

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

September 26, 2016

Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]AAA Reaffirmed(Outlook-Stable)

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 profile. Due to the bank's systemic importance, ICRA Lanka expects timely equity infusion by GoSL and adequate internal generation¹ (14.1% in CY2015) to support the overall capitalization profile for a business growth of about 14% per annum going forward. Asset quality of the bank improved during H1CY2016 (GNPA at 3.5% on June 30, 2016 vis a vis 4.3% in December, 31 2015) on account of improved recoveries in a few large accounts and in the pawning segment.

BOC accounts for 23% of the aggregate advances and about 20% of the aggregate deposits of all licensed commercial banks (LCBs) in Sri Lanka as on December 31, 2015. The Bank also operated 578 branches and 549 ATM access points around the country as of December 31, 2015. BOC's total advances in CY2015 grew by a moderate 11.9% (3.0% in 2014) compared to about 26% growth reported by the LCBs during the same period as credit off take by state owned entities (SOEs) and other corporate accounts remained low. During Q1CY2016, advances grew by 19.7% (YoY, annualized) over December 31, 2015 levels. The rating factors in the bank's position as the key lender to GOSL and SOEs, which accounted for close to 21% of the overall advances as of December 31, 2015 (37% as on December 31, 2014); credit risk on this exposure, notwithstanding the concentration, is expected to be modest due to the sovereign support. One of the large SOE exposures, Ceylon Petroleum Corporation (CPC), witnessed contraction (LKR 160.1 Bn on and off balance sheet exposure as on December 31, 2015 as compared to LKR 203.16 Bn as on December 31, 2014) due to lower crude oil prices, which also contributed to moderate overall credit growth. With the moderation in the government's exposures, BOC's retail exposure improved; corporate to retail mix stood at 46:54 as on December 31, 2015 as compared to 54:46 as on December 31, 2014. Going forward, the bank is expected to maintain a retail to corporate mix of 50:50.

The bank reported a healthy deposit profile with a comfortable mix of both foreign and local deposits aided by the bank's well established branch network, dominant position in the remittance business and a strong franchise, being the largest bank in the country. BOC's deposit base grew by 15.9% during CY2015. The Bank reported a healthy CASA ratio of 46% as on December 31, 2015 (46% as on June 30, 2016), above the industry average of 42%. BOC's overall liquidity profile was comfortable, as the loan

¹ PAT less dividend as a proportion of the average networkth

book growth was moderate leading to a decline in the credit to deposit ratio to about 76% as of December 31, 2015 as compared to 79% as of December 31, 2014.

BOC's tier- I capital deteriorated to 8.9% and the total capital adequacy ratio (CAR) to 12.8% as of March 31, 2016 (Tier 1 – 9.1%, total CAR 13.1% as on December 31 2015). It was weaker as compared to the industry average of Tier I – 11.6% and total CAR of 14.1% as of December 31, 2015. The proposed LKR 5 Billion equity infusion from GOSL along with its internal generation would support the Bank's overall capitalization profile for growth in the near to medium term.

BOC has been reporting a stable return on average assets (ROAA) of about 1.0-1.2% over the last three years. The bank's NIM improved from about 3.0% in CY2014 to 3.3% in CY2015, due to the lower cost of funds and improved CASA ratio. The same is expected to moderate with increase in the interest rates in the current year. Going forward, expected improvements in operating expenses matrices in line with the increase in the scale of operations and lower credit provisions owing to a decline in the incremental NPA formation and losses on existing NPAs is likely to support the overall profitability.

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 1.5 trillion account for approximately 22% of the total banking sector assets as of December 31, 2015. 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 which together account for 1% of the Group's profits and accounts for 2.6% of the group's total assets as of December 31, 2015.

During FYE Dec 2015 BOC (Standalone) reported PAT of LKR 17,357 Mn on a total assets base of LKR 1,568 Bn as against a PAT of LKR 13,574 Mn on a total assets base of LKR 1,329 Bn during FYE Dec 2014. For H1CY2016 BOC (Standalone) reported a PAT of LKR 10,814 Mn on a total assets base of LKR 1,583 Bn. As on June 30, 2016, the bank reported capital adequacy of 11.9% (Tier 1: 8.3%) and Gross NPA of 3.5%.

September 2016

For further details please contact:

Analyst Contacts:

Mr. Karthik Srinivasan, (Tel No. +91-22-6114 3444)
karthiks@icraindia.com

Relationship Contacts:

Mr. W. Don Barnabas, (Tel. No. +94-11-4339907)
wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

Contents may be used freely with due acknowledgement to ICRA Lanka.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.