



Fitch Assigns Commercial Bank of Ceylon's Basel III Subordinated Debt Final 'A(lka)' Rating; on RWN

Fitch Ratings - Colombo - 10 Nov 2022: Fitch Ratings has assigned Commercial Bank of Ceylon PLC's (COMB, AA-(lka)/Rating Watch Negative (RWN)) proposed Sri Lankan rupee-denominated Basel III-compliant subordinated debentures of up to LKR10 billion a final National Long-Term Rating of 'A(lka)' on RWN.

The final rating is the same as the expected rating assigned on 15 September 2022 and follows the receipt of documents conforming to information already received.

The debentures, which have maturities of five, seven and 10 years, will be listed on the Colombo Stock Exchange. The bank plans to use the proceeds to strengthen its Tier 2 capital base, reduce maturity mismatches and support loan book growth.

The bank expects the debentures to qualify as Basel III-compliant regulatory Tier 2 capital. They include a non-viability clause whereby they will convert to ordinary voting shares subject to the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

KEY RATING DRIVERS

Fitch rates the proposed Basel III Tier 2 notes two notches below the bank's National Long-Term Rating of 'AA-(lka)/RWN'. This reflects Fitch's baseline notching for loss severity for this type of debt, and our expectations of poor recoveries. There is no additional notching for non-performance risks, as the notes do not incorporate going-concern loss-absorption features.

COMB'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.

The RWN on the subordinated debt stems from the RWN on the corresponding National Long-Term Rating. Fitch [maintained](#) the RWN on COMB's National Long-Term Rating on 11 July 2022, reflecting potential for the bank's creditworthiness relative to other entities on the Sri Lankan national ratings scale to deteriorate, given the heightened stress on funding and liquidity, and its significant exposure to the sovereign via investment in foreign-currency instruments that raises risks to its overall credit profile.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of the bank's National Long-Term Rating will lead to a downgrade of the subordinated debt ratings.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the bank's National Long-Term Rating will lead to an upgrade of the subordinated debt ratings. However, there is limited scope for upward rating action given the RWN.

DATE OF RELEVANT COMMITTEE

08 July 2022

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.

RATING ACTIONS			
ENTITY / DEBT	RATING		PRIOR
<input type="text"/>	<input type="text"/>		<input type="text"/>
Commercial Bank of Ceylon PLC			
subordinated	Natl LT A((lka) ◆	New Rating	A(EXP)((lka) ◆

PREVIOUS Page 1 of 1 10 rows NEXT

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Bank Rating Criteria - Effective from 12 November 2021 to 7 September 2022 \(pub. 13 Nov 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)
- [Potential Conflicts Resulting from Revenue Concentrations](#)

ENDORSEMENT STATUS

Commercial Bank of Ceylon PLC -

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