

RATING ACTION COMMENTARY

Fitch Upgrades 10 Sri Lankan Banks' National Ratings and Affirms Five after Scale Recalibration

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Fitch Ratings - Singapore/Colombo - 21 Jan 2025: Fitch Ratings has upgraded the National Long-Term Ratings of 10 Sri Lankan banks following the recent sovereign upgrade and recalibration of the agency's Sri Lankan national rating scale. At the same time, Fitch has affirmed the National Long-Term Ratings of five Sri Lankan banks.

The recalibration reflects changes in the relative creditworthiness of Sri Lankan issuers after Fitch upgraded Sri Lanka's Long-Term Local-Currency Issuer Default Rating (IDR) to 'CCC+' from 'CCC-' on 20 December 2024. Fitch typically does not assign Outlooks to sovereigns with a rating of 'CCC+' or below.

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 Ratings Recalibrates Sri Lanka's National Rating Scale](#)", dated 16 January 2025.

The banks' National Ratings consider their creditworthiness relative to other issuers in the country. The recalibration of the Sri Lankan National Rating scale has resulted in upgrades of the National Long-Term Ratings of the following banks. The Outlooks remain Stable.

Bank of Ceylon (BOC) to 'AA-(lka)', from 'A(lka)'

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

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

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

DFCC Bank PLC to 'A(Ika)', from 'A-(Ika)'

National Development Bank PLC (NDB) to 'A(Ika)', from 'A-(Ika)'

Nations Trust Bank PLC (NTB) to 'A(Ika)', from 'A-(Ika)'

Pan Asia Banking Corporation PLC (PABC) to 'BBB(Ika)', from 'BBB-(Ika)'

Fitch has also affirmed the national ratings of the following banks. For their key rating drivers and rating sensitivities, please refer to the previous rating action commentaries:

Amana Bank PLC - <https://www.fitchratings.com/site/pr/10283247>

Union Bank of Colombo PLC (UB) - <https://www.fitchratings.com/site/pr/10283288>

SANASA Development Bank PLC (SDB) - <https://www.fitchratings.com/site/pr/10283289>

Housing Development Finance Corporation Bank of Sri Lanka (HDFC) -
<https://www.fitchratings.com/site/pr/10283246>

Cargills Bank PLC (CBL) - <https://www.fitchratings.com/site/pr/10283245>

The full list of rating actions is below.

KEY RATING DRIVERS

The National Rating upgrades are driven by the upgrade of the sovereign's Long-Term Local-Currency IDR and the recalibration of the national rating scale. The ratings reflect the relative creditworthiness of Sri Lankan issuers. We believe the sovereign's credit profile improvement has alleviated sovereign-related stresses on the banks' operating

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The Negative Outlook on UB reflects the potential for its capital buffers to deplete relative to similarly rated peers, alongside the loan book expansion we expect as it pursues market share growth.

The affirmation of CBL's National Rating underpins Fitch's view that extraordinary support would be forthcoming from the ultimate parent, CT Holdings PLC, if needed. The Negative Outlook reflects downside risks from its increasing size relative to that of its ultimate parent, which could constrain the parent's ability to provide support in times of need.

The affirmations of the National Ratings of Amana, UB, SDB and HDFC reflect the unchanged relative creditworthiness of these banks compared to other Fitch-rated Sri Lankan entities following the recalibration.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The National Ratings are sensitive to a change in the banks' creditworthiness relative to other Sri Lankan issuers. A downgrade of the banks' National Ratings is most likely to stem from a deterioration in Sri Lanka's sovereign rating, through its influence on the banks' OE.

A deterioration in these banks' key credit metrics beyond our base-case expectations relative to peers would also lead to increased downward pressure on the banks' ratings, which are driven by their intrinsic financial strength, independent of any sovereign rating changes.

A deterioration in UB's key credit metrics, especially a significant deterioration in capital ratios relative to its risk profile, such as a sustained drop in its common equity Tier 1 ratio to below 14% or excessive growth leading to a large erosion of its capital buffers relative to peers, could lead to a downgrade of UB's rating.

CBL's rating is sensitive to changes in its parent's credit profile as well as Fitch's opinion around the parent's ability or propensity to extend timely extraordinary support. A continued increase in CBL's balance sheet relative to the parent's that makes extraordinary support more onerous could lead to a multiple-notch downgrade in CBL's national rating to

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The National Ratings are sensitive to a change in the banks' creditworthiness relative to other Sri Lankan issuers. Upside to the National Long-Term Ratings of BOC, PB, COMB, HNB and Sampath is limited in the near term, due to our assessment of the sovereign rating and the OE. That said, an improvement in Sri Lanka's sovereign rating may lead to an upgrade of these banks' National Ratings. For the other banks, excluding CBL, sustained improvement in their key credit metrics beyond our base case expectations, relative to peers, could lead to an upgrade of their National Ratings.

There is limited scope for upward rating action on UB and CBL given the Negative Outlook. Fitch may revise the Outlook to Stable if UB sustains its capital buffers at a level that is commensurate with its risk profile and OE-related risks, most likely through enhanced capital levels and/or moderated growth plans. Fitch would revise the Outlook on CBL to Stable if the credit profile of its ultimate parent improves to the extent that any extraordinary support for CBL would become more manageable.

BOC and PB each have a 1.78% equity stake 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.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Fitch has taken corresponding rating action on the banks' national scale debt ratings, where assigned. The outstanding senior unsecured debt ratings of DFCC and HDFC and the proposed senior unsecured green bonds of COMB are rated at the same level as these banks' National Long-Term Ratings, in accordance with Fitch's criteria, as the debt ranks equally with the claims of the bank's other senior unsecured creditors.

The outstanding Sri Lankan rupee-denominated subordinated debt of BOC, COMB, HNB, Sampath, NDB, Seylan, DFCC, NTB and Seylan are rated two notches below their respective National Rating anchors. This reflects Fitch's baseline notching for loss severity for this type of debt and our expectations of poor recoveries upon non-performance. There is no additional notching for non-performance risks, as the notes do not incorporate going-concern loss-absorption feature.

Fitch has simultaneously upgraded the expected National Long-Term Rating of Sampath's

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The assigned senior and subordinated debt ratings will move in tandem with the banks' National Long-Term Rating.

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

CBL's National Long-Term Rating is driven by support from its ultimate parent, CT Holdings PLC.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
People's Bank (Sri Lanka)	Natl LT AA-(Ika) Rating Outlook Stable Upgrade	A(Ika) Rating Outlook Stable
Union Bank of Colombo PLC	Natl LT BBB-(Ika) Rating Outlook Negative Affirmed	BBB- (Ika) Rating Outlook Negative
Seylan Bank PLC	Natl LT A+(Ika) Rating Outlook Stable Upgrade	A-(Ika) Rating Outlook Stable
subordinated	Natl LT A-(Ika) Upgrade	BBB(Ika)

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SANASA Development Bank PLC	Natl LT	BB+(lka) Rating Outlook Stable	BB+(lka) Rating Outlook Stable
	Affirmed		
Amana Bank PLC	Natl LT	BBB-(lka) Rating Outlook Stable	BBB-(lka) Rating Outlook Stable
	Affirmed		
Cargills Bank PLC	Natl LT	A(lka) Rating Outlook Negative	A(lka) Rating Outlook Negative
	Affirmed		
DFCC Bank PLC	Natl LT	A(lka) Rating Outlook Stable	A-(lka) Rating Outlook Stable
	Upgrade		
subordinated	Natl LT	BBB+(lka) Upgrade	BBB(lka)
senior unsecured	Natl LT	A(lka) Upgrade	A-(lka)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

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Potential Conflicts Resulting from Revenue Concentrations

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Bank of Ceylon

EU Endorsed, UK Endorsed

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