



Lanka Rating Agency

Rating Report

Sarvodaya Development Finance PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
03-Nov-2025	BBB-	Stable	Upgrade	-
11-Apr-2025	BB+	Stable	Upgrade	-
02-Oct-2023	BB	Stable	Maintain	-
21-Sep-2022	BB	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Sarvodaya Development Finance PLC (“SDF” or “the Company”) is a LFC with strong rural outreach, supported by its long-standing affiliation with the Sarvodaya Movement although its size remains relatively small. The ratings upgrade reflects the Company’s notable improvement in financial performance, strengthened capital position, and continued prudence in asset quality management, supported by its growing footprint in the MSME, leasing, and gold loan segments. SDF’s loan portfolio grew by ~25.4% to LKR 24.0Bn in 6MFY26 (FY25: LKR ~19.2Bn) while the profitability improved to LKR ~340.5Mn during 6MFY26 (FY25: LKR ~473.8Mn), supported by lower funding costs, strong portfolio growth, and stable spreads. The sustainability and quality of earnings is critical and will be closely monitored, alongside other key performance indicators, to assess the Company’s ability to maintain its improved financial profile. SDF demonstrated improvement in asset quality, as reflected by lower Gross Non-Performing Loans (NPL) ratio to ~6.0% as of 6MFY26 (FY25: ~7.9%), below the industry average. Following the issuance of Tier II debentures amounting to LKR ~2Bn, SDF’s capitalization remains robust and well above the regulatory requirement, with a Capital Adequacy Ratio (CAR) of ~25.9%. This capital buffer is expected to provide adequate headroom for the envisaged portfolio growth, facilitating the achievement of its FY26 projected growth. The Company’s deposit base grew by ~2.7% to LKR ~10Bn during 6MFY26 which makes up ~43% of the funding mix. The rating remains constrained by the Company’s modest market position within the LFC sector and relatively lower profitability, as reflected by its asset base, which constituted around 1.13% of total industry assets as of 3MFY26.

The rating is contingent upon SDF’s ability to strengthen its relative position within the sector and maintain asset quality with NPLs below industry averages. Meanwhile, enhancing profitability, maintaining a healthy CAR ratio (at or above industry average) and expanding market share will be critical to maintaining SDF’s rating. Any significant lapse in these indicators will have adverse impact on the rating.

Disclosure

Name of Rated Entity	Sarvodaya Development 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(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099

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Profile

Structure Sarvodaya Development Finance PLC ("SDF" or "the Company") is a public limited liability company, incorporated in 2010, under the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011. SDF was listed on the Colombo Stock Exchange ("CSE") in December 2021.

Background The Company was incorporated as Deshodaya Development Finance Company Limited in 2010 and assumed its current name in 2015.

Operations The principal business activities include acceptance of deposits, granting micro finance loans, SME loans, leasing, housing loans, business loans, gold loans and other credit facilities, digital financial services and other value-added services. The Company has 56 branches, of which more than 82% are situated outside the Western Province. SDF is connected to 5,400 societies (through Sarvodaya Movement) with more than 800,000 members.

Ownership

Ownership Structure The largest share of the company is owned by Sarvodaya Economic Enterprises Development Services (GTE) Ltd ("SEEDS"), with an ownership of ~36.1%, while the Sarvodaya Movement collectively owns ~55% of the Company. Janashakthi Capital Limited, Senthilveri Holdings (Pvt) Ltd and Gentosha Media Consulting Inc. owns ~10.8%, ~8.5% and ~9% respectively.

Stability SEEDS was established in 1986 as the economic arm of the Sarvodaya Movement. The ownership of SEEDS has not gone through a major change, since it has been able to maintain its shareholding, post listing in CSE.

Business Acumen SEEDS is engaged in economic development of rural communities through providing training in business development skills and financial services.

Financial Strength The Sarvodaya Movement has multiple companies and independent units which operates under it. The Company does not have a written financial guarantee from the parent entity or other shareholders.

Governance

Board Structure The Board of Directors comprises of seven non-executive Directors, of which four are independent and three are non-independent.

Members' Profile The Board members have diverse expertise in banking, sales, marketing, IT, and consulting. They are well qualified in their respective domains along with decades of experience. The Chairman, Mr. Channa de Silva has held senior management positions in many reputed firms, including financial institutions and banks.

Board Effectiveness The Company has formed five board sub-committees, namely, i) Board Integrated Risk Management Committee ("BIRMC"), ii) Board Audit Committee ("BAC"), iii) Board Nomination and Governance Committee ("BRC"), iv) Related Party Transaction Review Committee ("RPTRC"), v) Board Credit Committee ("BCC"), vi) Board Remuneration Committee.

Financial Transparency The external auditors of the Company, Ernst & Young, issued an unqualified audit opinion pertaining to annual financial statements for FY25.

Management

Organizational Structure The Company has 15 separate divisions to carry out its operations. The Compliance Department and the Risk Departments report to the BIRMC, while the Internal Audit Department reports to the BAC.

Management Team The management team is headed by the Chief Executive Officer ("CEO"), Mr. Nilantha Jayanetti. The CEO has extensive knowledge in business management and strategic leadership and has experience in the banking and financial sectors.

Effectiveness SDF has formed five management committees, namely, i) Assets and Liability Management Committee ("ALCO"), ii) Management Credit Committee ("MCC"), iii) IT Steering Committee ("ITSC"), iv) Management Committee ("MC"), v) Product Development Committee ("PDC"), vi) Sustainability Committee ("SC"), vii) Information Security Committee ("ISC"), viii) Management Operation Risk Management Committee ("MORMC").

MIS The main ERP system of the Company is the eFinancials system, provided by Scierter Technologies (Pte) Ltd. The Company is also connected to the Lanka Pay CEFT network, Shared ATM Switch ("SAS") and Common ATM Switch ("CAS").

Risk Management Framework The BAC has the responsibility to ensure the integrity of the financial reporting and the effectiveness of the internal control systems. Risk reports are submitted to the BIRMC for each type of risk identified with a rectification plan. Heads of Departments have the responsibility to identify and focus on potential risks in their respective areas of operations.

Business Risk

Industry Dynamics There are 33 Licensed Finance Companies ("LFC") in Sri Lanka, out of which, 27 are listed on the CSE. As of March 2025, Sri Lanka has 33 Licensed Finance Companies (LFCs), with 27 listed on the Colombo Stock Exchange. The sector reported a profit after tax (PAT) of LKR ~69.02 bn (3MFY26: 18.3 Bn). Return on Assets (ROA) stood at ~6.6% (3MFY26: ~6.9%), and Return on Equity (ROE) at ~15.1% (3MFY26: ~15.2%), improving from 5.5% and 12.9% in March 2024. In FY25, the total asset base was LKR ~2,089.95 Bn, with loans and advances at ~1,567.84 bn and equity investments at ~9.7 Bn (3MFY26: 9.9 Bn).

Relative Position The Company remains a small player in the industry, as it accounts for ~1.2% of the assets in the sector as at 6MFY26 and its deposits as a percentage of the total sector deposit stood at ~0.75% in 6MFY26.

Revenues The Company's interest income of the Company increased by ~38.6% in 6MFY26 to LKR~2.6bn from LKR~1.9bn. This is mainly driven by growth in the lending portfolio. Interest expense of the Company increased by ~56.3% in 6MFY26 to LKR~977.0mn from LKR~625.3mn in 6MFY26 (FY25:LKR~1.4bn). This can be attributable to growth in gross loan and lease portfolio due to improvement in the economy on the macro level, despite the reduction in the lending rates in line with the policy rates.

Performance The Profit After Tax ("PAT") of the Company recorded a significant growth in 6MFY26 of ~57.8% to LKR~340.5mn from LKR~215.7mn in 6MFY25 (FY25: LKR~473.8mn). This improvement points to rise in net interest income as a result of higher asset yields compared to lower funding costs. ROA stood at ~2.1% while the ROE stood at ~12.8% in 3MFY26 while it was recorded at ~12.6% and ~2.5% as at FY25.

Sustainability The Company intends to strengthen customer reach and accessibility by strategically growing the branch and ATM network to provide better financial access, especially to community-level businesses and economically active groups. SDF plans to expand market opportunities for MSMEs by fostering entrepreneurship among the youth and women associated with rural areas of the island.

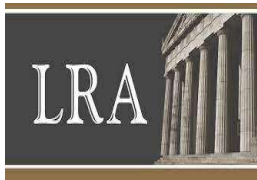
Financial Risk

Credit Risk The Company has been able to improve its NPLs since FY20. However, it increased drastically in FY23 to ~18.09% and as a result of the dire economic condition of the country, however it remained less than industry averages. NPL recorded at ~14.10%, ~7.9% and 6.6% as at FY24, FY25 and 3MFY26. SDF has a granular customer base as the top 20 advances account for ONLY ~2.2% of the total advances as at 6MFY25 (FY24:2.9%).

Market Risk The Company increased its investments by ~15.8% in 6MFY26 to LKR~1.3bn which is an increase from LKR~1.2bn. It increased its investment in government securities in 6MFY26 by ~20.1% to LKR~1.1bn compared to LKR~906.3mn in FY25. Investments in government securities constituted ~81.5% of the total investments as at 6MFY26.

Liquidity And Funding The reliance on customer deposits increased from LKR~7.5bn in FY24 to LKR~9.8bn in FY25 and it further increased to LKR~10.1bn in 3MFY26. Liquidity improved as tranches from European Development Finance Institutions amounting to USD~10mn have already been realized. Further loans from international loans are in the pipeline that will diversify funding base.

Capitalization The Company's CAR recorded at ~16.5% as of 6MFY26 before the bond issue and it was recorded at 25.9% after the bond issuance. The Company's CAR recorded at ~18.89% as of 3MFY26 and stood at ~20.63% as at FY25 and ~26.00% in FY24, while the required rate was ~12.50%. Tier 1 Capital Ratio of the Company recorded at ~18.79% as at 3MFY26 and ~20.52% as at FY25.



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LKR mln

Sarvodaya Development Finance PLC Listed Public Limited

Sep-25
6M

Jun-25
3M

Mar-25
12M

Mar-24
12M

A BALANCE SHEET

1 Total Finance-net	23,548	21,183	18,407	11,455
2 Investments	1,335	1,345	1,153	1,019
3 Other Earning Assets	1,987	1,756	1,230	494
4 Non-Earning Assets	956	967	977	810
5 Non-Performing Finances-net	498	564	813	1,119
Total Assets	28,324	25,815	22,580	14,898
6 Funding	23,301	20,352	17,648	10,700
7 Other Liabilities	922	1,390	950	627
Total Liabilities	24,223	21,742	18,598	11,327
Equity	4,097	4,072	3,944	3,571

B INCOME STATEMENT

1 Mark Up Earned	2,600	1,217	4,064	3,102
2 Mark Up Expensed	(977)	(468)	(1,424)	(1,322)
3 Non Mark Up Income	203	99	288	210
Total Income	1,826	847	2,927	1,990
4 Non-Mark Up Expenses	(878)	(430)	(1,372)	(1,081)
5 Provisions/Write offs/Reversals	(173)	(108)	(416)	(318)
Pre-Tax Profit	775	309	1,139	591
6 Taxes on Financial Services	(209)	(91)	(310)	(182)
Profit Before Income Taxes	566	218	830	409
7 Income Taxes	(226)	(90)	(356)	(160)
Profit After Tax	340	128	474	250

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	48.1%	50.7%	46.9%	54.3%
b ROE	16.9%	12.8%	12.6%	7.1%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	107.5%	111.4%	113.2%	124.0%
b Accumulated Provisions / Non-Performing Advances	66.8%	62.0%	48.3%	38.4%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	13.9%	14.9%	13.0%	12.8%
b Borrowings from Banks and Other Financial Institutions / Funding	55.6%	28.8%	42.9%	28.1%

4 MARKET RISK

a Investments / Equity	32.6%	33.0%	29.2%	28.5%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	14.5%	15.8%	17.5%	24.0%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	17.3%	13.0%	10.5%	4.0%

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

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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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