



## Fitch Rates DFCC's Basel III Sub-Debt 'A+(EXP)(Ika)'

Fitch Ratings - Colombo - 13 February 2020:

Fitch Ratings has assigned DFCC Bank PLC's (DFCC, AA-(Ika)/Negative) proposed Sri Lanka rupee-denominated Basel III-compliant subordinated debentures an expected National Long-Term Rating of 'A+(EXP)(Ika)'.

The notes, which will total up to LKR7 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-(Ika)' 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.

DFCC'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.

DFCC's National Long-Term Rating was affirmed on 22 January 2020 and is driven by its Viability Rating, which is highly influenced by our view of its

operating environment. It also reflects above-average capitalisation (Fitch Core Capital ratio of 15.9% at end-June 2019), which compensates for the risks stemming from its developing commercial-bank franchise, deteriorating asset quality (gross non-performing loans ratio: 4.8% at end-9M19, 2018: 3.3%) and weak earnings.

The Negative Outlook on DFCC's National Long-Term Rating reflects our view that the bank's capital buffers, while above average, may not be sufficient to counterbalance pressure from the weakening operating environment on its already-weak profitability and funding profile relative to that of peers rated 'AA-(lka)'.

#### RATING SENSITIVITIES

The rating on the notes would move in tandem with DFCC's National Long-Term Rating. The subordinated debt ratings may also be sensitive to relevant changes in Fitch's Bank Rating Criteria should the proposed revisions in the exposure draft be adopted.

The Outlook on DFCC's National Long-Term Rating may be revised to Stable if the bank can sustain capital buffers to sufficiently cushion its weaker asset quality amid higher operating environment-related risks.

An inability to sustain capital buffers that counterbalance increased operating environment risk alongside a weaker franchise could put pressure on the bank's National Long-Term Rating.

#### DATE OF RELEVANT COMMITTEE

17 January 2020

#### ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

RATING ACTIONS			
ENTITY/DEBT	RATING		
<a href="#">HIDE RATING ACTIONS</a>			
DFCC Bank PLC	subordinated	Natl LT	A+(EXP)(lka)      Expected Rating
<a href="#">VIEW ADDITIONAL RATING DETAILS</a>			

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