



Fitch Rates Commercial Bank of Ceylon's Basel III Subordinated Debt 'BBB+(EXP)(lka)'; on RWN

Fitch Ratings - Colombo - 11 Aug 2023: Fitch Ratings has assigned Commercial Bank of Ceylon PLC's (COMB, A(lka)/Rating Watch Negative (RWN)) proposed Sri Lankan rupee-denominated Basel III-compliant subordinated debentures of up to LKR12 billion an expected National Long-Term Rating of 'BBB+(EXP)(lka)' and placed it on RWN.

KEY RATING DRIVERS

The proposed debentures, which will have maturities of five, seven and 10 years, will be listed on the Colombo Stock Exchange. The bank plans to use the proceeds to further strengthen its Tier 2 capital base, raise long-term funding and bridge maturity mismatches and support loan growth.

The bank expects the proposed debentures to qualify as Basel III-compliant regulatory Tier 2 capital. The debentures 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.

The final rating is subject to the receipt of final documentation conforming to information already received.

Fitch rates the proposed Basel III Tier 2 notes two notches below the bank's National Long-Term Rating of 'A(lka)', which is on 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 proposed 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 proposed 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 13 June 2023 to reflect the potential for the bank's creditworthiness relative to other Sri Lankan national scale ratings to deteriorate.

The key rating drivers and rating sensitivities of COMB are those outlined in our [rating action commentary published in June 2023](#).

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 expected subordinated debt rating.

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 expected subordinated debt rating. However, we see limited scope for positive rating action given the RWN.

DATE OF RELEVANT COMMITTEE

12 June 2023

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		
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Commercial Bank of Ceylon PLC			
subordinated	Natl LT	BBB+(EXP)(lka)	Expected Rating

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[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 \(pub. 08 Sep 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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

ENDORSEMENT STATUS

Commercial Bank of Ceylon PLC -

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