



Fitch Rates Hatton National Bank's Basel III Sub-Debt 'A+(lka)(EXP)'

Fitch Ratings-Colombo-05 March 2019: Fitch Ratings has assigned Hatton National Bank PLC's (HNB, AA-(lka)/Stable) proposed Sri Lanka rupee-denominated Basel III-compliant subordinated debentures an expected National Long-Term Rating of 'A+(lka)(EXP)'.

The notes, which will total LKR10 billion and mature in five and seven years, include a non-viability clause and will qualify as regulatory Tier 2 capital for the bank. The bank plans to use the proceeds to strengthen its Tier 2 capital base and support its loan expansion.

The debentures are to be listed on the Colombo Stock Exchange.

The final rating is subject to the receipt of final documentation conforming to information already received.

Key Rating Drivers

Fitch rates the proposed Tier 2 instrument one notch below the bank's National Long-Term Rating of 'AA-(lka)' to reflect the notes' subordinated status and higher loss-severity risks relative to senior unsecured instruments. The notes would convert to equity upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

HNB's National Long-Term Rating is used as the anchor rating for this instrument because the rating reflects the bank's standalone financial strength and best indicates the risk of the bank becoming non-viable.

Fitch has not applied additional notching to the notes for non-performance risk, as they have no going-concern loss-absorption features, in line with Fitch's criteria.

HNB's National Long-Term rating was affirmed on 28 September 2018 and reflects its strong domestic franchise as the fourth-largest commercial bank in Sri Lanka, its improved capitalisation following an equity infusion and its better-than-average financial profile despite the deterioration in asset quality. This is, however, counterbalanced by a high risk appetite.

Rating Sensitivities

The rating on the notes would move in tandem with HNB's National Long-Term Rating.

An upgrade of HNB's National Long-Term Rating is contingent on the bank sustaining improvement in its financial profile, particularly in its funding, and moderating its risk appetite. A rating downgrade could result from a significant increase in risk-taking and operating environment-related risks that could materially weaken capital buffers.

Hatton National Bank PLC

----subordinated; National Long Term Rating; Expected Rating; A+(EXP)(lka)

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Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
National Scale Ratings Criteria (pub. 18 Jul 2018)

Additional Disclosures
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