Non Mark Up Income	2,666	2,714	1,674	1,428
Total Income	12,255	14,105	10,767	8,984
4 Non-Mark Up Expenses	(5,886)	(6,827)	(5,427)	(5,074)
5 Provisions/Write offs/Reversals	(248)	644	(741)	(811)
Pre-Tax Profit	6,121	7,922	4,599	3,100
6 Taxes on Financial Services	(1,883)	(2,172)	(893)	(605)
Profit Before Income Taxes	4,238	5,751	3,706	2,494
7 Income Taxes	(1,087)	(1,745)	(1,191)	(867)
Profit After Tax	3,151	4,005	2,516	1,627
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	48.0%	48.4%	50.4%	56.5%
b ROE	16.6%	18.1%	13.1%	9.1%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	91.3%	90.7%	86.7%	96.7%
b Accumulated Provisions / Non-Performing Advances	42.7%	42.7%	38.8%	47.1%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	22.4%	27.7%	32.0%	22.3%
b Borrowings from Banks and Other Financial Institutes / Funding	39.9%	25.3%	26.6%	19.7%
4 MARKET RISK				
a Investments / Equity	31.4%	39.9%	37.9%	49.6%
b (Equity Investments + Related Party) / Equity	9.0%	11.5%	9.7%	10.3%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	13.1%	15.3%	15.7%	17.3%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	13.6%	17.8%	7.2%	7.7%

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)	Rating Watch	Suspension	Withdrawn	Harmonization
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’.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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