

Bank of Ceylon - 2010 Annual Results Press Release

BOC records...

Rs. 730 billion Group Asset base-Up -33.3%

Rs. 401 billion Group Loans –Up 37.5%

Rs. 534 billion Group Deposits – Up 29.8%

Rs. 10.8 billion Group Profit –Up 135.7%

Rs. 10.6 billion value to Government- Up 94.2%

Bank of Ceylon (BOC) has concluded its financial year 2010 reporting excellent results, increasing volume and improved margins in all its business lines achieving significant asset growth. Firmly entrenched as Sri Lanka's foremost financial organization through its seven decades of existence, the Bank is fully geared to add its might in developing the country towards another financial hub in Asia.

In transforming the bank to a new era of financial services, BOC launched a 3 year plan in 2010 with an entirely new ambitious objectives, taking a fresh outlook of the prevailing economic optimism. This entailed a relook of our business model, emphasizing on diversification, skills development, building a best in class ICT culture, in driving our national economic development. The first year of the plan concluded with better than expected results.

Bank's financial performance

Profit before tax for the year crossed the Rs. 10 billion mark, to Rs 10.1billion - a 138.9% growth over the 2009. This is the highest ever profit on record at BOC in its track record. Profit after tax at Rs 6.4 billion, is an increase of 106.4% over last year. The main contributors to the profit growth are sound management of margins, volume growth in core banking and diversification of revenue into non-interest income, while offering the lowest interest rates to boost credit growth of the country. This profit was derived after several interest rate reductions to induce credit growth in the country and offering significant assistance in support of various government initiatives.

With income of Rs 63.4 billion remaining almost on par with the previous year, the increase in the assets is a testimony to the lower interest rates regime in which BOC led the way. Non interest income grew by 25.4% to Rs 11.1 billion while fee income earnings mainly from international trade activities increased to Rs 3.8 billion, a 99.3% increase. The bank continues to remain the market leader in import and export transaction banking. During the year, falling interest rates on fixed rate instruments together with good performance at the Colombo Stock Exchange, contributed to increase the capital gain of the Bank to Rs 3.1 billion, an increase of Rs 1.1billion or a 58.3% growth over last year. BOCs proactive foreign currency management, prevented the bank from exchange losses that would otherwise have been incurred in a Rupee appreciating environment. Due to this, the exchange income came under pressure to record lower gains.

BOC could well sustain its current operating expenditure levels and yet increase its business volumes leveraging its economies of scale. Staff costs remained at the same level of 2009. The

premises related expenses increased by 12.5% to Rs 2,803 million mainly due to the cost incurred in branch expansion in the north and east. Notwithstanding the increase in the cost, the Bank will further invest in branch expansion to penetrate banking services to the grass roots in GDP creation. Increase in the other operating expenses include marketing spend on new products and services and write-offs amounting to Rs 134 million in the branches adversely affected by the last phase of the conflict. This operational write-off was mainly to streamline and re-engage the affected business community, putting them back on their feet. BOC improved its operating efficiency by reducing the cost to income ratio to 53.7 % thereby being very competitive with that of the market.

Special emphasis on recovery at the beginning of the year, coupled with the transformation of sound risk management practices, substantially improved the assets quality of the Bank. Non Performing Loans (NPL) reduced to Rs 12.6 billion from 15.5 billion a year earlier recording an impressive NPL ratio of 3.3% from 5.6.% in 2009. This achievement must be read in the context of impressive loan growth.

Total assets increased by Rs. 176.7 billion or 32.8% to Rs. 715 billion. Our loan book expanded by Rs 107 billion or 37.7% to Rs.390 billion, growing consistently throughout the year. Private sector credit growth was Rs.60.7 billion, 33.2% increase over the last year to Rs 243.4 billion. Government and semi government loans increased by 50.4% to Rs 138.9 billion which includes Rs.2 .5 billion in support of the paddy price stabilization strategy. Of the private sector credit growth, Rs 38.8 billion accounts for consumption, Rs 9.3 billion is attributed to housing and construction, Rs 3.5 billion in Agriculture & Fisheries, Rs 3.2 billion in manufacturing, with Import-Export loans taking Rs 2.7 billion. BOC does not grant credit for speculative share trading purposes.

BOC engaged in deposit mobilization campaigns throughout the country and developed long term deposit mobilizing products via BOC Vishrama, BOC Infinity and Smart Saver. During the year, customer deposits increased by Rs 119.3 billion or 29.2% to Rs 528 billion. The deposit mix comprises demand deposits of 17.7%, savings at 36.0% and time deposits of 45.7%. The bank also raised USD 306.5 million in the international market and debentures of Rs 21.7 billion in the domestic market to fund the asset growth. The bank continuously explores opportunities to diversify the funding base and improve its capital adequacy. Net interest margin of the bank was greatly influenced by the Bank's ability to source funds at competitive prices.

Key Indicators such as Return on Average Assets (RoAA) doubled to 1.6 % in 2010, Return on Average Equity (RoAE) improved significantly to 23.9 % from 12.9% in 2009. The Statutory Liquidity Ratio (SLR) stood at 28.6 %. Our reported Capital Adequacy Ratio (CAR) of 12.7 % will be further improved with the inclusion of the current year's retained profit. This will be well above the regulatory minimum.

Bank has added Rs 10.6 billion as value to the Government in the form of tax, VAT and dividend. This is an increase of 94.2 % over 2009.

Group's financial performance

In the year 2010, all our subsidiaries and associates recorded good performance. BOC Group presently consists of 12 subsidiaries and 6 associate companies. One subsidiary namely Bank of Ceylon UK Ltd is operating in the United Kingdom under the supervision of UK Financial Services Authority. The main subsidiary, Merchant Bank of Sri Lanka (MBSL) has performed well in growth and profitability. Ceylease Financial Services Limited (CFSL) which was suffering from credit quality, turned around to be profitable. Accordingly group profit increased to Rs 10.8 billion recording a 135.7% year on year growth. Total assets increased to Rs.730 billion, up 33.3% from 2009 of which the subsidiaries contributed Rs.15 billion. BOC earned Rs. 222.7million in dividends from its subsidiaries and associates. During the year MBSL initiated a program to merge with CFSL and Merchant Credit of Sri Lanka Limited (MCSL) and it is in the regulatory approval stage.

“On this note of excellent all round results, the bank approaches 2011 with greater strength and vitality to fully leverage its distribution reach in engaging all communities in the economic development process. Key to this will be our focus on sustainable development through financial empowerment and upliftment of our local communities, says B.A.C. Fernando, General Manager of BOC”.

General

BOC retains the largest asset base in Sri Lanka’s Banking sector. Fitch Ratings Lanka Ltd has revised BoC's outlook to positive from stable and simultaneously affirmed its National Long Term rating at AA(lka), reflecting the Bank’s strong financial profile supported by sound capital base, profitability and asset quality.

Bank offers a broad range of services that consist of commercial banking, trade finance, development financing, mortgage financing, leasing, investment banking, Islamic banking, corporate financing, dealing in Government securities, pawn broking, credit card, off-shore banking, foreign currency operations and other financial services. BOC operates with 307 domestic branches, 2 overseas branches 218 representative offices and 352 ATMs. BOC as a group is also into fund management, stock broking, insurance, travel & leisure and property development.

BoC, for the second consecutive year wins the prestigious Trade Finance Award which recognizes the bank as the best Sri Lankan Trade Bank for 2010, which was conducted by Trade Finance, the Global Magazine for exports and commodity finance.

In a concluding note, “We have now laid a platform for transforming the bank to re-shape the financial services industry outlook. I am supremely confident that BOC is well prepared to take the country forward towards its goal of the emerging Wonder of Asia” ..said Dr. Gamini Wickramasinghe, Chairman, Bank Ceylon.