

**FOR IMMEDIATE RELEASE**

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## **ICRA Lanka reaffirms the [SL]AAA Issuer Rating of Bank of Ceylon**

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service has reaffirmed the issuer rating of Bank of Ceylon (BOC or the Bank) at [SL]AAA (pronounced SL Triple A) with stable outlook.

The highest credit quality rating continues to factor in the 100% Government of Sri Lanka (GoSL) ownership, which provides a strong likelihood of sovereign support coupled with BOC's leading position in the Sri Lankan banking industry. The rating factors in its established franchise, healthy deposit profile and comfortable liquidity position. The rating takes cognizance of the up-coming Basel-III capital adequacy requirements that could affect the bank's overall loan growth in the short-medium term. However, because of the bank's systemic importance, ICRA Lanka expects timely equity infusion by GoSL to support the overall capitalization profile. The rating also notes the marginal deterioration of asset quality of the bank as the gross NPA has increased to 3.32% in June 2017 from 2.88% in December 2015, largely in-line with the systemic trends

BOC accounts for about 20% of the aggregate advances and about 23% of the aggregate deposits of all licensed commercial banks (LCBs) in Sri Lanka as on March 31, 2017. The Bank also operates 580 branches covering all the regions in Sri Lanka; however, the Western province accounts for about 70% of the total loans and 60% of the total deposits of the bank. BOC's total advances in CY2016 grew by 20.5% (11.9% in CY2015) compared to about 18.0% growth reported by the LCBs during the same period. During H1CY2017, advances grew by robust 22.9% (YoY, annualized). The rating factors the bank's position as one of the key lenders to the GoSL and State owned entities (SOE), where about 32% of the total portfolio as in March 2017 was toward the state sector; the same has however moderated from about 40% level in CY2013 and CY2014.

BOC reported a healthy deposit profile with a comfortable mix of both foreign and local deposits, aided by the bank's well established branch network and dominant position in the remittance business. Notwithstanding the recent increase in the systemic interest rates, bank's CASA indicators remained above the systemic levels (BOC's CASA ratio was 43.3% in December 2016 and 38.9% in June 2017 compared to the sector average of 37.0% in December 2016 and 35.0% in June 2017). During CY2016, the deposit base grew by 16.1% and for the 6M ended June 2017, the deposit base grew by 20.7% (YoY, annualized) to about LKR 1,387 Bn

BOC's capitalization profile remains moderate, in the light of robust portfolio growth recorded during the last 2 years and a high dividend payout in CY2016; as in June 2017, core capital adequacy ratio was 8.3% (8.7% in December 2016) and overall capital adequacy ratio was 11.9% (12.3% in December 2016). Bank is expected to achieve a Tier-I of 10% and total capital adequacy target of 14.0% by January 2019 as per the Basel III requirement; the bank would require about LKR 10-12 Bn of equity infusion while assuming the portfolio growth at 15% and internal generation at 13-15%. However, due to the systemic importance of the bank, ICRA Lanka expects timely capital support from GoSL, as demonstrated in the recent past (GoSL infused LKR 5 Bn to BOC during CY2016 and LKR 5 Bn in CY2014).

BOC has been reporting a stable return on average assets<sup>1</sup> (ROAA) of about 1.0-1.2% over the last four years from CY2013-2016. The bank's ROAA improved during CY2016 to 1.53% (1.20% in CY2015) because of improved lending margins and credit costs. The Profitability (ROAA) however moderated to 1.17% during the 6M ended June 2017, mainly on account of higher credit cost during the period (credit provisions/ATA was 0.71% during H1 CY2017 compared to 0.27% in CY2016) Despite the increase in systemic interest rates and deterioration in CASA, the bank was able to maintain its core lending margins during CY2016 and H1 CY2017 (NIM in H1 CY2017 was 3.27%, 3.33% in CY2016 and 3.30% in CY2015), due to better product pricing and investment activities.

### **Bank Profile**

BOC is the largest licensed commercial bank in Sri Lanka; 100% owned by the Government of Sri Lanka. The bank with assets of over LKR 1.7 trillion accounts for approximately 22% of the total banking sector assets as of December 31, 2016. BOC was incorporated in August 1939 under the Bank of Ceylon Ordinance No. 53 of 1938. Currently, BOC operates over 580 branches including 3 overseas branches in Maldives, Chennai and Seychelles. The bank also operates a subsidiary in the UK – Bank of Ceylon (UK) Limited. The BOC group has 10 subsidiaries and 5 associate companies that are involved in NBFIs operations, property development and leisure.

During CY2016, BOC (Standalone) reported PAT of LKR 24,791 Mn on a total assets base of LKR 1,669 Bn, vis-a-vis a PAT of LKR 17,359 Mn on a total assets base of LKR 1,568 Bn during CY2015. For the 6M ended June 30, 2017, BOC (Standalone) reported a PAT of LKR 10,133 Mn on a total assets base of LKR 1,806 Bn. As on June 30, 2017 the bank reported capital adequacy of 11.7% (Tier 1: 8.3%) and Gross NPA of 3.3%.

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<sup>1</sup> Return on average assets (ROAA) is calculated as Profit after tax/ Average total assets



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