



RATING ACTION COMMENTARY

Fitch Affirms Standard Chartered Bank, Sri Lanka at 'AAA(Ika)'; Outlook Stable

Fri 22 Mar, 2024 - 1:52 AM ET

Fitch Ratings - Colombo - 22 Mar 2024: Fitch Ratings Lanka has affirmed Standard Chartered Bank, Sri Lanka's National Long-Term Rating at 'AAA(Ika)'. The Outlook is Stable.

KEY RATING DRIVERS

Strong Parental Support: Standard Chartered Bank, Sri Lanka's (SCBSL) National Long-Term Rating is underpinned by Fitch's expectation of a high probability of support from the head office of Standard Chartered Bank (SCB, A+/Stable/a), if required, subject to any regulatory constraints on remittances into Sri Lanka. This expectation is driven by SCBSL's status as a branch of SCB, and therefore a part of the same legal entity.

SCB's Long-Term Issuer Default Rating (IDR) is significantly higher than Sri Lanka's Long-Term Local-Currency IDR of 'CCC-', and the branch's support-driven credit profile is among the strongest of the Fitch-rated domestic entities. This results in SCBSL's rating being at the highest end of Sri Lanka's National Rating scale.

Strong Linkages: The high probability of support is underpinned by the alignment of SCBSL's and the group's strategic objectives and their strong operational integration. SCBSL's small size, at only about 0.1% of SCB's total assets, implies that support, if needed, would not be a burden to the head office.

Capital Buffers to Remain High: The branch's core capitalisation metric - the regulatory common equity Tier 1 (CET1) ratio - improved to 25.5% by end-3Q23 (end-2022: 22.5%) due to the reduction in risk density as its loan book contracted by 13% during 9M23. We expect capital buffers to remain robust despite a potential resumption in profit repatriation from 2024, as seen among peers, and the growth in risk-weighted assets as the loan book expands.

Notable Balance Sheet Liquidity: We believe SCBSL will continue to focus on liquidity preservation until the completion of Sri Lanka's external debt restructuring exercise and pursue loan growth thereafter, in line with its conservative risk appetite. The branch deposits excess foreign-currency liquidity at SCB's other foreign branches and Sri Lankan rupee liquidity is maintained with the Central Bank of Sri Lanka and other domestic banks. Loans comprised only 20% of assets while other liquid placements accounted for 78% at end-3Q23, which covered all of its deposit obligations.

Profitability to Moderate: We expect profitability to moderate in the medium term because of lower net interest margins and trading gains owing to a stabilisation in market conditions and lower interest rates. However, non-recurring impairment reversals could support profits in 2024. SCBSL's operating profit/risk-weighted assets increased to 11.5% by end-3Q23, higher than the 7.5% in 2022. This was due to healthy net interest margins (end-3Q23: 6.6%, end-2022: 6.4%) given the high interest rate environment, trading gains due to the volatile and illiquid FX market, and lower impairments.

Asset Quality to Gradually Improve: SCBSL's Stage 3 loans ratio improved to 9.8% by end-3Q23, from 14.6% at end-2022 - a trend that is expected to continue in the near to medium term. Prudential provisioning in light of the adverse economic conditions resulted in loan loss allowances/gross loans increasing to 20.6% by end-3Q23, from 14.4% at end-2022.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

SCBSL's National Rating is most likely to be downgraded on material changes to Fitch's expectation of support from SCB, such as a change in the branch's legal status or the branch being divested. A further downgrade of the sovereign's Long-Term Local-Currency IDR or other developments that affect the branch's ability to service its obligations could also lead to a multiple-notch downgrade of SCBSL's National Rating.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

There is no rating upside for the National Long-Term Rating, as it is already at the highest point on the scale.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

SCBSL's rating is linked to SCB's Long-Term IDR, based on its legal status as a branch of SCB.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡		PRIOR ⚡
Standard Chartered Bank, Sri Lanka	Natl LT	AAA(Ika) Rating Outlook Stable	AAA(Ika) Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS**Mikhail Mushin**

Associate Director

Primary Rating Analyst

+94 11 7066 608

mikhail.mushin@fitchratings.com

Fitch Ratings Lanka Ltd.

15-02 East Tower, World Trade Center Echelon Square, Colombo 00100

Janith Gamlath

Senior Analyst

Secondary Rating Analyst

+94 11 7066 604

janith.gamlath@fitchratings.com

David Wong

Senior Director

Committee Chairperson

+852 2263 9927

david.wong@fitchratings.com

MEDIA CONTACTS

Kyoshi Quyn

Colombo

+94 11 7066 606

kyoshi.quyn@fitchratings.com

Peter Hoflich

Singapore

+65 6796 7229

peter.hoflich@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 16 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

Potential Conflicts Resulting from Revenue Concentrations

ENDORSEMENT STATUS

Standard Chartered Bank, Sri Lanka

-

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions

for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with

respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable

currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.