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Fitch Rates Commercial Bank of Ceylon's Basel III Sub Debt 'AA-(Ika)(EXP)'

Fitch Ratings-Colombo-02 April 2019: Fitch Ratings has assigned Commercial Bank of Ceylon PLC's (CB, AA(Ika)/Stable) proposed Basel III-compliant subordinated unsecured debentures an expected National Long-Term Rating of 'AA-(Ika)(EXP)'.

The debentures will total up to LKR15 billion, with maturities of five and 10 years, and carry fixed coupons. The debentures will qualify as Basel III-compliant regulatory Tier 2 capital for the bank and include a non-viability clause, under which they would convert to ordinary shares if determined by the Monetary Board of Sri Lanka. The debentures will be listed on the Colombo Stock Exchange.

The bank plans to use the proceeds to support its loan book expansion, strengthen its Tier 2 capital base and reduce maturity gaps.

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

Key Rating Drivers

Fitch rates the proposed Tier 2 instruments one notch below CB's National Long-Term Rating to reflect the notes' subordinated status and higher loss-severity risks relative to senior unsecured instruments. The notes would convert to equity upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

CB's National Long-Term Rating is used as the anchor rating for the proposed instrument, as it reflects the bank's standalone financial strength and best indicates the risk of the bank becoming non-viable.

Fitch has not applied additional notching to the proposed notes for non-performance risk, as the proposed notes do not have going-concern loss-absorption features, in line with the agency's criteria.

CB's National Long-Term Rating was last affirmed on 28 September 2018 and reflects its strong domestic franchise, stable earnings performance and generally stable funding and liquidity profile.

Rating Sensitivities

The rating on CB's proposed notes will move in tandem with its National Long-Term Rating.

Enhanced loss-absorption buffers could be positive for CB's National Long-Term Rating. The bank's rating could be downgraded on weakened loss-absorption buffers.

Date of Relevant Committee

27-Sep-2018

Commercial Bank of Ceylon PLC

---subordinated; National Long Term Rating; Expected Rating; AA-(EXP)(lka)

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria - Effective from 22 June 2018 to 12 October 2018 \(pub. 22 Jun 2018\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

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