Lanka Rating Agency

Rating Report

Bank of Ceylon - Basel III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Sustainability Bond - Rs. 20Bn

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
09-Dec-2025	AA-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The assigned rating to the sustainability bond reflects Bank of Ceylon's ("BOC" or "the Bank") very strong position as the largest Commercial Bank in Sri Lanka, supported by a large advances portfolio and substantial share in the country's total deposit base. The rating also factors in the Bank's designated position as a Domestic Systemically Important Bank (DSIB) and its 100% ownership by the Government of Sri Lanka (GoSL). BOC's Gross NPLs stood at ~15.30% as at 6MCY25 (Net NPLs: ~7.13%), higher than the industry average of ~12.00%. The Bank's financial risk assessment takes into account its capacity to absorb the potential credit impact of SOE-related obligations. Additionally, the Bank's internal capital generation to cushion against the Bank's impaired lending portfolio is a key consideration. During 9MCY25, BOC reported a Capital Adequacy Ratio of ~16.76% (~16.55% in CY24), remaining above the regulatory requirement of 15%, although marginally below the levels recorded by its peers (~19.4%). BOC maintains significant investments in Government Securities (LKR~2.6bn as of Sep'25, LKR~2.3bn as of CY24), comprising 98% of total investments, strengthening the liquidity position of the Bank. During CY24, the Bank reported a healthy increase of ~141% YoY in its PAT to record at LKR~64.4bn (CY23: LKR~26.7bn). In 9MCY25, this trend continued as Net Interest Income (NII) increased to LKR~153.2bn on account of improved spreads, translating into strong profitability. The Bank continues to manage its foreign currency exposure by limiting its open position and strengthening its liquidity profile, reflected in a Liquidity Coverage Ratio (LCR) of 254.1% in 9MCY25 (CY24: LCR ~269.6%). The rating reflects the subordinated, Tier 2, nature of the debt instrument and the designated sustainability bond features. The Sustainability Bonds shall have principal loss absorption at the point of non-viability through a write-down mechanism, which allocates losses to the Sustainability Bond holders at the sole discretion of the Governing Board of CBSL without the approval by the Sustainability Bond holders. At the point of non-viability, the outstanding principal and interest of the sustainability bond will be converted into Additional Tier 1 (AT-1) capital instrument. The Bank intends to utilize the entire proceeds of the issue to expand its sustainability loan book, to increase the Tier II capital of the Bank to enhance the Capital Adequacy Ratio, to manage the gap exposure in the Bank's assets/liability portfolios, and to strengthen the Bank's liquidity position.

The rating is dependent on the Bank's ability to uphold its asset quality, capital position, and performance indicators in the near term. The rating will also closely monitor the issuance and performance of the sustainability bond in compliance with the Sustainability Bond guidelines and framework. The Bank's 100% ownership by the Government of Sri Lanka (GoSL) and the expectation of timely support remain key considerations in the rating assessment.

Disclosure

Name of Rated Entity	Bank of Ceylon - Basel III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Sustainability Bond - Rs. 20Bn
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	
Related Research	Sector Study | Commercial Bank (Dec-24)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Issuer Profile

Profile Bank of Ceylon (“BOC” or “the Bank”) is a Government-owned Bank domiciled in Sri Lanka, duly incorporated on August 1, 1939 under the Bank of Ceylon Ordinance No. 53 of 1938 (BOC Ordinance). It is a Licensed Commercial Bank (LCB) established under the Banking Act No. 30 of 1988 and amendments thereto. BOC was incorporated as the first state-owned Commercial Bank in Sri Lanka. The Bank’s principal business activities include the provision of personal banking, corporate banking, development banking, offshore banking, trade financing, lease financing, primary dealing, investment banking and wealth management, treasury operations, correspondent banking and money remittances, Islamic banking, bancassurance, pawning, credit card facilities, foreign currency operations, and other financial services.

Ownership The Bank is 100% owned by the Government of Sri Lanka (GoSL). Being a state-owned Bank, it directly comes under the purview of the Ministry of Finance (MoF). BOC is a Domestic Systemically Important Bank (DSIB) in Sri Lanka and therefore brings strategic importance to the GoSL. The sovereign shareholding of the Bank and its DSIB status reflect stability at the ownership level. Moreover, GoSL's support to the Bank in the form of capital infusion and guarantees on the repayment of any sum due to the Bank on any loan, overdraft, advance or other accommodation further strengthens its ownership profile. The Government has infused capital on several occasions in the Bank and is committed to make further infusions, if the need arises.

Governance The BOC Ordinance lays out the manner in which the Board of BOC is structured. The MoF appoints the Board of Directors (BoD) as per the provisions of the BOC Ordinance. The management and administration of the affairs of the Bank are overseen by the BoD. The Board members are appointed by the Minister, and one of the directors is a representative of the MoF. The Bank has a board of eleven, out of which six are independent non-executive directors as per CBSL directions No. 5 of 2024. Mr. Kavinda M L De Zoyza is serving as the Chairman of the BoD. He possesses over three decades of experience in the fields of Management, Leadership, Strategic Planning & Governance, Corporate and Investment Banking, Capital Markets, and Mergers & Acquisitions. The remaining members of the BoD also hold decades of experience in fields such as Banking, Finance, Asset Management, IT, Law, and Tourism. The BoD has six board committees in place, namely, (i) Audit Committee (AC), (ii) Integrated Risk Management Committee (IRMC), (iii) Human Resources and Remuneration Committee (HR&RC), (iv) Nomination and Governance Committee (NGC), and (v) Information and Communication Technology Committee (ICTC) and Related Party Transactions Review Committee (RPTRC). The External Auditor of the Bank, the National Audit Office, issued an unqualified audit opinion pertaining to the Annual Financial Statements of CY24 for the Bank.

Management The Acting Chief Executive Officer (CEO)/Acting General Manager (GM), Mr. Y.A. Jayathilaka, heads the management team of the Bank. All departments report to the CEO/GM through their respective Deputy General Managers (DGM). The CEO/GM joined the Bank in January 1990, and in his tenure of over 34 years, he gained a wealth of experience serving in various capacities within the Bank in local and international settings. The Bank has in place 32 Executive Committees. The day-to-day management of the Bank is delegated to the corporate management team through these committees, each established with clearly defined mandates and responsibilities. The Bank has separate and integrated systems for ATMs, credit cards, treasury management, trade finance, internet & mobile banking and other services. The BoD bears the overall responsibility of formulating a robust risk management policy and overseeing the Bank's risk management and internal control frameworks. It also decides the risk appetite levels, formulates the risk policy and checks the effectiveness of the risk management processes.

Business Risk The Banking Industry comprises 30 Banks, out of which 24 are Licensed Commercial Banks (LCBs) and 6 are Licensed Specialized Banks (LSBs). Out of the 24 LCBs, there are eleven (11) Foreign Banks, eleven (11) Private Banks and two (2) Public Banks, including the BOC. As at 6MCY25, the banking sector’s asset base stood at LKR~23.8tn (CY24: LKR~22.1tn), reflecting a growth of ~14.9% compared to the same period last year. Similarly, the Investments and Deposit base of the sector also increased by ~26.2% and ~12.9% YoY, respectively, in 1HCY25. The sector's net advances increased by ~12.1% compared to 1HCY24. Meanwhile, the sector's Net Interest Income (NII) was recorded at LKR~501.1bn during 6MCY25, an improvement of ~26.8%, YoY basis, supported by easing funding costs and improved asset yields amid the recovering economic environment. The sector's Profit After Tax (PAT) also rose sharply by ~68.0% to LKR~187.8bn (6MCY24: LKR~111.8bn), driven by the stronger core earnings, lower impairment charges due to improved credit quality, and overall stability in macroeconomic conditions. BOC is the largest bank in Sri Lanka with an LKR~5.3tn asset base representing ~22.22% of the industry's assets as at 6MCY25. The Bank accounts for ~19.55% of the sector's total advances and ~23.04% of the sector's total deposits. On the other hand, the Bank contributes ~20.50% to the sector's Net Interest Income and ~19.1% to the sector's Profit After Tax for the same period. In absolute terms, the Bank's Net Interest Income (NII) was recorded at LKR~153.2bn during 9MCY25 (an improvement of ~62.1% from 9MCY24) and LKR~167.6bn during CY24. Consequently, the Bank's PAT rose significantly by ~159.2% reaching LKR~55.7bn in 9MCY25, as compared to LKR~21.5bn in 9MCY24. The Bank maintains a strong commitment to environmental and social responsibility through digitalisation, paperless operations, solar initiatives, and robust ESG screening. It also promotes financial inclusion, with notable SME growth supported by targeted lending programs for MSMEs, women, and youth.

Financial Risk The Bank's credit risk stems from its Advances exposure to the state-owned Enterprises (SOEs). The Bank's investment in Government Securities (G-Sec) largely represents domestic holdings with LKR~1.4tn invested in T-Bonds and LKR~846.1bn invested in T-Bills (End-Dec'24). Nonetheless, the standalone financial profile of the Bank can withstand the likely impact to an extent. BOC’s Gross NPLs stood at ~15.30% as at 6MCY25 (Net NPLs: ~7.13%), higher than the industry gross NPLs average of ~12.00%. In terms of the funding base, the Bank's Deposits accounted for ~95.1% of its funding in 9MCY25, a slight decrease from ~96.3% in CY24. Time deposits constitute the largest share of the Deposit base, at ~69.2%, while the savings deposits represent ~25.7% as at 9MCY25. The Bank also remains exposed to foreign currency risk, given the high proportion of FCY-denominated advances and deposits; however, it continues to manage this through measures to limit its open position. The Capital Adequacy Ratio (CAR) of the Bank was recorded at ~16.76% as at 9MCY25 (~16.55% as at End-Dec'24). The required rate of the CBSL is 15%. The Bank’s Tier 1 Capital stood at ~12.99% as at 9MCY25 compared to ~13.00% as at CY24. The required rate of the CBSL is 10%.

Instrument Rating Considerations

About The Instrument BOC intends to issue a Basel III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Sustainability Bond, aiming at a total of LKR~20bn. The issue comprises two types of sustainability bonds: Type A offers a fixed annual interest rate (10.50% AER (10.50%), while Type B provides a floating rate (12-month T Bill rate + 2%) with payments to be made annually. The primary objectives of this issuance are to utilize the entire proceeds of the issue to expand its sustainability loan book, to enhance Tier 2 capital, and manage and minimize the gap exposure in the Bank’s asset/liability portfolios. The Sustainability Bonds shall have principal loss absorption at the point of non-viability through a write-down mechanism, which allocates losses to the Sustainability Bond holders at the sole discretion of the Governing Board of CBSL without the approval by the Sustainability Bond holders. At the point of non-viability, the outstanding principal and interest of the sustainability bonds will be converted into Additional Tier 1 (AT-1) capital instrument. M/S KPMG has been engaged as the Independent External Reviewer for the proposed Sustainability Bond.

Relative Seniority/Subordination Of Instrument The Claims of the Sustainability bond Holders shall, in the event of winding up of BOC, rank after the claims of preferential claims under any statutes governing BOC, depositors, holders of senior debt, and claims of secured and other unsecured creditors of BOC, but in priority to and over the claims and rights of the shareholders of BOC. These Sustainability bonds will rank in pari passu with other subordinated creditors, subject to the non-occurrence of a trigger event.

Credit Enhancement The repayment of the principal sum and interest on these sustainability bonds is not secured by any specific asset of BOC.

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Financials (Summary) in LKR mln

Lanka Rating Agency

Bank of Ceylon Licensed Commercial Bank	Sep-25 9M	Jun-25 6M	Dec-24 12M	Dec-23 12M	Dec-22 12M
A BALANCE SHEET					
1 Stage I | Advances - net	1,850,599	1,815,274	1,783,965	1,776,333	1,947,217
2 Stage II | Advances - net	229,134	224,761	220,884	309,345	247,801
3 Stage III | Advances (NPLs)	386,744	379,361	372,818	311,863	324,630
4 Stage III | Impairment Provision	(207,428)	(203,468)	(199,959)	(188,480)	(194,054)
5 Investments	2,631,248	2,590,133	2,378,870	1,770,573	1,636,870
6 Debt Instruments	1,981	1,944	1,791	2,132	3,428
7 Other Earning Assets	252,994	174,255	136,086	151,595	88,650
8 Non-Earning Assets	392,812	309,101	290,684	278,386	281,918
Total Assets	5,538,084	5,291,361	4,985,139	4,411,748	4,336,460
6 Deposits	4,602,858	4,428,613	4,208,603	3,882,232	3,334,774
7 Borrowings	322,161	279,360	230,430	182,568	648,388
8 Other Liabilities (Non-Interest Bearing)	264,203	255,039	243,546	95,234	99,113
Total Liabilities	5,189,222	4,963,012	4,682,579	4,160,034	4,082,276
Equity	348,862	328,350	302,560	251,715	254,184
B INCOME STATEMENT					
1 Mark Up Earned	368,113	244,817	461,114	524,798	456,267
2 Mark Up Expensed	(214,903)	(142,086)	(293,561)	(433,610)	(329,921)
3 Non Mark Up Income	37,051	17,544	14,489	9,169	50,396
Total Income	190,261	120,275	182,041	100,356	176,742
4 Non-Mark Up Expenses	(63,806)	(33,574)	(67,085)	(52,257)	(47,296)
5 Provisions/Write offs/Reversals	(18,243)	(11,617)	20,343	4,906	(87,156)
Pre-Tax Profit	108,212	75,084	135,300	53,006	42,290
6 Taxes	(52,464)	(39,152)	(70,913)	(26,312)	(10,318)
Profit After Tax	55,748	35,932	64,387	26,694	31,972
C RATIO ANALYSIS					
1 Performance					
ROE	22.82%	22.78%	23.23%	10.55%	14.06%
2 Capital Adequacy					
Capital Adequacy Ratio	16.76%	17.37%	16.55%	15.84%	15.38%
Net Stable Funding Ratio [Available Stable Funding / Required Stable Funding]	163.03%	157.86%	157.90%	145.00%	139.00%
3 Credit Risk					
Impaired Loan Ratio | [Stage III | Advances (NPLs) - net / Gross Advances]	6.70%	7.10%	7.20%	5.10%	5.30%
Provision Coverage Ratio | [Impairment Provision / Stage III | Advances (NPLs)]	56.20%	54.40%	53.63%	60.44%	59.78%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-Term Rating
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Scale	Short-Term Rating
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business / financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) LRA finds it impractical to surveil the opinion due to lack of requisite information.	A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Company

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 6MCY25 (LKR)
Basel III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5 year Sustainability Bond (2025/30) with non-viability write down features	20Bn	5 years	Unsecured	Nil		People's Bank	5,291mn

Name of Issuer	Bank of Ceylon
Issue Date	3rd week of December
Maturity	Year 2030
Coupon Basis	Interest calculation shall be based upon the actual number of days in each interest payment period (actual/actual).
Repayment	Capital Repayments at the end of the tenor of the sustainability bond
Option	

Bank of Ceylon

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Rate	Coupon	Principal Outstanding		
	LKR (Mn)				YYYY-MM-DD	LKR (Mn)		
Type A				Fixed	Fixed			
Type B				Floating	Floating			

*Please refer the indicative term sheet attached. Total issue value is Rs.20Bn and allotement for Type A and Type B will be based on the applications received.
For coupon due dates please refer the draft prospectus.