PRESS RELEASES

# 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 affirmation remains underpinned by our expectations of an 'almost certain' extraordinary financial support from the Sabah state government (the State), reflecting the Bank's strategic role in advancing Sabah's socioeconomic development agenda and the State's demonstrated record of timely financial assistance. We assess Sabah's state implicit strength as 'superior', supported by its healthy fiscal position and cash reserves, which provide the State with sufficient capacity to support SDB if required.

The Bank remains under the purview of the Chief Minister of Sabah, with the Sabah Ministry of Finance (MOF) exercising direct oversight. SDB has made meaningful progress in resolving its legacy weak asset quality, recovering approximately RM1.4 bil of the RM5.0 bil impaired loan portfolio inherited prior to the restructuring initiated in 2H 2023. However, the pace and quantum of recovery for the balance remain key sensitivities to the Bank's capital restoration and liquidity profile.

SDB recorded a pre-tax loss of RM734 mil in FY Dec 2025, primarily due to RM846 mil of impairment charges recognised on legacy impaired loans. This included RM554 mil relating to its largest impaired exposure, following an approximate 50% downward revision in collateral value realised on asset disposal. The remaining impairment charges reflected lower expected recoveries on other legacy impaired loans, underscoring the still material downside risk attached to collateral recoveries. While the Bank's gross impaired loan ratio remained elevated at 80% as of end-June 2026, loan loss coverage improved significantly to 70% (end-2025: 61%; end-2024: 42%) due to the additional provisions.

The sizeable impairments materially weakened the Bank's capital position, prompting the State to accelerate its planned capital support. To date, RM360 mil of subordinated deposits has been capitalised with the remaining RM300 mil to be capitalised by end-2026 instead of FY Dec 2027. Upon completion, the Bank's tier-1 capital ratio is projected to recover to approximately 12% in FY Dec 2027, assuming no further impairments are required.

Nevertheless, given the bulk of the asset recovery is property-related, the Bank remains potentially exposed to further impairments which could further undermine its capital position. We understand from our discussions with the MOF that financial support from the State will be forthcoming, if additional capital augmentation is required before the Bank is able to return to a steady state over the next few years.

The Bank's liquidity profile remains manageable despite sizeable near-term debt maturities. As of end-June 2026, the Bank had RM1,226 mil of bond maturities falling due over the next 12 months, comprising RM394 mil of bonds that were issued before 2023 and earmarked for redemption; of which sufficient funds have been set aside. The remaining maturities are expected to be refinanced and/or redeemed via on-going collateral recoveries. SDB's close ties with the Sabah state government provides further assurance that timely financial support would be forthcoming, if additional liquidity is required.

**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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