



RATING ACTION COMMENTARY

Fitch Revises Ratings on 11 Sri Lankan Financial Institutions on National Scale Recalibration

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Fitch Ratings - Colombo/Singapore - 10 Jun 2020: Fitch Ratings has revised the National Long-Term Ratings of Sri Lankan financial institutions following the recalibration of the agency's Sri Lankan national rating scale. The recalibration is to reflect changes in the relative creditworthiness among Sri Lankan issuers following Fitch's downgrade of the sovereign rating to 'B-/Negative' from 'B'/Negative on 24 April 2020. Revision ratings are used to modify ratings for reasons that are not related to credit quality in order to reflect changes in the national rating scale.

National scale ratings are a risk ranking of issuers in a particular market designed to help local investors differentiate risk. Sri Lanka's national scale ratings are denoted by the unique identifier '(lka)'. Fitch adds this identifier to reflect the unique nature of the Sri Lankan national scale. National scales are not comparable with Fitch's international rating scales or with other countries' national rating scales. For details, see "Fitch Recalibrates Sri Lanka National Rating Scale", dated 28 May 2020, at www.fitchratings.com/site/pr/10124103.

The National Ratings of the Sri Lankan banks consider their creditworthiness relative to other issuers in the country. The recalibration of the Sri Lankan National Rating scale has resulted in the upward revision of the National Long-Term Ratings of the following Sri Lankan financial institutions:

Banks

Commercial Bank of Ceylon PLC (CB) to 'AA+(Ika)' from 'AA(Ika)'

Hatton National Bank PLC (HNB) to 'AA+(Ika)' from 'AA-(Ika)'

Sampath Bank PLC to 'AA-(Ika)' from 'A+(Ika)'

Seylan Bank PLC to 'A(Ika)' from 'A-(Ika)'

Cargills Bank Limited to 'A+(Ika)' from 'A-(Ika)'

Amana Bank PLC to 'BB+(Ika)' from 'BB(Ika)'

Non-Bank Financial Institutions

Serendib Finance Limited to 'AA-(Ika)' from 'A+(Ika)' (please see <http://www.fitchratings.com/site/pr/10125353>)

HNB Finance Limited to 'AA-(Ika)' from 'A(Ika)'

Siyapatha Finance PLC to 'A(Ika)' from 'A-(Ika)'

Richard Pieris Finance Limited to 'A-(Ika)' from 'BBB+(Ika)' (please see <http://www.fitchratings.com/site/pr/10125353>)

Fintrex Finance Limited to 'B+(Ika)' from 'B(Ika)'

The National Ratings of Bank of Ceylon (BOC) and People's Bank (Sri Lanka) (PB) have been affirmed at 'AA+(Ika)' but the Outlook remains Negative. The Outlook on the National Ratings of CB and HNB are also Negative. The Negative Outlooks are aligned with the Negative Outlooks on both the sovereign rating and Sri Lanka's operating environment mid-point. They reflect our expectation of sovereign support benefitting BOC's and PB's overall credit profiles while CB's and HNB's ratings are constrained by the sovereign's credit profile.

The Outlook on Serendib Finance and HNB Finance reflect the Negative Outlook on the ratings of their respective parents, CB and HNB. The Outlook on Sampath Bank, Seylan Bank, Cargills Bank, Amana Bank, Siyapatha Finance, Richard Pieris Finance and Fintrex Finance is Stable.

Concurrently, Fitch has also taken the following rating actions, driven by changes in the issuers' credit quality and the rating relativities under the recalibrated national scale. Please refer to the relevant rating action commentaries via the following links:

DFCC Bank PLC's National Long-Term Rating was downgraded to 'A+(Ika)' from 'AA-(Ika)'; Outlook Stable (please see <http://www.fitchratings.com/site/pr/10125360>);

The Outlook on National Development Bank PLC's National Long Term Rating of 'A+(Ika)' was revised to Stable from Negative (please see <http://www.fitchratings.com/site/pr/10125359>);

AMW Capital Leasing and Finance PLC's National Long-Term Rating was downgraded to 'BBB(Ika)' from 'BBB+(Ika)'; Outlook Negative (please see <http://www.fitchratings.com/site/pr/10125361>);

Bimpuh Finance PLC's National Long-Term Rating was downgraded to 'B+(Ika)' from 'BB-(Ika)'; Outlook Negative (please see <http://www.fitchratings.com/site/pr/10125356>);

Ideal Finance Limited's National Long-Term Rating was upgraded to 'BB-(Ika)' from 'B+(Ika)'; Rating Watch Positive (please see <http://www.fitchratings.com/site/pr/10125362>).

KEY RATING DRIVERS

Fitch has affirmed the National Long-Term Ratings of the following Sri Lankan financial institutions and the Issuer Default Rating of People's Leasing and Finance PLC. For their key rating drivers and rating sensitivities, please refer to the previous rating action commentaries via the following links:

BOC and PB (please see Fitch Revises Outlook on 5 Banks, 1 NBF in Sri Lanka to Negative; Downgrades PLC; Affirms HNB, dated 22 January 2020, at <https://www.fitchratings.com/site/pr/10108168>)

Nations Trust Bank PLC, Pan Asia Banking Corporation PLC, Union Bank of Colombo PLC, Housing Development Finance Corporation Bank of Sri Lanka, and SANASA Development Bank PLC (please see Fitch Upgrades Union & Cargills Banks; Affirms 5 Small & Mid-Sized Sri Lanka Banks, dated 23 May 2019, at <https://www.fitchratings.com/site/pr/10076568>)

People's Leasing and Finance PLC (please see <http://www.fitchratings.com/site/pr/10125416>)

Dialog Finance PLC (please see <http://www.fitchratings.com/site/pr/10125353>)

Central Finance Company PLC, LB Finance PLC, Senkadagala Finance PLC, and Mercantile Investments and Finance PLC (please see Fitch Revises Outlook on MIF to Negative; Affirms Five Sri Lankan Finance Companies, dated 1 July 2019, at <https://www.fitchratings.com/site/pr/10080959>)

Singer Finance (Lanka) PLC (please see Fitch Affirms Singer Finance at 'BBB(lka)'; Outlook Stable, dated 12 February 2020, at <https://www.fitchratings.com/site/pr/10110672>)

Abans Finance PLC (please see Fitch Revises Outlook on Abans Finance to Negative; Affirms 'BB+(lka)', dated 20 April 2020, at <https://www.fitchratings.com/site/pr/10118866>)

The Outlook on Mercantile Investments and Finance and Abans Finance remains Negative.

Fitch has taken corresponding rating action on the financial institutions' national scale senior debt ratings, where assigned. The senior debt ratings are at the same level as the National Long-Term Ratings. Fitch has also taken rating action to widen the notching of relevant subordinated debt ratings following the application of Fitch's updated Bank Rating Criteria. National Ratings assigned to Tier 2 issues are two notches below the National Rating anchor ratings. This is driven by the change in Fitch's baseline notching for loss severity to two notches, from one, for this type of debt and our expectations of poor recovery. Fitch has not applied additional notching to the notes for non-performance risk, as they have no going-concern loss-absorption features, in line with Fitch's criteria. (Please refer to the full list of rating actions at the end of this commentary).

RATING SENSITIVITIES

The National Ratings are sensitive to a change in the financial institutions' creditworthiness relative to other Sri Lankan issuers and the sovereign rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Pressure on the National Long-Term Ratings of BOC, PB, Commercial Bank of Ceylon and HNB could stem from a deterioration in Sri Lanka's sovereign rating. A sovereign rating downgrade to 'CCC+' or below would make it unlikely that we would factor in expectations of support to any bank in Sri Lanka and it will likely also constrain the standalone credit profiles of domestic banks.
- The parents' weaker ability and/or propensity to provide support to their subsidiaries could lead to negative action on the National Long-Term Ratings of Dialog Finance, Serendib Finance, HNB Finance, Cargills Bank, Siyapatha Finance, Richard Pieris Finance, AMW Capital Leasing and Finance and Abans Finance.
- Risks to the rest of the Sri Lankan financial institutions' National Long-Term Ratings are most likely to arise from a weakening in their standalone credit profiles. This could be due to a deterioration of the operating environment, which could be triggered by a further weakening of the economy beyond our base-case expectations, leading to additional weakening of key credit

metrics, particularly their financial profiles, and/or a weaker operating environment if the potential impact of the coronavirus pandemic becomes more severe or lasts for longer.

- Debt ratings would be downgraded if the National Long-Term Ratings were downgraded

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Upside to the National Long-Term Ratings of BOC, PB, Commercial Bank of Ceylon, and HNB is limited in the near term due to our assessment of the sovereign rating and the operating environment outlook. There is limited scope for positive rating action on Serendib Finance, HNB Finance, Abans Finance, Mercantile Investment and Finance and Bimputh Finance in light of the Negative Outlooks placed on these institutions.

- The parents' increased propensity to provide support to their subsidiaries could lead to positive action on the National Long-Term Ratings of Dialog Finance, Serendib Finance and HNB Finance. The parents' increased ability and propensity to provide support to their subsidiaries could lead to positive action on the National Long-Term Ratings of Cargills Bank, Siyapatha Finance, Richard Pieris Finance, AMW Capital Leasing and Finance and Abans Finance. Upside for the National Long-Term Rating of Ideal Finance could stem from a change in shareholding and increased probability of support.

- Positive action for the rest of the Sri Lankan financial institutions' National Long-Term Ratings is limited due to the elevated downside risks from the operating environment.

- Debt ratings will move in tandem with the National-Long Term Ratings

For Fitch's revised Sri Lankan national scale ratings on corporate issuers, see "Fitch Revises Three Sri Lankan Non-Financial Corporates' Ratings on National Rating Scale Revision", published 3 June 2020, at <https://www.fitchratings.com/site/pr/10124711>.

BOC and PB have a 1.78% equity stake each in Fitch Ratings Lanka Ltd. No shareholder other than Fitch, Inc. is involved in the day-to-day rating operations of, or credit reviews undertaken by, Fitch Ratings Lanka Ltd.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four

notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BOC's and PB's ratings are driven by the sovereign. Dialog Finance's rating is driven by Dialog Axiata PLC's (AAA(Ika)/Stable) rating. Serendib Finance's rating is driven by CB's rating.

HNB Finance's rating is driven by HNB's rating. Siyapatha Finance's rating is driven by Sampath Bank's rating. Abans Finance's rating is driven by Abans PLC (BBB+(Ika)/Negative).

ESG CONSIDERATIONS

BOC has an ESG Relevance Score of 4 for Corporate Governance due to ownership concentration with 100% state shareholding and several related-party transactions with the state and state-owned entities. This has a negative effect on the bank's credit profile, and is relevant to the rating in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

| ENTITY/DEBT | RATING | PRIOR |
|---------------------------|---|--|
| People's Bank (Sri Lanka) | Natl AA+(Ika) Rating Outlook Negative LT | Affirmed AA+(Ika) Rating Outlook Negative |

| ENTITY/DEBT | RATING | | PRIOR | |
|---------------------------|------------|----------------------------------|-----------------|----------------------------------|
| Union Bank of Colombo PLC | Natl LT | BBB-(Ika) Rating Outlook Stable | Affirmed | BBB-(Ika) Rating Outlook Stable |
| Abans Finance PLC | Natl LT | BB+(Ika) Rating Outlook Negative | Affirmed | BB+(Ika) Rating Outlook Negative |
| Seylan Bank PLC | Natl LT | A(Ika) Rating Outlook Stable | Revision Rating | A-(Ika) Rating Outlook Stable |

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Jeewanthi Malagala

Associate Director

Primary Rating Analyst

+94 11 2541 900

Fitch Ratings Lanka Ltd.

15-04 East Tower World Trade Center Colombo 00100

Rukshana Thalgodapitiya

Director

Primary Rating Analyst

+94 11 2541 900

Fitch Ratings Lanka Ltd.

15-04 East Tower World Trade Center Colombo 00100

Tania Gold

Senior Director

Primary Rating Analyst

+65 6796 7224

Fitch Ratings Singapore Pte Ltd.

One Raffles Quay #22-11, South Tower Singapore 048583

Sugath Alwis

Associate Director

Primary Rating Analyst

+94 11 2541 900

Fitch Ratings Lanka Ltd.

15-04 East Tower World Trade Center Colombo 00100

Sugath Alwis

Associate Director
Secondary Rating Analyst
+94 11 2541 900

Rukshana Thalgodapitiya

Director
Secondary Rating Analyst
+94 11 2541 900

Jeewanthi Malagala

Associate Director
Secondary Rating Analyst
+94 11 2541 900

David Wong

Senior Director
Committee Chairperson
+852 2263 9927

MEDIA CONTACTS**Kyoshi Quyn**

Colombo
+94 11 2541 900
kyoshi.quyn@fitchratings.com

Peter Hoflich

Singapore
+65 6796 7229
peter.hoflich@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 08 Jun 2020\)](#)

ADDITIONAL DISCLOSURES[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

| | |
|---|-------------|
| Abans Finance PLC | - |
| Amana Bank PLC | - |
| Bank of Ceylon | EU Endorsed |
| Cargills Bank Limited | - |
| Central Finance Company PLC | - |
| Commercial Bank of Ceylon PLC | - |
| Fintrex Finance Limited | - |
| Hatton National Bank PLC | - |
| HNB Finance Limited | - |
| Housing Development Finance Corporation Bank of Sri Lanka | - |
| LB Finance PLC | - |
| Mercantile Investments and Finance PLC | - |
| Nations Trust Bank PLC | - |
| Pan Asia Banking Corporation PLC | - |
| People's Bank (Sri Lanka) | - |
| Sampath Bank PLC | - |
| SANASA Development Bank PLC | - |
| Senkadagala Finance PLC | - |
| Seylan Bank PLC | - |
| Singer Finance (Lanka) PLC | - |
| Siyapatha Finance PLC | - |
| Union Bank of Colombo PLC | - |

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