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Fitch Ratings to Review Sri Lanka National Ratings Assigned to Tier 2 Debt

Fitch Ratings-Colombo-11 March 2020: Fitch Ratings will review the National Ratings assigned to the issues of Tier 2 debt of Sri Lankan banks and non-bank financial institutions (NBFIs) following the publication of its updated Bank Rating Criteria on 28 February 2020. Fitch's ratings approach for the ratings of subordinated debt of NBFIs follows the rationale outlined in the Bank Rating Criteria as NBFIs are prudentially regulated under a similar framework as banks. As a result, there is likely to be revisions to the ratings of subordinated debt of issuers with Sri Lankan National Ratings.

The updated Bank Rating Criteria better reflects continuing developments in bank resolution, notably developments in bank resolution plans, the build-up of bail-in debt buffers that protect more senior creditors and their implication for default risk and recovery prospects for different senior and junior liability classes. The baseline notching for banks' subordinated (Tier 2) debt changes to two notches below the anchor rating, from the previous approach of one or two notches, to reflect the heightened risk of significant losses for this debt class in the event of default in a liquidation scenario.

Fitch currently rates national scale subordinated (Tier 2) issue ratings of Sri Lankan banks and NBFIs one notch below the respective National Long-Term Rating. Fitch will assess these issue ratings on an instrument-by-instrument basis. The ratings could be downgraded to the baseline of two notches below the anchor, unless conditions under the new criteria for no additional notching prevail. For example, one notch will still be possible where loss severity risk is mitigated by thick Tier 2 and Tier 1 debt buffers, if there is greater risk to timely payment rather than recoveries, if there is likely to be partial support in default or if there is early regulatory intervention or precedent of loss mitigation by authorities.

Fitch expects to resolve the issue ratings as soon as practical, and in any case within six months

The Sri Lankan national scale Tier 2 issue ratings of banks and NBFIs that could be affected include subordinated debt issued by: Bank of Ceylon (B/AA+(Ika)/Negative); Commercial Bank of Ceylon PLC (AA(Ika)/Negative); Hatton National Bank PLC (AA-(Ika)/Stable); DFCC Bank PLC (B/AA-(Ika)/Negative); Sampath Bank PLC (A+(Ika)/Stable); National Development Bank PLC

(A+(Ika)/Negative); Nations Trust Bank PLC (A(Ika)/Stable); Seylan Bank PLC (A-(Ika)/Stable); LB Finance PLC (A-(Ika)/Stable); Siyapatha Finance PLC (A-(Ika)/Stable); and Senkadagala Finance PLC (BBB+(Ika)/Stable).

Existing ratings and sensitivities for subordinated debt continue to apply to and are available at www.fitchratings.com but could be subject to change when Fitch reviews the ratings under its new criteria.

For further information, please also refer to Fitch's updated Bank Ratings Criteria published on 28 February 2020 (see [Fitch Ratings Publishes New, Enhanced Bank Rating Criteria](#)).

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