RAM Ratings affirms Sabah Development Bank's AA1 rating, outlook stable

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RAM Ratings has affirmed the AA_1/Stable/P1 ratings of Sabah Development Bank Berhad's (SDB or the Bank) debt instruments (Table 1).

The ratings are underpinned by our expectation of 'almost certain' extraordinary financial support from the Sabah state government (the State), given SDB's strategic role in advancing Sabah's development objectives and the State's strong track record of support. Our view is further reinforced by the State's public affirmation of support in July 2024 and recent actions to restore SDB's financial stability. We view Sabah's state implicit strength as 'superior', with its financial capacity bolstered by a healthy fiscal position and cash reserves, estimated to remain above RM6 bil.

Under an ongoing state-initiated three-year transformation plan (2024-2026), which places SDB under the purview of the Chief Minister, the State of Sabah, with the Sabah Ministry of Finance having direct supervision of the Bank, the majority of the Bank's board and senior management were replaced and a dedicated loan recovery team established. Following a kitchen-sinking exercise in FY Dec 2023 – which resulted in a pre-tax loss of RM880 mil – the State committed to converting RM660 mil of its deposits in SDB into redeemable preference shares (RPS) over five years. The Bank also received RM90 mil in equity injections over the past two years, with RM650 mil in deposits earmarked to offset overdue state-related loans and advances.

SDB is already showing nascent signs of improved recoveries on its impaired loans, which stood at 78% of total loans as of end-2024. Significant reduction of these long-standing impairments will however require some time. The Bank recorded an unaudited pre-tax loss of RM81 mil in FY Dec 2024 (FY Dec 2023: RM880 mil), mainly owing to additional impairment charges. Provisions over the last two years were substantial to address under-provisioning of impaired loans in prior years.

SDB's tier-1 capital ratio as at end-2024 stayed weak at 7.7% (end-2023: 7.6%) but is projected to improve to 10.3% on gradual RPS conversion and an additional RM50 mil capital injection expected in 2025. Total capital ratio, meanwhile, was higher at 19.6% as at end-2024 (end-2023: 7.9%) after considering the RM660 mil subordinated deposits as tier-2 capital. The RPS conversion, to be carried out over several years, is subject to annual state cabinet approval.

As at end-May 2025, SDB had RM1.9 bil in bond obligations due over the next 12 months. Liquidity is expected to be supported by loan recoveries and deposit placements from other state agencies. The Bank's close ties with the Sabah government also provide assurance of timely financial backing if needed.

A wholly state-owned development financial institution, SDB is mandated to fund socially and economically meaningful and environmentally responsible development projects in Sabah, predominantly in the water, power and infrastructure sectors. In 2024, the Bank approved RM1.3 bil in new loans for such projects, with several other proposals in the pipeline. Disbursements, however, may take time, depending on the progress of the projects.

Table 1: Ratings of SDB's debt programmes

Instrument	Rating action	Ratings
RM3.0 bil Commercial Papers (CP) (2021/2028)/Medium-Term Notes (MTN) Programme (2021/2046)^	Affirmed	AA_1/Stable/P1
RM3.0 bil MTN Programme (2011/2036)	Affirmed	AA_1/Stable
RM1.0 bil MTN Programme (2008/2028)	Affirmed	AA_1/Stable
^ The aggregate outstanding CP and MTN cannot exceed RM3.0 bil at any time.		

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