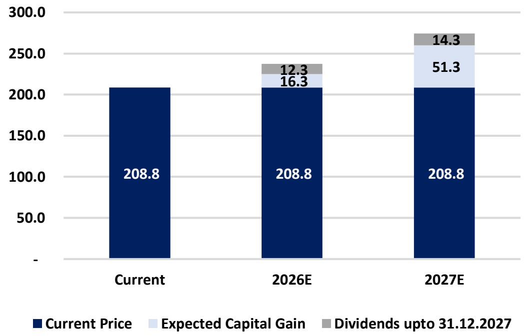
COMMERCIAL BANK OF CEYLON PLC [COMB.N0000]

MAINTAIN BUY

UPTREND SET TO PERSIST ON FIRM FUNDAMENTALS

Fair Value: 2026E - LKR 225.0 [+8%] **2027E - LKR 260.0 [+25%]**

Total Return with DPS: 2026E - 14% [AER 29%] *2027E - 31% [AER 20%]*



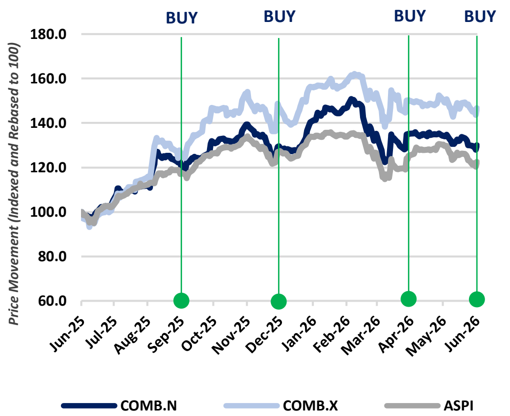
COMB reported a strong 1Q2026 performance, with earnings increasing 19.8%YoY to LKR 17.7Bn, marginally exceeding our expectations. The growth was primarily driven by robust Net Interest Income (NII) and healthy fee and commission income. NII rose 13.4%YoY, supported by strong gross loan growth of 31.4%YoY, which expanded the gross loan book to LKR 2.2Tn. Net fee and commission income grew 11.5%YoY, reflecting higher contributions from card-related services as well as increased commissions from loans, advances, and deposit-related activities. Despite the bank recording an earnings outperformance in the quarter, we have made only a modest upward revision to our forecasts, raising our earnings estimates to LKR 72.3Bn from LKR 70.7Bn for 2026E and to LKR 85.9Bn from LKR 85.2Bn for 2027E. While we expect loan growth to moderate in 2H2026 due to the recent policy rate hike, tighter loan-to-value (LTV) requirements, and the possibility of a gradual increase in non-performing loans (NPLs), we believe these factors are likely to influence the pace of growth rather than alter the Bank's underlying growth trajectory. Importantly, the Bank's strong earnings momentum, resilient asset quality, and solid capital position continue to support a compelling long-term growth story, underpinned by robust fundamentals and its ability to capitalize on expanding credit demand over the medium term. We retain our 2026E target price of LKR 225.0 and our 2027E target price of LKR 260.0, MAINTAIN BUY.

FIRST CAPITAL RESEARCH

Shahana Kanagaratnam +94 11 263 9863
shahana@firstcapital.lk

LKR (Mn)	1Q2025	1Q2026	YoY	2024	2025	YoY
Earnings (LKR 'Mn)						
NII	34,215	38,814	+13%	118,135	140,961	+19%
Total Operating Income	46,539	50,844	+9%	106,590	191,158	+79%
Net Operating Income	39,388	47,661	+21%	169,354	168,042	-1%
PBT	22,557	27,633	+23%	97,808	92,787	-5%
Net Profit	14,787	17,720	+20%	55,073	60,110	+9%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	283,280	336,011	+19%	281,129	332,066	+18%
NAVPS	173.0	205.2	+19%	171.7	202.8	+18%

Price Movement of COMB vs ASPI (Indexed and Rebased to 100)



Source: CSE

Minimum Return for BUY:

Buy Below 2027E - [AER of 15% with DPS]: LKR 222.3
COMB.N categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of COMB during the five trading days prior to the issuance of this document.

COMB earnings up 19.8%YoY during 1Q2026

COMB reported a strong 1Q2026 performance, with earnings increasing 19.8%YoY to LKR 17.7Bn, marginally exceeding our expectations. The growth was primarily driven by robust NII and healthy fee and commission income. NII rose 13.4%YoY, supported by strong gross loan growth of 31.4%YoY, which expanded the gross loan book to LKR 2.2Tn. Net fee and commission income grew 11.5%YoY, reflecting higher contributions from card-related services as well as increased commissions from loans, advances, and deposit-related activities. Impairment decreased by 55.5%, to LKR 3.2Bn reflecting the higher prudential provisioning recorded in the comparative quarter. On the cost front, pressures persisted, with total operating expenses increasing 15.8%YoY. Meanwhile, VAT on financial services increased 29.1%YoY, and corporate tax expenses rose 27.8%YoY.

Gross loan book accelerates during 1Q2026

The Average Weighted Prime Lending Rate (AWPR) rose to 9.86% at end-1Q2026 from 8.94% in 4Q2025 and from 8.43% at end-1Q2025. Nevertheless, private sector credit growth strengthened to 27.1%YoY as of Mar 2026, compared with 25.2%YoY in Dec 2025. Against this backdrop, COMB's gross loan portfolio recorded strong growth, expanding 31.4%YoY (3.4%QoQ) to LKR 2.2Tn in 1Q2026. This expansion was primarily driven by the domestic lending segment, which grew 38.0%YoY (3.8%QoQ) to LKR 1.6Tn. Meanwhile, LKR depreciation against the USD provided an additional boost to foreign currency-denominated lending, which increased 15.6%YoY (2.3%QoQ) to LKR 561.6Bn. In line with expectations, asset quality improved further, with the NPL ratio declining to 1.34% in 1Q2026 from 1.54% in 4Q2025 and 2.58% in 1Q2025.

COMB deposit base expanded by 19.0%YoY to LKR 2.9Tn

COMB’s deposit base expanded by 19.0%YoY to LKR 2.9Tn in 1Q2026, driven primarily by growth in local currency deposits, which increased by 18.5%YoY and 6.0%QoQ to LKR 2.0Tn. This performance reflected broad-based expansion across deposit products and customer segments. The depreciation of the LKR further supported deposit growth, contributing to a 20.4%YoY and 7.2%QoQ increase in foreign currency denominated deposits during the quarter. Meanwhile, continued growth in the LC-denominated current and savings account base strengthened COMB’s CASA ratio, which rose to 40.42% in 1Q2026 from 39.91% in 4Q2025 and 39.80% in 1Q2025.

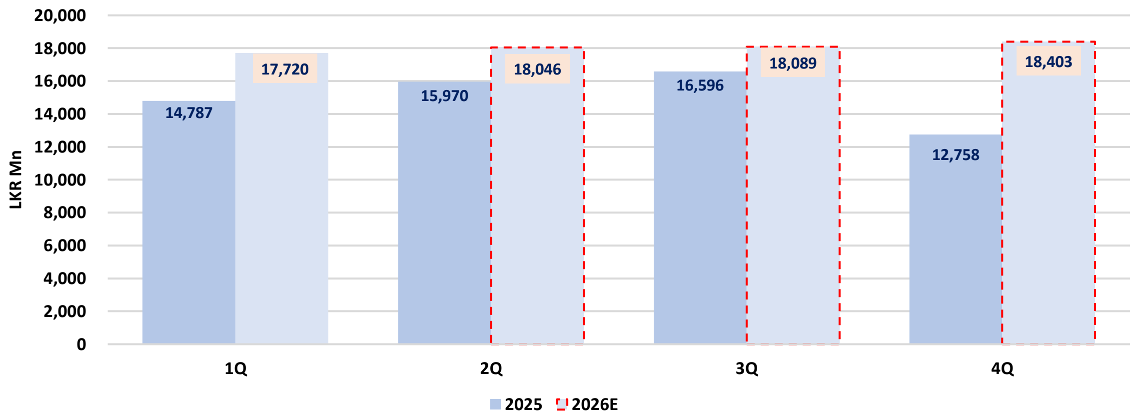
Capital adequacy soars past regulatory hurdles

In key performance ratios, the Bank’s Tier 1 Capital Ratio as at 31st Mar 2026 was 13.32%, while its Total Capital Ratio stood at 16.85%. Both ratios are notably higher than the regulatory minimum ratios of 10% and 14% respectively. Meanwhile, the Bank's liquidity coverage ratio for the quarter reviewed stood at 368.83% for Rupees and 282.77% for all currencies, both well over the statutory minimum ratios of 100%.

2027E TP maintained at LKR 260.0

Despite the earnings outperformance during the quarter, we have only modestly raised our earnings forecasts to LKR 72.3Bn for 2026E (from LKR 70.7Bn) and LKR 85.9Bn for 2027E (from LKR 85.2Bn). While we expect loan growth to moderate in 2H2026 due to higher rates, tighter LTV requirements, and potential NPL pressures, we see these as short-term headwinds rather than structural concerns. The bank’s strong earnings momentum, resilient asset quality, and solid capital position continue to underpin a compelling long-term growth story supported by robust fundamentals. Given the modest revisions to our earnings forecasts, we maintain our 2026E target prices at LKR 225.0 for COMB.N and LKR 190.0 for COMB.X and maintain 2027E target prices of LKR 260.0 for COMB.N and LKR 220.0 for COMB.X. Considering the current market price continues to trade at a discount to our target prices, we reiterate our recommendation, **MAINTAIN BUY.**

Quarterly Earnings



Estimate Revision

In LKR Mn	2026E-O	2026E-R	% Change	2027E-O	2027E-R	% Change
Earnings Estimate						
NII	163,319	168,393	+3%	185,445	191,932	+3%
Total Operating Income	213,378	219,842	+3%	242,191	249,328	+3%
Net Operating Income	193,092	195,958	+1%	223,093	224,342	+1%
Profit before Tax	109,074	111,540	+2%	131,583	132,656	+1%
Net Profit	70,661	72,258	+2%	85,243	85,938	+1%
Adjusted EPS	40.6	43.1		46.0	50.0	
Balance Sheet Estimate						
Loans & Adavances	2,250,830	2,247,233	-0%	2,543,438	2,533,953	-0%
Shareholders' Equity	392,423	383,695	-2%	475,714	456,130	-4%
Adjusted NAVPS	225.3	228.9	+2%	256.4	265.5	+4%
Ratio Estimate						
ROE (%)	***19.5%***	***20.2%***		***19.6%***	***20.5%***	
PER (x)	***5.2***	***4.8***		***4.6***	***4.2***	
PBV (x)	***0.9***	***0.9***		***0.8***	***0.8***	

Valuation Table

P/E 31st December	2022	2023	2024	2025	2026E	2027E	2028E
Estimates (LKR 'Mn)							
Net Interest Income	84,665	86,415	118,135	140,961	168,393	191,932	221,567
Total Operating Income	136,637	122,070	106,590	191,158	219,842	249,328	285,746
Net Profit: Equity Holders	**23,812**	**21,115**	**55,073**	**60,110**	**72,258**	**85,938**	**103,452**
Recurring Net Profit: Equity Holders	**23,812**	**17,573**	**23,055**	**60,110**	**72,258**	**85,938**	**103,452**
Adjusted EPS (LKR)	14.8	10.9	14.3	36.8	43.1	50.0	58.7
YoY Growth (%)	8%	-26%	31%	157%	17%	16%	17%
Valuations							
PER (x)	14.1x	19.1x	14.6x	5.7x	4.8x	4.2x	3.6x
PBV (x)	1.6x	1.5x	1.2x	1.0x	0.9x	0.8x	0.7x
DY (%)	2.2%	3.1%	4.6%	5.0%	5.9%	6.8%	8.0%
Adjusted NAVPS (LKR)	127.7	134.8	171.9	203.0	228.9	265.5	308.0
DPS (LKR)	4.5	6.5	9.5	10.5	12.3	14.3	16.8
Dividend Payout (%)	30.4%	59.6%	66.4%	28.6%	28.6%	28.6%	28.6%

Note: Recurring net profit for 2024 indicates reported net profit adjusted for impairment reversal on ISB holdings and net losses from derecognition of financial assets. 2023 and 2021 earnings have been adjusted for net gains / losses from derecognition of financial assets.

Ratio Analysis

		2022	2023	2024	2025	2026E	2027E	2028E
Growth	Asset	26.0%	6.2%	8.3%	17.5%	9.1%	10.5%	11.4%
	Deposit	34.3%	8.6%	7.4%	17.1%	9.0%	9.0%	10.0%
	Net Loans	12.2%	4.3%	17.9%	37.8%	14.8%	12.8%	12.9%
Profitability	Return on Equity	12.7%	9.8%	22.0%	19.6%	20.2%	20.5%	20.7%
	Return on Average Assets	1.1%	0.8%	2.0%	1.9%	2.1%	2.2%	2.4%
	Net Interest Spread	3.7%	3.2%	4.1%	4.2%	4.3%	4.4%	4.5%
	Net Interest Margin	6.0%	5.7%	6.6%	6.5%	6.6%	6.7%	6.8%
Funding &	Loan/ Deposits	58.4%	56.1%	61.6%	72.5%	76.4%	79.0%	81.1%
Liquidity	Loan/ Assets	46.2%	45.4%	49.4%	58.0%	61.0%	62.2%	63.1%
	Deposit/ Liabilities	86.5%	88.4%	89.0%	88.8%	89.3%	88.9%	88.6%
	CASA	39.0%	39.7%	38.3%	39.9%	40.0%	39.0%	38.0%

Valuation Summary

Expected COMB.N Price	2026E	2027E
Justified PBV based target price	242.9	286.2
PER Valuation based target price	215.5	250.1
RI Valuation based target price	222.2	252.0
Average Target Price	226.9	262.8
Target Price after Rounding off	225.0	260.0

Return	2026E	2027E
Target Price	225.0	260.0
Current Price	208.8	208.8
Capital Gain (LKR)	16.3	51.3
Dividends upto 31st Dec (LKR)	12.3	14.3
Capital Gain %	8%	25%
Dividend Yield %	6%	7%
Total Return %	14%	31%
Annualized Return %	29%	20%

Justified PBV Valuation

Justified PBV based Valuation	2026E	2027E
ROAE	20.2%	20.5%
Growth	3.0%	3.0%
COE	19.2%	19.2%
PBV	1.1	1.1
NAVPS	228.9	265.5
Target Price	242.9	286.2

PER Valuation

PER based Valuation	2026E	2027E
Earnings (LKR 'Mn)	72,258	85,938
No. of Shares ('Mn)	1,676	1,718
EPS	43.1	50.0
Expected PER	5.0x	5.0x
Price at 5.0x Earnings	215.5	250.1

Residual Income Valuation

Residual Income based Valuation	2026E	2027E
PV of Residual Income	32,085	39,719
No. of Shares ('Mn)	1,676	1,718
RI per Share	19.1	23.1
Opening Book Value per Share	203.0	228.9
Value per Share	222.2	252.0

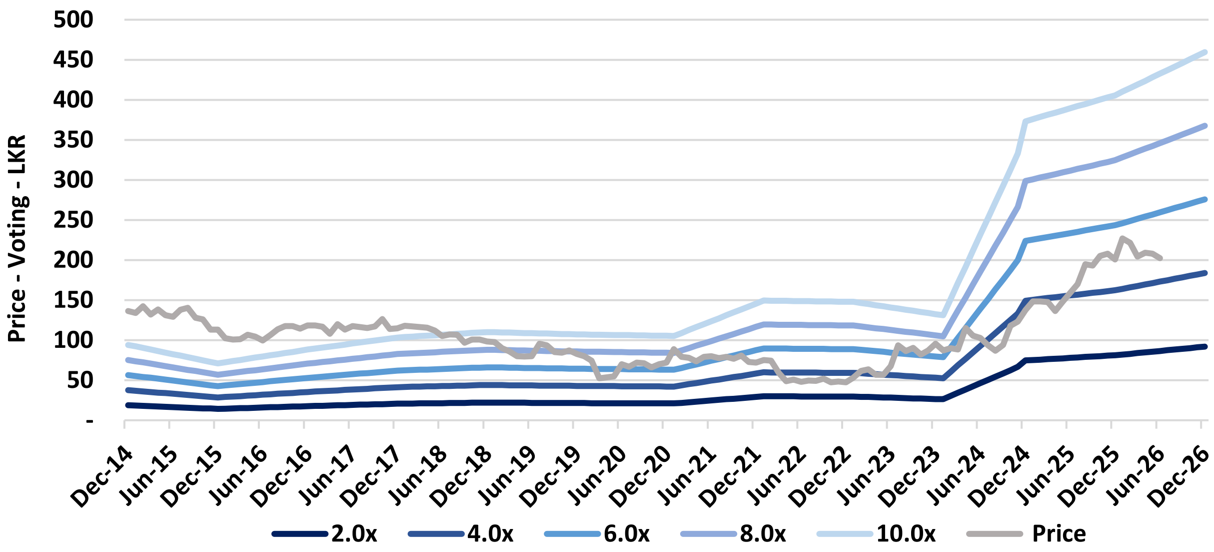
COE	2026E	2027E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
β	1.2	1.2
Ke=Rf+β(Rm-Rf)	19.2%	19.2%

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2022	2023	2024	2025	2026E	2027E	2028E
Gross Income	**280,387**	**341,566**	**274,507**	**365,181**	**437,074**	**495,223**	**568,635**
Interest Income	222,393	297,646	275,217	301,367	369,883	420,197	485,061
Less: Interest Expenses	137,728	211,231	157,082	160,406	201,490	228,264	263,495
Net Interest Income	**84,665**	**86,415**	**118,135**	**140,961**	**168,393**	**191,932**	**221,567**
Net Fee and Commission Income	20,169	22,387	23,646	28,976	31,961	35,796	39,376
Total Operating Income	**136,637**	**122,070**	**106,590**	**191,158**	**219,842**	**249,328**	**285,746**
Less: Impairment Charge/(Reversal) for Loans	71,924	38,895	(62,764)	23,116	23,884	24,986	25,878
Net Operating Income	**64,712**	**83,175**	**169,354**	**168,042**	**195,958**	**224,342**	**259,868**
Less : Operating Expense							
Personnel Expenses	19,788	22,810	27,907	30,187	31,743	32,807	33,906
Other Operating Expenses	16,494	21,480	23,931	27,316	29,350	31,942	34,754
Total Operating Expenses	**36,282**	**44,290**	**51,838**	**57,503**	**61,093**	**64,749**	**68,660**
Operating Profit before Value Added Tax (VAT)	28,430	38,885	117,515	110,539	134,866	159,593	191,208
Less: Value Added tax on Financial Services	3,921	4,961	19,707	17,751	23,325	26,936	31,516
Operating Profit after Value Added Tax (VAT)	**24,509**	**33,924**	**97,809**	**92,788**	**111,540**	**132,657**	**159,692**
Profit before Income Tax	**24,505**	**33,927**	**97,808**	**92,787**	**111,540**	**132,656**	**159,691**
Less: Income Tax Expense	106	12,027	42,122	31,850	38,287	45,535	54,815
Profit for the Year	**24,399**	**21,900**	**55,686**	**60,938**	**73,253**	**87,121**	**104,876**
Non-Controlling Interest	588	785	613	827	995	1,183	1,424
Profit Attributable to Equity Holders	**23,812**	**21,115**	**55,073**	**60,110**	**72,258**	**85,938**	**103,452**
Recurring Profit Attributable to Equity Holders	**23,812**	**17,573**	**23,055**	**60,110**	**72,258**	**85,938**	**103,452**
Adjusted EPS	**14.8**	**10.9**	**14.3**	**36.8**	**43.1**	**50.0**	**58.7**

Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2022	2023	2024	2025	2026E	2027E	2028E
ASSETS							
Cash and Cash Equivalents	151,109	159,702	89,615	88,857	84,392	63,604	60,141
Balances with Central Banks	78,597	62,634	55,990	47,891	55,971	40,776	44,750
Placements with Banks	96,083	81,507	101,105	110,223	110,306	110,389	110,471
Derivative Financial Instruments	8,345	7,226	4,264	5,423	5,739	6,255	6,881
Other Financial Assets Held-For-Trading	24,873	29,450	91,677	111,754	88,291	64,158	70,574
Loans and Receivables to Other Customers	1,155,493	1,204,866	1,421,004	1,958,361	2,247,233	2,533,953	2,860,304
Financial Investments - Available-for-sale	118,652	287,733	303,218	219,011	206,012	320,790	404,035
Property, Plant & Equipment	27,447	28,997	30,670	31,652	33,205	34,363	35,131
Intangible Assets	4,113	4,289	4,758	5,008	4,678	4,306	3,886
Other Assets	40,811	37,736	29,917	30,900	44,145	48,119	52,930
Total assets	**2,499,554**	**2,655,612**	**2,875,993**	**3,378,864**	**3,686,978**	**4,072,783**	**4,536,173**
LIABILITIES							
Securities Sold Under Repurchase Agreements	97,726	111,187	112,461	107,950	112,362	126,698	143,015
Due to Other Customers	1,977,744	2,147,907	2,306,079	2,700,027	2,943,030	3,207,902	3,528,692
Subordinated Term Debts	61,401	36,483	57,708	74,587	67,417	76,019	85,809
Total liabilities	**2,286,581**	**2,430,637**	**2,590,173**	**3,041,279**	**3,296,770**	**3,608,956**	**3,984,578**
EQUITY							
Stated Capital	58,150	62,948	88,017	91,558	97,777	104,470	111,673
Statutory Reserves	12,080	13,587	16,470	19,649	23,312	27,668	32,912
Retained Earnings	6,790	9,943	17,534	20,773	57,004	100,095	151,968
Other Reserves	131,846	133,993	159,109	200,087	205,602	223,898	245,922
Total Equity to Equity Owners of the Bank	**208,865**	**220,471**	**281,129**	**332,066**	**383,695**	**456,130**	**542,474**
Non-Controlling Interest	4,107	4,504	4,690	5,519	6,514	7,697	9,121
Total Equity	212,973	224,974	285,819	337,586	390,209	463,827	551,595
	2,499,554	**2,655,612**	**2,875,993**	**3,378,864**	**3,686,978**	**4,072,783**	**4,536,173**
Adjusted NAVPS	**127.7**	**134.8**	**171.9**	**203.0**	**228.9**	**265.5**	**308.0**

First Capital Holdings PLC

First Capital
A Janashakthi Group Company

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Charith Gamage	+94 11 2639 863	Dilhari Dias	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Manusha Kandanaarachchi	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Salaama Sanoon	+94 11 2639 866

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154

EQUITY SALES

CEO	Jaliya Wijeratne	+94 723 055 000	**Equity Branches**		
			Negombo	Priyanka Anuruddha	+94 77 4546 070
Colombo				Priyantha Wijesiri	+94 77 9065 779
Isuru Jayawardana		+94 76 7084 953	**Jaffna**	Gratian Nirmal	+94 77 4510 000
Nishantha Mudalige		+94 77 3204 929			
Anushka Buddhika		+94 71 4310 600			
Thushara Pathiraja		+94 77 0076 314	**Agents**		
Dayan Fernando		+94 77 7354 081	**Colombo**	Kithsiri Jayasinghe	+94 77 7790 657
Anjelo LaBrooy		+94 77 7546 645	**Anuradhapura**	Amila Luwishewa	+94 71 0628 195
Dillon Lowe		+94 76 6160 647	**Galle**	Nuwan Abeynayake	+94 77 7288 274
Evelyn John		+94 77 779 2452	**Kandy**	Ajith Ihalawatta	+94 77 8477 530
Yudheshan Kannadasan		+94 77 415 5809	**Embilipitiya**	Ruwan Wanniarachchi	+94 77 3877 734
Yumeth Samarakoon		+94 72 4444 135			

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799

BRANCHES

Kandy	**Kurunegala**	**Matara**	**Negombo**
CSE Branch Office,	No.174/B2,	CSE Branch Office,	Colombo Stock Exchange
No. 88,	Negombo Road,	1 st Floor, E.H.Cooray Tower,	Negombo Branch Office,
Dalada Veediya,	Kurunegala.	No.24, Anagarika Dharmapala Mawatha,	No. 72 A, 2/1, Old Chilaw Road,
Kandy 20000.	Kurunegala 60000.	Matara 81000.	Negombo 11500.
Manager: Salinda Samarakoon	**Manager:**	**Manager: Rohana Jayakody**	**Manager:**
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

About us:

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