

10 Sep 2019 | Affirmation

Fitch Affirms Hatton National Bank at 'AA-(lka)'; Outlook Stable

Fitch Ratings-Colombo-10 September 2019:

Fitch Ratings has affirmed Sri Lanka-based Hatton National Bank PLC's (HNB) National Long-Term Rating at 'AA-(lka)'. The Outlook is Stable. At the same time, Fitch has affirmed the bank's Sri Lanka rupee-denominated senior unsecured debt at 'AA-(lka)'. The ratings on HNB's Basel II and Basel III compliant Sri Lanka rupee-denominated subordinated debt are affirmed at 'A+(lka)'.

Key Rating Drivers

HNB's rating is driven by its intrinsic financial strength, reflecting its strong domestic franchise as Sri Lanka's fourth-largest commercial bank, commanding 9%-10% of system assets, loans and deposits at end-June 2019. The rating also takes into account the bank's adequate capitalisation and generally better-than-average financial profile. This is counterbalanced by a high risk appetite and a deteriorating loan quality.

We expect HNB's capital ratios to remain adequate in the short- to medium-term on slower balance-sheet growth, but its capital buffers remain vulnerable as asset quality deteriorates. The last capital raising took place in July 2017 via a rights issue that brought in LKR14.5 billion (USD95 million) in cash.

HNB's high-risk appetite stems from its rapid loan expansion and dominance of higher-risk retail and SME segments, which stood at 56% of total loans at end-June 2019 and could increase in the medium term.

HNB's reported non-performing loan (NPL) ratio deteriorated sharply to 4.7% in 1H19, from 2.8% in 2018, due primarily to an increase in SME NPLs. We expect asset-quality pressure to persist in the short term, but a significant deterioration from current levels is less probable.

DEBT RATINGS

HNB's Sri Lanka rupee-denominated senior unsecured debentures are rated at the same level as its National Long-Term Rating as they rank equally with other senior unsecured obligations.

HNB's Basel II- and proposed Basel III-compliant Sri Lanka rupee-denominated subordinated debt is rated one notch below its National Long-Term Rating to reflect the subordination to senior unsecured creditors. The proposed Basel III-compliant debentures include a non-viability trigger upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

RATING SENSITIVITIES

An upgrade of HNB's National Long-Term Rating is contingent on the bank sustaining an improvement in its financial profile, particularly its funding and liquidity and asset quality, as well as demonstration of a sustainable and moderate risk appetite. A rating downgrade could be triggered by a significant increase in risk-taking and operating environment-related risks, denting the bank's asset quality and capital buffers.

DEBT RATINGS

The senior and subordinated debt ratings will move in tandem with the bank's National Long-Term Rating.

Hatton National Bank PLC; National Long Term Rating; Affirmed; AA-(lka); RO:Sta
----senior unsecured; National Long Term Rating; Affirmed; AA-(lka)
----subordinated; National Long Term Rating; Affirmed; A+(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 \(pub. 18 Jul 2018\)](#)

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