

10 Sep 2019 | Affirmation

# Fitch Affirms Commercial Bank of Ceylon at 'AA(lka)'; Outlook Stable

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Fitch Ratings-Colombo-10 September 2019:

Fitch Ratings has affirmed Commercial Bank of Ceylon PLC's (CB) National Long-Term Rating of 'AA(lka)'. The Outlook is Stable.

## Key Rating Drivers

### NATIONAL LONG-TERM RATING

CB's National Long-Term Rating reflects its established domestic franchise as the third-largest bank in Sri Lanka, broadly stable earnings performance, and established domestic deposit franchise, which underpins its funding and liquidity profile.

Current and savings accounts continued to make up 38% of its total deposits at end-June 2019, remaining higher than that of most of its domestic peers. CB's loan/deposit ratio of 86% at end-June 2019 was lower than that of peers.

The bank's profitability, measured by operating profit/risk-weighted assets, is likely to remain relatively stable, although it could be dampened by higher impairment charges. The contribution from its Bangladesh operations increased to 17% of group profit after tax in 2018, from 11% in 2017.

We expect the bank's asset quality to remain under pressure as long as the operating environment remains challenging. The impact could also be felt as loans start to season after the rapid expansion in recent years. CB, like other Sri Lankan banks, experienced a significant increase in non-performing loans (NPL) with the reported gross NPL ratio increasing to 4.8% by end-June 2019, from 3.2% at end-2018 and 1.9% at end-2017.

Fitch expects the bank to maintain its capital buffers at a level commensurate with its risk appetite and comfortably above the minimum regulatory thresholds. Its Tier 1 capital ratio stood at 12.5% at end-June 2019, above the regulatory minimum of 10% for a domestic systemically important bank.

We expect CB to continue to expand its international operations, which made up 11.4% of the bank's assets at end-2018 (11% at end-2017). Bangladesh, which comprised 9.4% of the bank's total assets, remains its major overseas operation, as the bank builds its operations in Maldives and Myanmar. As such, we believe CB's credit profile should remain primarily linked to the Sri Lankan operating environment.

Fitch maintains a negative outlook on the Sri Lankan banking sector as difficult operating conditions persist, placing continued pressure on banks' financial profiles, particularly asset quality and profitability. The operating environment is of high importance to the ratings of Sri Lankan banks.

#### SUBORDINATED DEBT

CB's Basel II- and its outstanding and proposed Basel III-compliant Sri Lankan rupee subordinated debt is rated one notch below its National Long-Term Ratings to reflect the subordination to senior unsecured creditors.

#### RATING SENSITIVITIES

##### NATIONAL LONG-TERM RATING

Enhanced loss-absorption buffers could be positive for CB's National Long-Term Rating. A deterioration in capital buffers, including through an increase in risk appetite and/or a sharp deterioration in asset quality, could pressure CB's rating.

#### SUBORDINATED DEBT

The subordinated debt ratings will move in tandem with the bank's National Long-Term Rating.

Commercial Bank of Ceylon PLC; National Long Term Rating; Affirmed; AA(Ika); RO:Sta  
---subordinated; National Long Term Rating; Affirmed; AA-(Ika)  
---subordinated; National Long Term Rating; Affirmed; AA-(EXP)(Ika)

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### **Applicable Criteria**

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

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

### **Additional Disclosures**

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