



**RATING ACTION COMMENTARY**

# **Fitch Places 13 Sri Lankan Banks on Rating Watch Negative**

Tue 12 Apr, 2022 - 7:11 AM ET

Fitch Ratings - Colombo - 12 Apr 2022: Fitch Ratings has placed the National Long-Term Ratings of 13 Sri Lankan banks on Rating Watch Negative (RWN). The banks are:

-People's Bank (Sri Lanka) (PB)

-Commercial Bank of Ceylon PLC

-Hatton National Bank PLC

-Sampath Bank PLC

-National Development Bank PLC

-DFCC Bank PLC

-Seylan Bank PLC

-Nations Trust Bank PLC

-Pan Asia Banking Corporation PLC

-Union Bank of Colombo PLC

-Amana Bank PLC

-SANASA Development Bank PLC

-Housing Development Finance Corporation Bank of Sri Lanka (HDFC)

A full list of rating actions is at the end of this rating action commentary. Fitch will review the National Ratings of Sri Lankan financial institutions that are not mentioned in this commentary separately. Fitch has also taken rating action on Bank of Ceylon; please see [Fitch Places Bank of Ceylon on Rating Watch Negative](#).

## KEY RATING DRIVERS

The RWN reflects heightened near-term downside risk stemming from constrained access to foreign-currency funding and the resulting indications of stress experienced by the banks in the system. This risk is exacerbated by the sovereign's credit profile (Long-Term Foreign-Currency Issuer Default Rating (IDR): CC, Long-Term Local-Currency IDR: CCC) and the ensuing risks to the stability of the financial system.

We believe mounting currency stress increases the likelihood of restrictions being imposed on banks' ability to service their obligations in foreign currency - excluding HDFC, as the bank does not have any outstanding foreign-currency obligations - and local currency in the event of a sovereign default, or prior, should confidence deteriorate.

We aim to resolve the RWN in the next six months, depending on the evolution of the banks' funding and liquidity positions, which could result in multiple notch downgrades.

We believe the domestic banks' foreign-currency funding and liquidity positions are prone to sudden changes amid already weak creditor sentiment. Loan and deposit dollarisation for the sector was at 18% of total loans and 17% of total deposits as at end-2021.

Sri Lanka's operating environment remains challenging and our negative outlook on the score reflects the significant near- to medium-term downside risk presented by the weakening sovereign credit profile, as spillover effects could damage the country's economic performance.

This has led us to revise our 2022 outlook on the banking sector to 'Deteriorating', from 'Neutral'. Macroeconomic challenges are likely to be greater than we initially anticipated

which could result in a sharp deterioration in asset quality and impaired profitability metrics that expose the banks to capital deficiencies.

The RWN on the ratings of the banks' senior unsecured debentures, where assigned, stem from the RWN on the corresponding banks' National Long-Term Ratings. Sri Lanka rupee-denoted senior debt, where applicable, is rated at the same level as the National Long-Term Rating in accordance with Fitch criteria. This is because the issues rank equally with the claims of the banks' other senior unsecured creditors.

## SUBORDINATED DEBT

The RWN on the ratings of subordinated debt, where assigned, also stems from the RWN on the corresponding National Long-Term Ratings. Sri Lanka rupee-denominated subordinated debt, where applicable, is rated two notches below banks' National Long-Term Ratings. This is in line with our baseline notching for loss severity for this type of debt and our expectations of poor recovery.

## RATING SENSITIVITIES

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

The RWN reflects rising risks to the banks' ratings from funding stresses, which could lead to multiple notch downgrades. We expect to resolve the RWN in the next six months once the impact on the banks' credit profiles becomes more apparent. Potential triggers that could lead to a multiple notch downgrade include:

- funding stress that impedes banks' repayment ability
- significant banking-sector intervention by authorities that constrain banks' ability to service their obligations
- a temporary negotiated waiver or standstill agreement following a payment default on a large financial obligation
- where Fitch believes a bank has entered into a grace or cure period following non-payment of a large financial obligation.

A downgrade of the sovereign rating stemming from a default event could also lead to a downgrade of the banks' ratings.

Senior and subordinated debt ratings will move in tandem with the National Long-Term Rating

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

There is limited scope for upward rating action given the RWN.

PB has 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 Ltd.

### 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.

### RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
National Development Bank PLC	Natl LT A+(Ika) Rating Watch Negative Rating Watch On	A+(Ika) Rating Outlook Stable
subordinated	Natl LT A-(Ika) Rating Watch Negative Rating Watch On	A-(Ika)
Sampath Bank PLC	Natl LT AA-(Ika) Rating Watch Negative Rating Watch On	AA-(Ika) Rating Outlook Stable
subordinated	Natl LT A(Ika) Rating Watch Negative Rating Watch On	A(Ika)

Hatton National Bank PLC	Natl LT	AA-(Ika) Rating Watch Negative	AA- (Ika) Rating Outlook Stable
senior unsecured	Natl LT	AA-(Ika) Rating Watch Negative	AA-(Ika)
subordinated	Natl LT	A(Ika) Rating Watch Negative	A(Ika)
Commercial Bank of Ceylon PLC	Natl LT	AA-(Ika) Rating Watch Negative	AA- (Ika) Rating Outlook Stable
subordinated	Natl LT	A(Ika) Rating Watch Negative	A(Ika)
Housing Development Finance Corporation Bank of Sri Lanka	Natl LT	BB+(Ika) Rating Watch Negative	BB+ (Ika) Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

**Jeewanthi Malagala**

Associate Director

Primary Rating Analyst

National

+94 11 2541 900

jeewanthi.malagala@fitchratings.com

Fitch Ratings Lanka Ltd.  
15-04 East Tower World Trade Center Colombo 00100

**Rukshana Thalgodapitiya**

Director  
Primary Rating Analyst  
+94 11 2541 900  
rukshana.thalgodapitiya@fitchratings.com  
Fitch Ratings Lanka Ltd.  
15-04 East Tower World Trade Center Colombo 00100

**Sugath Alwis**

Associate Director  
Primary Rating Analyst  
+94 11 2541 900  
sugath.alwis@fitchratings.com  
Fitch Ratings Lanka Ltd.  
15-04 East Tower World Trade Center Colombo 00100

**Sugath Alwis**

Associate Director  
Secondary Rating Analyst  
National  
+94 11 2541 900  
sugath.alwis@fitchratings.com

**Jeewanthi Malagala**

Associate Director  
Secondary Rating Analyst  
+94 11 2541 900  
jeewanthi.malagala@fitchratings.com

**Rukshana Thalgodapitiya**

Director  
Secondary Rating Analyst  
+94 11 2541 900  
rukshana.thalgodapitiya@fitchratings.com

**David Wong**

Senior Director

Committee Chairperson

+852 2263 9927

david.wong@fitchratings.com

**MEDIA CONTACTS****Kyoshi Quyn**

Colombo

+94 11 2541 900

kyoshi.quyn@fitchratings.com

**Peter Hoflich**

Singapore

+65 6796 7229

peter.hoflich@thefitchgroup.com

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**APPLICABLE CRITERIA**[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Bank Rating Criteria \(pub. 13 Nov 2021\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Amana Bank PLC

-

Commercial Bank of Ceylon PLC

-

DFCC Bank PLC	-
Hatton National Bank PLC	-
Housing Development Finance Corporation Bank of Sri Lanka	-
National Development Bank PLC	-
Nations Trust Bank PLC	-
Pan Asia Banking Corporation PLC	-
People's Bank (Sri Lanka)	-
Sampath Bank PLC	-
SANASA Development Bank PLC	-
Seylan Bank PLC	-
Union Bank of Colombo PLC	-

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### UNSOLICITED ISSUERS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
DFCC Bank PLC	-	Support Rating	Unsolicited
DFCC Bank PLC	-	Local Currency Long Term Issuer Default Rating	Unsolicited
DFCC Bank PLC	-	Support Rating Floor	Unsolicited
DFCC Bank PLC	-	Viability Rating	Unsolicited
DFCC Bank PLC	-	Government Support Rating	Unsolicited

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