

10 Sep 2019 | Affirmation

Fitch Affirms Seylan Bank PLC at A-(Ika); Outlook Stable

Fitch Ratings-Colombo-10 September 2019:

Fitch Ratings has affirmed the National Long-Term Rating on Seylan Bank PLC at 'A-(Ika)'. The Outlook is Stable.

Key Rating Drivers

Seylan's National Long-Term Rating captures the bank's weak capital buffers and deteriorating asset quality, which reflect the bank's high-risk appetite. The bank has significant exposure to the retail and SME segments, which are highly susceptible to economic cycles.

Fitch expects Seylan to be designated a domestic systemically important bank (D-SIB) once its assets reach LKR500 billion (end-June 2019: LKR485 billion). This will subject Seylan to higher regulatory capital requirements of 10% for Tier 1 capital ratio and 14% for total capital ratio, including a 1.5 pp capital surcharge for D-SIBs. To meet these requirements, the bank may need to undertake a capital raising as its internal capital generation is modest and its growth aspirations are strong. The bank has announced it plans to raise LKR4.3 billion of common equity, which is equivalent to 1.2% of the bank's risk-weighted assets at end-June 2019.

We believe Seylan remains prone to asset-quality risk in light of its high ratio of restructured loans, loan concentration and strong risk appetite. This leads us to believe that credit costs are likely to stay elevated. This, coupled with its higher-than-average operating cost structure, should continue to dampen the operating profit/risk-weighted assets metric, which declined to 2.0% in 1H19 from an average of 3.0% over 2015-2018.

Seylan's rupee-denominated senior debt is rated at the same level as its National Long-Term Rating as the debentures rank equally with other senior unsecured obligations.

SUBORDINATED DEBT

Seylan's Basel II- and 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 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 Seylan's National Long-Term Rating would be contingent on a sustained improvement in its standalone profile through enhanced capital buffers and asset quality to levels similar to those of higher-rated peers. Increased capital-impairment risk through sustained rapid loan expansion or asset-quality deterioration could result in a downgrade of Seylan's rating.

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

Seylan Bank PLC; National Long Term Rating; Affirmed; A-(lka); RO:Sta
----senior unsecured; National Long Term Rating; Affirmed; A-(lka)
----subordinated; National Long Term Rating; Affirmed; BBB+(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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