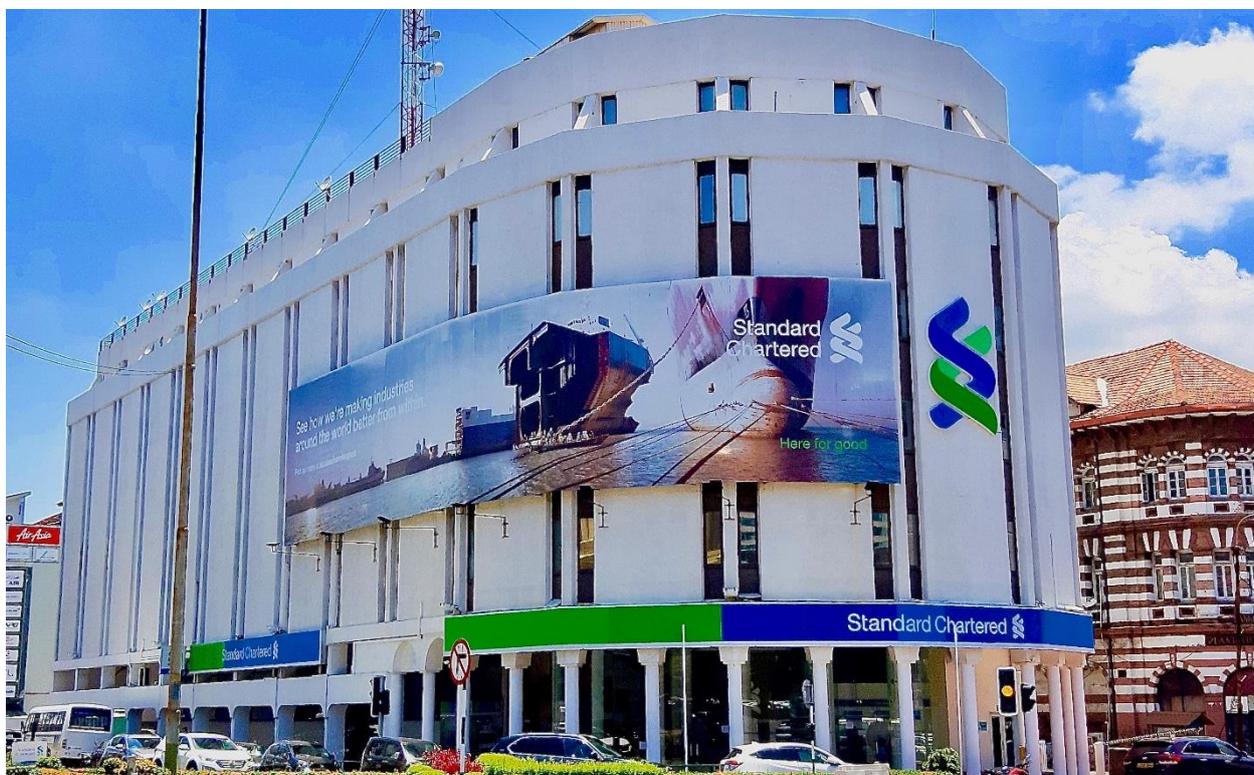


Fitch Affirms Standard Chartered Bank, Sri Lanka Branch at 'AAA(Ika)'; Outlook Stable



Colombo, April 17, 2020 - Fitch Ratings Lanka has affirmed Standard Chartered Bank, Sri Lanka Branch's (SCBSL) National Long-Term Rating at 'AAA(Ika)'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation reflects Fitch's expectation of a high probability of support from parent, Standard Chartered Bank (SCB: A+/Negative/a), if required, subject to any regulatory constraints on remitting money into Sri Lanka. Our assessment captures SCBSL's status of being a branch of SCB and, as such, forming a part of the same legal entity. SCB's Issuer Default Rating (IDR) is higher than Sri Lanka's Long-Term Local- and Foreign-Currency IDRs of 'B'/Negative and, as a result, SCBSL's rating is at the highest end of the National Rating scale for Sri Lanka.

The high probability of support is underpinned by the alignment of SCBSL's strategic objectives and its strong operational integration with SCB group.

We expect the coronavirus pandemic to weaken SCBSL's asset quality, similarly to our view on the banking sector. Its earnings will also come under pressure from lower business volume, higher loan impairment charges and pressure on net interest margins. Nonetheless, the extent of deterioration is likely to be manageable in light of the bank's healthy underwriting standards and risk controls, which are in line with SCB group practices. Furthermore, SCBSL's common equity Tier 1 ratio of 15.6% at end-September 2019 is higher than the sector's 13.2%, despite regular profit repatriation to its head office.

RATING SENSITIVITIES

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.

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

A downgrade of SCBSL's rating could result from SCB's rating falling below Sri Lanka's IDR, although Fitch sees that as highly unlikely in the near- to medium-term due to the gap between the ratings. Significant changes to Fitch's expectation of support from SCB could also have a negative impact on the rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

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 with SCB's Long-Term Local-Currency IDR based on its legal status as a branch of SCB.

--- ENDS ---