



## **Fitch Affirms Standard Chartered Bank, Sri Lanka Branch at 'AAA(lka)'; Outlook Stable**

Fitch Ratings-Colombo-18 October 2018: Fitch Ratings Lanka has affirmed Standard Chartered Bank, Sri Lanka Branch's (SCBSL) National Long-Term Rating at 'AAA(lka)'. The Outlook is Stable.

### **KEY RATING DRIVERS**

#### **NATIONAL RATINGS**

SCBSL's rating is at the highest end on the National Rating scale for Sri Lanka and reflects the credit profile and financial strength of its head office - Standard Chartered Bank (SCB: A+/Stable/a). It also reflects Fitch's expectation of continued strong parental support, if required, as SCBSL is a branch of SCB and forms part of the same legal entity. The relatively small size of the branch (less than 0.2% of the total assets of SCB) implies that support, if needed, would not be material to the head office.

SCB's Long-Term Issuer Default Rating (IDR) is higher than Sri Lanka's Long-Term Local- and Foreign-Currency IDRs of 'B+'/'Stable and as a result SCBSL's rating on the National Rating scale is mapped to 'AAA(lka)'.

Fitch believes that support from SCB would be forthcoming, if required, subject to any regulatory constraints on remitting money into Sri Lanka. The high probability of support is underpinned by SCBSL's strong operational integration with the SCB group through the use of common systems and regular reporting. The branch's strategic objectives are also aligned with those of the group.

SCBSL's non-performing loan (NPL) ratio has remained better than that of the industry and stood at 2.3% by end-June 2018. This is despite the sharp increase in the bank's NPL ratio to 2.4% by end-2017 from 1.1% at end-2016, following the classification of one corporate loan as NPL. We do not expect a significant change in SCBSL's NPL ratio, at least in the short term, despite pressure from the retail segment.

SCBSL maintains above-industry-average capitalisation to support its business plans despite regular profit repatriations. SCBSL's Fitch Core Capital ratio remained flat at 20.9% at end-June 2018 but the ratio is likely to decline with its profit repatriation and the expansion of its loan book.

### **RATING SENSITIVITIES**

#### **NATIONAL RATINGS**

A downgrade of SCBSL's rating could result from SCB's rating falling below Sri Lanka's IDR, although Fitch sees that as highly unlikely in the near-to-medium term. Significant changes to Fitch's expectation of support from SCB could also have a negative impact on the rating. There is limited scope for upward rating action on the National Long-Term Rating as it is already at the highest point on the scale.

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

National Scale Ratings Criteria (pub. 18 Jul 2018)

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