

Rating Action: Moody's assigns Counterparty Risk Ratings to three Sri Lankan banks

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Singapore, June 18, 2018 -- Moody's Investors Service has today assigned Counterparty Risk Ratings (CRRs) to Bank of Ceylon (BOC, B1, local currency deposit, negative), Hatton National Bank Ltd. (HNB, B1 local currency deposit, negative), and Sampath Bank PLC (Sampath, B1 local currency deposit, negative).

The full list of assigned ratings is provided at the end of this press release.

Moody's Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

RATINGS RATIONALE

The CRRs assigned to the three Sri Lankan banks are in line with the Counterparty Risk Assessments (CR Assessment) already assigned.

Because Moody's considers Sri Lanka not to have an operational resolution regime, in assigning CRRs to the Sri Lankan banks subject to this rating action, the rating agency applies its basic Loss Given Failure (LGF) approach. Moody's basic LGF analysis positions CRRs in line with the banks' CRAs, one notch above their adjusted BCAs.

However, the CRRs for Sri Lankan banks do not incorporate further uplift from government support, as Moody's basic LGF analysis already positions the CRRs above the sovereign rating of B1.

OUTLOOK

CRR do not carry outlooks.

FACTORS THAT COULD LEAD TO AN UPGRADE/DOWNGRADE

What Could Change the Rating Up/Down -- BOC

Given the negative outlook on the sovereign rating of Sri Lanka (B1 negative), and that the local currency deposit ratings of BOC are positioned at the same level as the sovereign an upgrade is unlikely.

A downgrade of Sri Lanka's sovereign rating would result in a downgrade of the local currency deposit ratings and BCA of BOC. The bank's BCA could be downgraded if there was: (1) a material deterioration in solvency factors, such as asset quality, profitability, and capital; and/or (2) tighter liquidity and an increased reliance on market funding.

What Could Change the Rating Up/Down -- HNB

Given the negative outlook on the sovereign rating of Sri Lanka (B1 negative), and that the local currency deposit ratings of HNB are positioned at the same level as the sovereign an upgrade is unlikely.

A downgrade of Sri Lanka's sovereign rating would result in a downgrade of the local currency deposit ratings and BCA of HNB. The bank's BCA could be downgraded if there was: (1) a material deterioration in solvency factors, such as asset quality, profitability, and capital; and/or (2) tighter liquidity and an increased reliance on market funding.

What Could Change the Rating Up/Down -- Sampath

Given the negative outlook on the sovereign rating of Sri Lanka (B1 negative), and that the local currency deposit ratings of Sampath are positioned at the same level as the sovereign an upgrade is unlikely.

A downgrade of Sri Lanka's sovereign rating would result in a downgrade of the local currency deposit rating and BCA of Sampath. The bank's BCA could be downgraded if there was: (1) a material deterioration in solvency factors, such as asset quality, profitability, and capital; and/or (2) tighter liquidity and an increased reliance on market funding.

LIST OF ASSIGNED RATINGS

Bank of Ceylon

Local and foreign currency long-term Counterparty Risk Ratings of Ba3

Local and foreign currency short-term Counterparty Risk Ratings of NP

Hatton National Bank Ltd.

Local and foreign currency long-term Counterparty Risk Ratings of Ba3

Local and foreign currency short-term Counterparty Risk Ratings of NP

Sampath Bank PLC

Local and foreign currency long-term Counterparty Risk Ratings of Ba3

Local and foreign currency short-term Counterparty Risk Ratings of NP

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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