

Siyapatha Finance PLC

Key Rating Drivers

Shareholder Support Drives Ratings: Siyapatha Finance PLC's National Long-Term Rating is driven by Fitch Ratings' view that parent Sampath Bank PLC (A(lka)/Rating Watch Negative (RWN)) would provide extraordinary support to Siyapatha, if required. Sampath's ability to support Siyapatha is reflected in its credit profile, which is underpinned by its standalone strength. Our support assessment also takes into consideration Sampath's full ownership of Siyapatha, record of ordinary equity and the combined brand.

RWN Reflects Parent's Rating: The RWN on Siyapatha's ratings reflects that on its parent, Sampath. It also reflects the potential for further deterioration in Siyapatha's creditworthiness relative to other entities on the Sri Lankan National Ratings scale amid sustained pressure on the domestic operating environment arising from the stressed sovereign credit profile (Long-Term Local Currency Issuer Default Rating: CC).

We see the funding and liquidity conditions of domestic finance and leasing companies (FLCs) as tied to those of the banks, and any signs of funding or liquidity stress in the banking sector would carry contagion risk for FLCs. The RWN reflects our view that Siyapatha is not immune to these system-wide stresses, which will continue to exert pressure on the prospects for parental support.

Limited Importance to Sampath Group: Siyapatha is rated two notches below its parent to reflect our view that the subsidiary is of limited importance to the Sampath group. We regard Siyapatha's core business line – leasing – as a secondary business for the parent, accounting for a modest 5.9% of group loans at end-2022, despite half of that exposure being at Siyapatha. The company caters to customer segments that are beyond the bank's risk appetite. Furthermore, there is limited operational and management integration between the two entities.

Weak Standalone Profile: We assess Siyapatha's standalone credit profile as being weaker than its support-driven rating because of its small franchise, at around 2.8% market share, high risk appetite, limited operating and funding flexibility due to moderate capital buffers and share of secured funding that is higher than that of peers, and increased asset-quality pressure.

Asset Quality Among the Weakest: Siyapatha's gross Stage 3 loans ratio fell marginally to 25.9% by end-2022 (2021: 26.5%) on improved recoveries from leases, but its asset-quality metrics remain among the weakest of the Fitch-rated Sri Lankan FLCs. Lease receivables continued to dominate Siyapatha's stage 3 loans, at 63% of the total at end-2022, although the share of gold loan receivables in stage 3 loans increased to 18% (2021: 10%), signalling increased asset-quality pressure from this product.

Modest Capitalisation: Siyapatha's core capitalisation metric – debt/tangible equity of 5.5x at end-2022 – was among the highest. Its regulatory Tier 1 capital ratio improved to 16.1% by end-2022 (2021: 14.7%), supported by faster earnings generation relative to risk-weighted asset growth, but its capital ratios remained low compared with that of domestic peers. The company's rising exposure to gold-backed lending also supports its regulatory capital ratios, given the low risk-weights attached to this product.

Weak Funding Profile: Siyapatha's financial flexibility is weaker relative to its peers because of its low share of deposit funding. Increased deposit mobilisation efforts saw Siyapatha's share of deposit in total funding rising to 54% by end-2022. That said, wholesale term borrowings remain a key source of funding. Siyapatha's non-deposit funding comprises senior and subordinated debt (32% of non-deposit funding), borrowings from the parent (27% of non-deposit funding) and other securitised borrowings.

Non-Bank Financial Institutions Finance & Leasing Companies Sri Lanka

Ratings

National Rating

National Long-Term Rating BBB+(lka)

Sovereign Risk (Sri Lanka)

Long-Term Foreign-Currency IDR RD

Long-Term Local-Currency IDR CC

Country Ceiling B-

Watches

National Long-Term Rating Watch
Negative

Applicable Criteria

[Non-Bank Financial Institutions Rating Criteria \(January 2022\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

[Bank Rating Criteria \(September 2022\)](#)

Related Research

[Fitch Maintains Siyapatha Finance's National Rating of 'BBB+\(lka\)' on Watch Negative \(April 2023\)](#)

Analysts

Jeewanthi Malagala

+94 11 2541 900

jeewanthi.malagala@fitchratings.com

Wen Jun Poh

+65 6796 2717

wenjun.poh@fitchratings.com

Rating Sensitivities

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

Siyapatha's rating is sensitive to changes in Sampath's credit profile, as reflected in Sampath's National Long-Term Rating, as well as Fitch's opinion around Sampath's ability and propensity to extend timely extraordinary support. Developments that could lead to a downgrade include:

- Insufficient or delayed liquidity support from Sampath relative to Siyapatha's needs, which could hinder Siyapatha's ability to meet its obligations in a timely manner;
- Intervention by authorities that constrain Siyapatha's ability to service its obligations;
- Increased size relative to the parent that makes extraordinary support more onerous for the parent.

The ratings may also be downgraded if we perceive a weakening in the parent's propensity to support its finance subsidiary due to weakening links.

The resolution of the RWN is contingent upon developments in the operating environment, the parent's credit profile and the evolution of the finance company's funding and liquidity position, which may take more than six months to emerge.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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

Debt Ratings

Debt Ratings : Siyapatha Finance PLC

Rating level	Rating	Outlook
Senior unsecured	BBB+(lka)	Watch Negative
Subordinated	BBB-(lka)	Watch Negative

Source: Fitch Ratings

Siyapatha's senior unsecured debentures are rated at the same level as its National Long-Term Rating, as they constitute its direct, unconditional, unsecured and unsubordinated obligations.

Siyapatha's outstanding subordinated debentures are rated two notches below its National Long-Term Rating. We have applied our Bank Rating Criteria in rating these instruments because the prudential capital framework for finance companies is closer to that for banks in Sri Lanka. This reflects our baseline notching for loss severity for this type of debt and our expectations of poor recoveries in the event of default. There is no additional notching for non-performance risk, as the debentures have no going-concern loss-absorption features, in line with Fitch criteria.

Debt Rating Sensitivities

The senior unsecured and subordinated debenture ratings will move in tandem with Siyapatha's National Long-Term Rating.

Financials

Income Statement

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(LKRm)	(LKRm)	(LKRm)	(LKRm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Revenue					
Gross interest, leasing and dividend income	23	8,269.8	6,786.4	6,814.2	7,229.6
Total interest expense	16	5,788.2	2,813.7	3,856.3	4,230.7
Net interest income	7	2,481.6	3,972.7	2,957.9	2,999.0
Total non-interest operating income	1	417.5	457.7	734.9	677.5
Expenses					
Total non-interest expenses	5	1,909.9	1,790.0	1,462.5	1,433.4
Pre-impairment/provision operating profit	3	989.2	2,640.4	2,230.2	2,243.0
Impairment charges	0	84.6	1,520.0	1,205.0	1,050.7
Securities and other credit impairment charges	0	47.1	98.2	151.2	0.3
Operating profit	2	857.6	1,022.2	874.0	1,192.1
Pretax income	4	1,464.5	1,925.4	904.6	1,204.9
Net income	2	755.0	1,094.5	409.5	480.2
Fitch comprehensive income	2	793.1	1,100.1	410.1	479.9
Exchange rate	USD1 = LKR363.11		USD1 = LKR200.75	USD1 = LKR186.41	USD1 = LKR181.63

Source: Fitch Ratings, Fitch Solutions, Siyapatha

Balance Sheet

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(LKRm)	(LKRm)	(LKRm)	(LKRm)
Assets					
Loans and leases					
Gross loans and leases	107	38,946.7	41,100.3	38,700.3	38,081.8
Loan loss allowances for receivables and loans	11	4,172.2	4,263.3	2,754.7	1,669.9
Net loans and leases	96	34,774.5	36,836.9	35,945.6	36,411.9
Total earning assets	112	40,596.3	39,887.0	39,311.7	39,074.9
Total assets	121	44,094.6	42,750.2	41,551.7	40,947.3
Liabilities and equity					
Debt and deposits					
Total customer deposits	53	19,342.0	17,114.9	17,279.6	13,221.0
Total deposits	53	19,342.0	17,114.9	17,279.6	13,221.0
Total short-term debt funding	16	5,783.5	5,633.2	2,809.0	10,198.8
Total long-term funding	29	10,628.4	11,635.6	14,491.2	11,505.1
Total debt and deposits	98	35,754.0	34,383.7	34,579.9	34,924.8
Total interest-bearing liabilities	98	35,754.0	34,383.7	34,579.9	34,924.8
Total liabilities	103	37,527.4	36,524.2	36,425.7	36,931.5
Total equity	18	6,567.2	6,226.1	5,126.0	4,015.8
Total equity less non-controlling interest/minority interest	18	6,567.2	6,226.1	5,126.0	4,015.8
Total liabilities and equity	121	44,094.6	42,750.2	41,551.7	40,947.3
Exchange rate		USD1 = LKR363.11	USD1 = LKR200.75	USD1 = LKR186.41	USD1 = LKR181.63

Source: Fitch Ratings, Fitch Solutions, Siyapatha

Summary Analytics

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end
Asset quality ratios (%)				
Impaired loans and leases/gross loans and leases	25.5	26.2	28.0	15.2
Growth of gross loans and leases (yoy)	-5.2	6.2	1.6	9.8
Loan loss allowances for impaired loans and leases/impaired loans and leases	42.0	39.6	25.4	28.9
Impairment to capital ratio	90.3	115.2	178.6	110.6
Earnings and profitability ratios (%)				
Pretax income/average assets	3.3	4.6	2.1	3.1
Non-interest expense/gross revenue	22.0	24.7	19.4	18.1
Pretax income/average equity	22.8	33.9	20.7	32.3
Impairment charges/pre-impairment operating profit	13.3	61.3	60.8	46.9
Capitalisation and leverage ratios				
Debt+deposits/tangible equity	5.5	5.5	6.8	8.8
Regulatory Tier 1 capital ratio (%)	16.1	14.7	9.8	9.0
Regulatory total capital ratio (%)	21.0	21.4	14.2	14.2
Funding, liquidity and coverage ratios (%)				
Customer deposits/total funding (excluding derivatives)	54.1	49.8	50.0	37.9
Gross loans/customer deposits	201.4	240.1	224.0	288.0

Source: Fitch Ratings, Fitch Solutions, Siyapatha

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.