



Media Release

RAM Ratings Lanka Reaffirms BBB and P3 Ratings of SANASA Development Bank Limited

RAM Ratings Lanka has reaffirmed Sanasa Development Bank's ("SDB" or "the Bank") respective long- and short-term financial institutions ratings, at BBB and P3; the long-term rating has a stable outlook. The ratings are supported by the Bank's healthy financial performance, stringent credit management and strong rural presence, particularly in micro financing. Nevertheless, these positives are moderated by SDB's highly risky targeted customer segment and small stature.

SDB is a licensed specialised bank ("LSB"), accounting for 2.99% of the total industry assets as at end-December 2009; the largest player took up the lion's share of 69.89%. SDB operates as the apex financial institution of the Sanasa movement - the largest cooperative network in the country, with the objective of catering to the funding needs of the rural community. The Bank provides micro-financing, leasing, housing loans and project financing, primarily to the low-income segment of the economy, which usually lies outside the risk parameters of commercial banks. SDB disburses loans to Sanasa members through grassroots-level primary societies; lending is also extended to non-members as well as small and medium-sized enterprises ("SMEs").

Despite its high-risk target market, SDB has been able to maintain its better-than-industry asset quality, supported by its stringent credit evaluation and monitoring. As such, SDB's gross non-performing-loans ("NPL") ratio dipped marginally to 6.59% as at end FYE 31 December 2009 ("FY Dec 2009"), albeit remaining better than the industry average of 10.38% as at the same date. Further, the gross NPL ratio ameliorated to 5.50% as at end-Mar 2010.

RAM Ratings Lanka opines that SDB has moderate funding and liquidity positions. We are concerned about the widening gap in the Bank's asset-liability maturity mismatch ("ALMM") in the "less than 1 year" bucket, which accounted for 21.10% of its interest earning assets as at end-FY Dec 2009. However, this is partially alleviated by SDB's healthy renewal rates and LKR 300 million of unutilised funding lines. The Bank's statutory liquid-asset ratio stood at 25.27% as end-December 2009.

Meanwhile, SDB's high-risk target segment has enabled it to charge higher interest rates on its loan portfolio, thereby allowing it to maintain better-than-industry net interest margin ("NIM"). As such, its NIM widened from 7.81% as at end-FY Dec 2008 to 9.01% as at end-FY Dec 2009, on the back of buoyant loan growth and healthier yields on its portfolio. The Bank's financial performance remained healthy through the review period; its pre-tax profit nearly doubled to LKR 445.51 million. RAM Ratings Lanka notes that the Bank's return on assets ("ROA"), which came up to 3.36% as at end-December 2009, has consistently surpassed the industry average.

On a more positive note, SDB had been able to enhance its capital by LKR 875.64 million during the year, mainly with the support of the primary societies. This had allowed the Bank to comply with the minimum capital requirement of LKR 1.5 billion. Accordingly, SDB's tier-1 and overall risk-weighted capital-adequacy ratios ("RWCARs") improved to 16.68% and 17.39%, respectively, as at end-FY Dec 2009 - well above the regulated minimums of 5% and 10%.

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Date of release: 25 August 2010

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Published by RAM Rating Lanka Ltd

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