



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

Fitch Ratings - Singapore/Colombo - 21 Nov 2023: Fitch Ratings has assigned Bank of Ceylon's (BOC) (CC/CCC-/A(lka)/Stable) proposed Basel III-compliant subordinated unsecured debentures of up to LKR10 billion an expected National Long-Term Rating of 'BBB+(EXP)(lka)'.

The proposed debentures will mature in five years and be listed on the Colombo Stock Exchange. The bank plans to use the proceeds to strengthen its Tier 2 capital base, bridge maturity mismatches, and to support the expansion of its asset base.

The bank expects the proposed debentures to qualify as Basel III-compliant regulatory Tier 2 capital. The debentures include a non-viability clause whereby the notes will be converted to an Additional Tier 1 (AT1) instrument on a permanent basis, subject to the occurrence of a trigger event, as determined by the Monetary Board of the Central Bank of Sri Lanka.

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

KEY RATING DRIVERS

BOC's Sri Lankan rupee-denominated subordinated debt is rated two notches below the bank's National Long-Term Rating anchor. This reflects Fitch's baseline notching for loss severity for this type of debt, and our expectations of poor recoveries upon non-performance. There is no additional notching for non-performance risks as the notes do not incorporate going-concern loss-absorption features, and will only convert to AT1 at the point of non-viability.

Fitch assumes that the authorities would step in late, moving the point of non-viability close to liquidation. The notes also do not have contingent conversion or write-down triggers that create moderate or high incremental non-performance risk relative to anchor.

BOCs 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.

Fitch affirmed BOC's National Long-Term Rating of 'A(lka)', removed it from Rating Watch Negative and assigned a Stable Outlook on 5 October 2023. For details, please see [Fitch Affirms Ratings on 15 Sri Lankan Banks; Removes Watch Negative; CBL on Negative Outlook](#)

RATING SENSITIVITIES

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

BOC's subordinated debt would be downgraded if the bank's National Long-Term Rating is downgraded.

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

BOC's subordinated debt would be upgraded if the bank's National Long-Term Rating is upgraded.

BOC has a 1.78% equity stake in Fitch Ratings Lanka Ltd. No shareholder other than Fitch, Inc. is involved in the day-to-day rating operations of, or credit reviews undertaken by, Fitch Ratings Lanka Ltd.

DATE OF RELEVANT COMMITTEE

04 October 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 ↕
<input type="text"/>	<input type="text"/>
Bank of Ceylon	
subordinated	Nat LT BBB+(EXP)(lka) Expected Rating

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[VIEW ADDITIONAL RATING DETAILS](#)

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 \(pub. 02 Sep 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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

ENDORSEMENT STATUS

Bank of Ceylon EU Endorsed, UK Endorsed

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