Fitch Sri Lanka National Ratings 2025 Transition and Default Study

Study Overview: This study provides data and analysis of the performance of Fitch Ratings' portfolio of Sri Lanka corporate finance. This analysis includes both financial and non-financial corporate issuers, over the long-term period from 2000 to 2025.

No Defaults: There were no defaults in 2025 for all corporate finance issuers in Sri Lanka with national ratings assigned by Fitch.

Fitch Sri Lanka National Ratings: This report should be read in conjunction with Fitch's National Scale Rating Criteria (December 2020).

Sri Lanka Corporate Finance National Ratings One-Year Transition Matrix: 2025 Cohort

(%)	Number of Ratings[a]	AAA(lka)	AA(lka)	A(lka)	BBB(lka)	BB(lka)	B(lka)	CCC(lka) to C(lka)	D(lka)	WD(lka)
AAA(lka)	8	100.00	–	–	–	–	–	–	–	–
AA(lka)	10	–	100.00	–	–	–	–	–	–	–
A(lka)	20	–	40.00	55.00	5.00	–	–	–	–	–
BBB(lka)	18	–	–	44.44	50.00	–	–	–	–	5.56
BB(lka)	5	–	–	20.00	–	80.00	–	–	–	–
B(lka)	–	–	–	–	–	–	–	–	–	–
CCC(lka) to C(lka)	1	–	–	–	–	–	–	100.00	–	–

[a] Beginning of year. WD(lka) – Withdrawn. Note: Includes both financial and non-financial corporates.
Source: Fitch Ratings

Sri Lanka Corporate Finance National Ratings Transition Matrices: 2000–2025

Average Annual (%)	Number of Ratings[a]	AAA(lka)	AA(lka)	A(lka)	BBB(lka)	BB(lka)	B(lka)	CCC(lka) to C(lka)	D(lka)	WD(lka)
AAA(lka)	145	95.17	4.14	–	–	–	–	–	–	0.69
AA(lka)	221	1.81	85.97	8.60	–	0.45	–	–	–	3.17
A(lka)	264	–	8.33	80.30	5.68	–	0.38	–	–	5.30
BBB(lka)	205	–	1.46	7.80	81.46	1.95	–	–	–	7.32
BB(lka)	102	–	1.96	2.94	4.90	80.39	1.96	–	0.98	6.86
B(lka)	25	–	–	–	–	16.00	60.00	12.00	–	12.00
CCC(lka) to C(lka)	5	–	–	–	–	–	–	60.00	20.00	20.00

Average Three-Year (%)	Number of Ratings[a]	AAA(lka)	AA(lka)	A(lka)	BBB(lka)	BB(lka)	B(lka)	CCC(lka) to C(lka)	D(lka)	WD(lka)
AAA(lka)	129	87.60	6.98	–	–	–	–	–	–	5.43
AA(lka)	203	3.45	69.95	17.24	0.99	0.99	–	–	–	7.39
A(lka)	223	0.90	10.76	60.99	10.31	–	1.35	–	–	15.70
BBB(lka)	174	–	4.60	8.05	58.05	5.17	–	–	–	24.14
BB(lka)	91	–	3.30	4.40	13.19	52.75	4.40	1.10	3.30	17.58
B(lka)	23	–	8.70	–	–	26.09	17.39	4.35	–	43.48
CCC(lka) to C(lka)	4	–	–	–	–	–	–	–	75.00	25.00

[a] Total rated over the period. WD(lka) – Withdrawn. Note: Includes both financial and non-financial corporates.
Source: Fitch Ratings

Sri Lanka Corporate Finance National Ratings Average Cumulative Default Rates: 2000–2025

(%)	One Year	Two Year	Three Year
AAA(lka)	—	—	—
AA(lka)	—	—	—
A(lka)	—	—	—
BBB(lka)	—	—	—
BB(lka)	0.98	2.06	3.30
B(lka)	—	—	—
CCC(lka) to C(lka)	20.00	50.00	75.00
All Sri Lanka Corporate Finance National Ratings	**0.21**	**0.44**	**0.71**

Note: Includes both financial and non-financial corporates.
Source: Fitch Ratings

Fitch Sri Lanka National Ratings Transition and Default Methodology

Fitch's Sri Lanka National Ratings transition and default statistics include all publicly rated corporate finance, Long-Term Issuer National Ratings from 2000 to the present.

Ongoing data enhancement efforts and methodology changes may result in slightly different statistics than those in previously published studies. Therefore, the most recent study supersedes all prior versions.

The rating transitions outlined in this study represent a distinct historical period and may not reflect future rating migration patterns. Transition rates are influenced by several factors, including macroeconomic variables, credit conditions and corporate strategy. Examining the performance of Fitch's ratings on a relative scale within each rating category provides useful content.

Transition Rates

Fitch employs a static pool approach to calculate transition and default data. The static pools or cohorts, group issuer ratings according to the year the ratings were active and outstanding at the beginning of the year. For example, issuers with ratings outstanding at the beginning of 2003 constitute the 2003 cohort. The same approach applies to additional cohorts. Issuers newly rated by Fitch in any given year are included in the following year's cohort.

Issuer ratings may reside in multiple cohorts if they are outstanding at the beginning and end of the year or during multiple-year horizons under observation. For example, the annual performance of an issuer rating initiated in 2003 and that was outstanding at the beginning of 2004 and withdrawn in 2007 is included in the 2004, 2005 and 2006 cohorts. Rating performance over multiple-year horizons is also included in the two- and three-year cohorts and in the four-year transition rates as a transition to withdrawn (WD).

Structured finance cohorts are created by grouping security ratings, unlike corporate finance, which Fitch groups by issuer ratings. Fitch tracks the rating performance of all structured finance securities in each cohort, as it does for corporate finance, including ratings outstanding at the beginning of the respective year. Similar to corporates, ratings withdrawn (WD[lka]) or paid-in-full (PIF[lka]) during the course of a year are excluded from subsequent cohorts because they are no longer active. However, Fitch included them in transition data as a transition to WD or PIF in the WD(lka) and PIF(lka) columns, respectively.

Additionally, readers should view comparisons with earlier Fitch Sri Lanka National Ratings transition and default statistics or studies in the context of different methodologies, including whether the analysis measured rating movements across broad rating categories or at the notch level (+, –).

An examination of the 2025 one-year rating transition data at the major rating categories on page one, *Sri Lanka Corporate Finance National Ratings One-Year Transition Matrix: 2025 Cohort*, identifies rating movements both up and down the rating scale, for example, from 'A(lka)' to 'BBB(lka)'.

The vertical left-hand column identifies ratings outstanding at the beginning of 2025, while the horizontal axis shows the migration pattern of those ratings at year-end. The table reads from the top left-hand corner, beginning with 'AAA(lka)' and following the diagonal to the right to examine the stability of each consecutive rating category.

Default and Impairment Rate Calculations

Fitch's definition of default is available on its website: Rating Definitions.

In corporate finance, defaults are fairly easy to identify through a missed payment, a distressed exchange or a bankruptcy filing. Furthermore, they are typically strongly linked to unrecoverable losses. Defining defaults within structured finance is more challenging because payment shortfalls can be temporary or allowed under the terms of bond indentures. Some structured bonds have features that allow notes to defer interest or pay in kind. Some structured securities can experience temporary interest shortfalls that are inconsequential to deal performance and are cured relatively quickly.

Finally, structured bonds may also suffer write-downs to the original face value but remain active for extended periods of time. For the purposes of this study, Fitch tracks impairments, or defaults and near defaults, including bonds rated 'CC(lka)' or below. This includes bonds in payment default and bonds for which some form of default appears probable. Some defaults identified in this study may subsequently be cured.

Fitch calculates default and impairment rates by issuer or security rather than by amount. It first examines each cohort by year and by individual rating category. For example, if 25 issuers defaulted in 2003 and the 2003 cohort contained 2,000 issuer ratings, the resulting annual default rate for all ratings in 2003 would be 1.25%. If 10 of these defaults consisted of defaults among issuers rated 'BB(lka)' at the beginning of the year and the 'BB(lka)' cohort at the beginning of the year totaled 500, the 'BB(lka)' 2003 default rate would be 2% (10 out of 500).

From these annual default or impairment rates, Fitch derives average annual default or impairment rates by weighting each cohort's default or impairment rates by the number of ratings outstanding in the given cohort relative to the number of total ratings outstanding for all cohorts. Following the example above, the 2003 'BB(lka)' annual default rate of 2% might be followed by a 2004 'BB(lka)' annual default rate of 1%.

A straight average of these two rates would ignore potential differences in the size of the two cohorts. Instead, weighting the results based on the relative number of 'BB(lka)' ratings outstanding in 2003 and 2004 gives greater emphasis to the results of the 'BB(lka)' cohort with the most observations. Fitch uses the same technique to calculate average default or impairment rates over multiple-year horizons.

Contacts

Rating Performance Analytics

Jake Han
Director, RPA
+1 646 582-4808
jake.han@fitchratings.com

David Li
Criteria Officer
+1 646 582-4512
david.li@fitchratings.com

Fitch Ratings Lanka

Semini Mendis
Associate Director, Corporates
+94 11 7066-612
semini.mendis@fitchratings.com

Jeewanthi Malagala
Director, Banks
+94 11 7066-605
jeewanthi.malagala@fitchratings.com

Related Research

Report Data – Excel File

The Fitch 2025 Transition and Default Study data is available in Excel format.
Click here to download.

Related Reports

National Scale Ratings Criteria (December 2020)