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BANK OF CEYLON
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BANK OF CEYLON

ANNUAL REPORT 2004



A journey towards new horizons, new goals, new challenges.

Contents

Vision

Be the nation's premier bank

Mission

Customers

Foster most rewarding relationship with trust and reliability for our customers, exceeding their expectations.

Staff

We offer our staff, recognition and rewards to be the best team of achievers in service excellence.

Owners

As per expectations of our owners, be a catalyst in national development, with profitability.

Society

Extending banking service to larger society as a beneficial beacon in the country

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“Confidence is that feeling by which the mind embarks in great and honorable courses with a sure hope and trust in itself.” Marcus Tullius Cicero 106 BC - 3BC



Financial Highlights

<i>Rs. million</i>	2004	2003
Profit Before Tax	2,559	1,800
Gross Earnings	23,957	22,805
Operating Income	14,937	13,653
Capital & Reserves	15,348	14,320
Total Deposits	205,219	186,386
Total Advances	142,203	125,587
Total Assets	266,399	240,388
Return on Assets %	1.01	0.77
Return on Equity % - <i>before tax</i>	17.25	13.77
Return on Equity % - <i>after tax</i>	13.28	12.48
Liquidity Ratio %	23.82	25.34
Capital Adequacy Ratio %	12.44	13.11
Capital Funds to Total Liabilities - including Contingancies %	4.95	5.19
Cost to Income Ratio %	66.25	68.38
Non Performing Advances Ratio %	9.82	14.35
Advances to Deposits & Refinance %	67.93	65.97
No of Depositors	5,490,575	5,274,285
No of Advances	1,217,697	1,061,063
No of Employees	8,718	8,927
Local Branches	297	295
Overseas Branches	3	4
Fitch Rating	AA (sri)	AA ⁻ (sri)

“The bank you can trust”



The Bank has developed over the years, in ways that will continue to grow value for the future. In an uncertain environment, customers and stakeholders alike can confidently place their trust in the fundamental strength of the Bank and in the skills and responsibility of its management.

Our upgraded AA(sri) Fitch Rating now puts our name among the 1000 largest Banks in the world.

All good reasons that make us the bank you can trust.

Products and Services



Safe Custody Vault



'Ran Niwasa' Housing Loan Scheme



Ceybank Credit Card

DEPOSITS

LOCAL CURRENCY DEPOSIT ACCOUNTS

Normal Savings

- Ran Kekulu Children Savings
- 14+ Teen Savings
- 18+ Youth Savings
- Sisu Saviya Savings
- Kantha Ran Ginum
- Senior Citizens Savings

Special Purpose Savings Accounts

- Ran Govi Thenpathu
- Ranaviru Ran Ginum
- Samurdhi Savings
- TECO Savings

Maturity Deposits

- 7 Day Call Deposits
- Savings Certificates
- Normal Fixed Deposits
- Senior Citizens Fixed Deposits

FOREIGN CURRENCY DEPOSIT ACCOUNTS

NRFC Accounts

- Normal NRFC Savings
- NRFC Fixed Deposits

RFC Accounts

- Normal RFC Savings
- RFC Fixed Deposits

Other Accounts

- Ethera Thilina Savings
- Ran Kekulu Foreign Currency Children Savings
- Resident Non National Foreign Currency Accounts
- Export Foreign Currency Accounts

TREASURY

PRIMARY DEALER UNIT

- Treasury Bills
- Treasury Bonds
- REPO's
- Reverse REPO's

FOREX & FUND MANAGEMENT

- Forwards
- SWAPS
- Import Export Financing
- Custodian Services
- Money Market Lending & Borrowing

SPECIAL SERVICES

Cash Services

- ATM Services
- 365 Days Banking
- Cheque Encashment
- SLT Direct Debit
- Foreign Currency

Funds Transfer

- Inter-Branch Money Transfers
- SWIFT
- SLIPS
- Telegraphic Transfers
- Mail Transfers
- Door to Door Express Remittance
- Issuing and Encashing Foreign Drafts

Travel Services

- Bureau de Exchange
- Travellers Cheques
- Dambadiva Charika

Value Added Services

- Gold Shop
- Safe Custody Vault
- Insurance Desk
- Left handers' Cheque Book
- Ran Kekulu Gift Vouchers
- Money & Banking Museum
- Small Entrepreneur Consultancy
- Trade Information and Help Desk
- E-Channelling
- SMS Banking

LENDING

PERSONAL LENDING

- Overdraft Facilities
- Term Loans
- Cheque Purchase Facilities
- Ran Surekum Naya Seva (Pawning)
- Pre-departure Loans for Migrant Workers
- RanSaviya Loans for NRFC A/c Holders
- Motor Cycle Loans for Government Employees
- Home Loans

CREDIT CARDS

- Visa Credit Cards
- Master Credit Cards
- Apsara Ladies Credit Card
- MasterCard Acquiring Services
- Visa Electron Debit Card

CORPORATE LENDING

- Revolving Facilities Consisting Term/OD
- Project Financing
- Syndicate Loans
- Commercial Paper
- Packing Credit
- Bank Guarantees
- Foreign Currency Loans
- Fixed Rate Advances
- Floating Rate Advances
- Indian Line of Credit
- Leasing

TRADE FINANCE

- Letters of Credit
- Pledge Loans
- Trust Receipt Loans
- Hypothecation Loans
- Export Finance
- Bills Purchases
- Bills Discounting
- Shipping Guarantees
- Documentary Collection

DEVELOPMENTAL LENDING

Crop Lending

- New Comprehensive Rural Credit Scheme (NCRCS)
- Tea Development Project Credit Scheme (TDP)
- Coconut Development Loan Scheme (KAPRUKA)
- Second Perennial Crops Development Project Credit Scheme (SPCDP)
- Loan Scheme for Improvement of Locally Produced Rice to International Standards

Fisheries sector Assistance

- Aquatic Resources Development and Quality Improvement Project (ARDQIP)
- Credit Scheme for Small Scale Fisherman
- Credit Scheme for Insulated Trucks for Transportation of Fish

Facilities for SMI

- Comprehensive Credit Scheme for Small Enterprise Development (SED)
- Surathura Diriya Credit Scheme
- Skills Development Project - Self Employment Promotion Initiative (SEPI)
- Small & Medium Industries Leader Entrepreneur Promotion Scheme (SMILE II)
- Credit Scheme for the Purchase of Three Wheel Auto Rickshaws
- Financial Assistance for Geuda Heat Treaters & Lapidarists
- Susahana Credit Scheme for Tsunami Rehabilitation

Regional Development Schemes

- Integrated Rural Development Project (IRDP) Sabaragamuwa
- Southern Province Regional Economic Advancement Project (DASUNA)
- Estate Sector Self Employment Revolving Fund Credit Scheme



Despite aggressive competition from other state banks and private banks, BOC maintains its market leadership in deposits, NRFC Accounts, inward foreign exchange remittances, offshore banking, treasury products and micro - banking.

Subsidiaries and Associates

BOC Group

Subsidiaries

Company Name	Holding %	Principal Activity
1 BOC Property Development & Management (Pvt) Ltd (PDML)	100.00	Property management
2 BOC Management & Support Services (Pvt) Ltd (MSS)	100.00	Management services
3 BOC Travels (Pvt) Ltd	100.00	Travel related services
4 Ceybank Securities Ltd (<i>in liquidating</i>)	100.00	Primary dealer
5 Hotels Colombo (1963) Ltd (HCL)	98.23	Hotel operations
6 Property Development Ltd (PDL)	93.16	Property development
7 Merchant Credit of Sri Lanka Ltd (MCSL)	90.94*	Financial services
8 Merchant Bank of Sri Lanka Ltd (MBSL)	82.24	Merchant banking
9 Ceylease Financial Services Ltd	50.00	Leasing

Associates

Company Name	Holding %	Principal Activity
1 Lanka Securities (Pvt) Ltd	43.85*	Stock broking
2 Ruhuna Venture Capital Company Ltd	41.67	Venture capital funding
3 Mireka Capital Land (Pvt) Ltd	40.00	Property development
4 Transnational Lanka Records Solutions (Pvt) Ltd	24.69	Archives management
5 Capital Development and Investment Company Ltd (CDIC)	23.92	Investment banking
6 The Unit Trust Management Company (Pvt) Ltd	20.00	Fund management

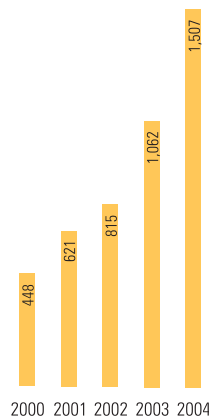
* The % holding includes indirect holdings as well

Economic Indicators

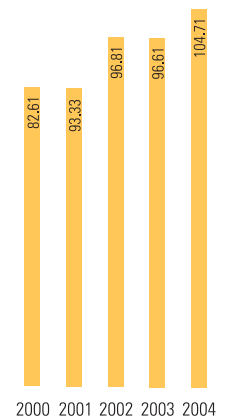
A severe drought adversely affected a large extent of agricultural areas and hydropower generation. Rising oil prices were a major external shock although the global economic recovery had a somewhat beneficial effect. The deceleration of the inflation rate bottomed out during the first half of 2004 due to the drought, escalating oil prices, and high international prices of imported commodities.

Sri Lanka's economy achieved a growth of 6.4 percent in the first quarter of 2004 and slowed down somewhat in the second quarter to 5.4 percent registering a first half growth rate of 5.9 percent leading to growth of around 5.4 percent of GDP in 2004.

ALL SHARE PRICE INDEX

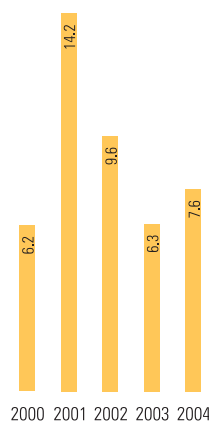


USD/LKR RATE



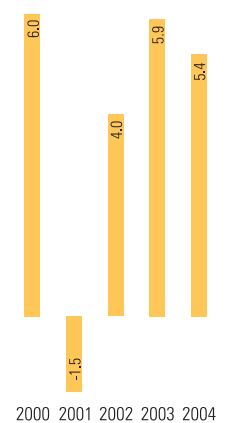
INFLATION

%



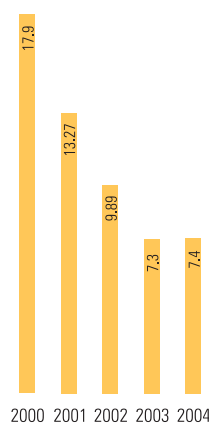
REAL GDP GROWTH

%



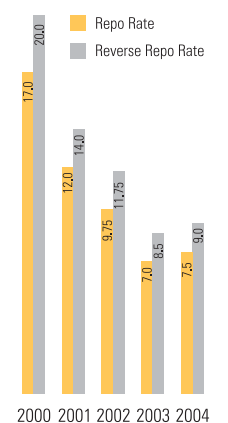
TB RATE (6 Month)

%



REPO RATE/REVERSE REPO RATE

%

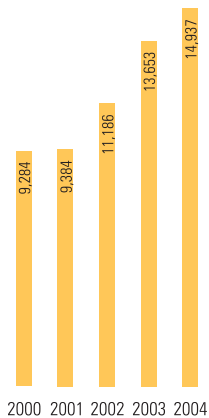


Source: Central Bank of Sri Lanka and BOC Treasury

Graphical Review

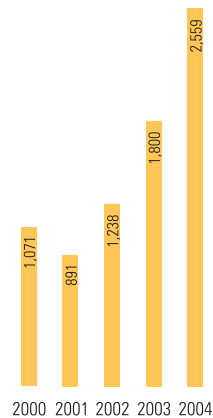
OPERATING INCOME

Rs. million



PROFIT BEFORE TAX

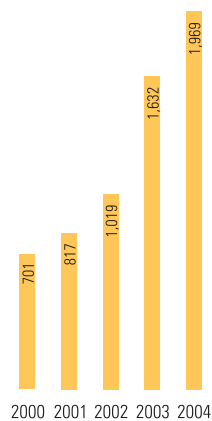
Rs. million



In this favourable economic environment, the bank recorded a healthy pre-tax profit of Rs. 2,559 million in 2004 reflecting a growth of 42% compared with of Rs. 1,800 million recorded for the previous year.

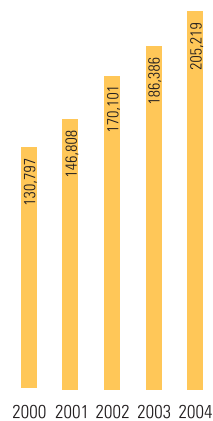
PROFIT AFTER TAX

Rs. million



TOTAL DEPOSITS

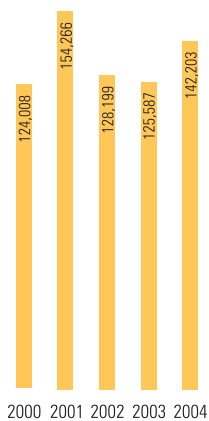
Rs. million



Deposits achieved an important landmark of Rs. 200 billion during the year. Continuing the leadership in Sri Lankan Offshore Banking operations, foreign currency advances increased by Rs. 16 billion representing a 32% growth over the last year.

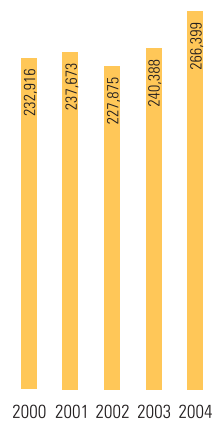
TOTAL ADVANCES

Rs. million



TOTAL ASSETS

Rs. million



Historical Review

Bank of Ceylon was launched on the 1st of August 1939, with the objectives of expanding national agricultural and industrial production, trade and commerce; and addressing issues of the national debt arising due to Sri Lanka's dependence on world market conditions.

The Bank has laid its foundation in the 1932 Report of the Banking Commission, which was described as one of the most important public documents of its time. Presenting it for debate in the State Council, the Minister of Labour, Industry and Commerce, Mr. Peri Sundaram said, *"Ceylon has been extremely fortunate to secure the services of its three members, Sir Sorabji Pochkhanwala, Managing Director of the Central Bank of India, as its Chairman and the two other Commissioners"*.

Speaking about the conditions for agricultural development at the time, Mr. George E De Silva (the Member of the State Council of Ceylon representing Kandy) said, *"being an agricultural country, it is the bounden duty of the Government to give all facilities to develop the lands belonging to the State as well as the people.... when we consider the facilities available to borrow money for this purpose, we could easily realize the plight planters are in today"*



Savings Dept, 1st November 1950

"Self-trust is the first secret of success, the belief that if you are here the authorities of the universe put you here, and for cause, or with some task strictly appointed you in your constitution, and so long as you work at that you are well and successful."

Ralph Waldo Emerson 1803-1882

The Bank grew steadily. Two years after we commenced operations, we opened our first local branch in Kandy in 1941, and our first overseas branch in London, in 1949. Today we mark 65 years in operation, during which time we successfully withstood fierce competition from a number of international banks operating from Colombo, to achieve our present stature as an industry leader.

One of the Bank of Ceylon's major achievements towards the enhancement of banking activity in general in Sri Lanka, was in setting up the Agricultural and Small Industry Division and the 320 Agricultural Service Centres (ASC's), in

1973. The number of branches which was 61 in 1970, grew to 272 by 1980 (excluding ASCs), which gave us an islandwide reach matched by few others.

With the liberalisation of the policy on foreign exchange transactions, the first Foreign Currency Banking Unit (FCBU) was set up in 1979. A dedicated 'Non Resident Foreign Currency Centre' was opened, making us the market leader in foreign currency deposits.

We also expanded our activities through the International Division and increased the number of overseas branches. Today, we handle the largest volume of foreign exchange remitted to the country.

The Bank of Ceylon has also pioneered many products in various market segments: Children's Savings Accounts (1987), Savings Certificates (1989) and *Kantha Ran Ginum* (1992) exclusively for women, all of which are market leaders in their respective segments.



The original plaque at the entrance of the City Office building

It is with pride that we look back over the years, confident that we have always kept our focus on our original mission...to make a dynamic and significant contribution towards the island's economic development- and we look to the future with a sense of commitment to the evolving requirements of the Bank, its stakeholders and the citizens of Sri Lanka.



Ceylon Daily News press cutting (August 2, 1939), to mark the launch of BOC

Bank of Ceylon, Today



Aerial view of the capital city, Colombo

The Bank of Ceylon continues to be an industry leader, offering banking services and a diverse range of products and services to a wide spectrum of society. With 297 local branches islandwide, we are one of the most accessible banks in the country. We also service clients in London, Male and Chennai through our overseas branch offices.

We pride ourselves on being an industry pioneer and this spirit is still evident as we continue to expand and develop the products, services and human resources we offer.

An industry leader

Despite aggressive competition from other state and private banks, we have maintained our high ranking in deposits, NRFC Accounts, inward foreign exchange remittances, offshore banking, treasury products and micro-banking services, thereby reaffirming the fact that state ownership is no bar to efficient professional management.

Financial stability and trust

The key elements in customer perception when evaluating a financial institution are its stability and reliability. This is very evident at times of crisis in the macro-environment, which could shake the very foundations of a financial institution. The Bank of Ceylon however, has established such a strong base in the national business environment that we are, today, regarded as being the strongest, most trustworthy commercial bank.

“A sufficiently great and generous trust could never be abused.”

Henry David Thoreau 1817-1862

We are rated AA(sri) by Fitch Rating, an internationally reputed Credit Agency, and are ranked among the 1000 largest banks in the world. All of which brings added value and credibility to our new slogan: *“BOC- the Bank you can trust.”*

Our staff

Despite the current emphasis on modernization and IT development, the fact remains that human resources continue to be the most valuable asset of any institution. Our staff are a trained, professional team, including some of the most experienced and qualified banking professionals in the country.

Good governance and transparency

We are always aware that a state-owned bank has an added degree of responsibility in the area of governance. As a result, we emphasise compliance with all accepted principles of banking regulation in our operations, auditing and reporting - maintaining our well-earned reputation for good governance and transparency in everything we do.

Corporate Social Responsibility

We believe that, as leading financial institution of Sri Lanka, we are committed to following all the principles of good corporate citizenship.

Corporate Social Responsibility is regarded as a vital area and a budgetary allocation has been designated specifically for this purpose. Making social welfare a priority, we now contribute towards a number of selected causes each year.

Strategy

Our Corporate Plan for 2004 - 2007 is designed to significantly improve the Bank's performance.

The plan includes the following:

- Strengthening consumer marketing through brand management.
- Improving branch channel efficiency and customer care.
- Entering the SME sector, which has shown steady expansion since the introduction of the open economy and has its own type of banking needs.
- Implementing an accelerated IT development program designed to bring state-of-the art convenience banking to customers throughout our network.
- Initiating action to participate in the National Project started by the Central Bank on 'Cheque Imaging & Truncation' designed to streamline the national payment and clearing system within two days of transaction.

Reflecting these fundamental changes in corporate and operational policy, we have also streamlined our corporate branding by launching a new logo, creating new branch signboards, and the refurbishment and redesign of our branch offices.

Chairman's Review

It gives me great pleasure to present to you the Annual Report of the Bank for the year ended 31st December, 2004. I have had the privilege of being Chairman only since May 2004. Hence, this Annual Report largely reflects the stewardship of my immediate predecessors. My challenge is to continue the tradition of leadership not only through excellence in execution of the core functions of the Bank, but also through the quality of ideas.

The Bank strives to ensure a sustainable growth in its corporate values by providing high quality and innovative financial services and maintaining its position as the strongest Bank in Sri Lanka. By achieving these goals, the Bank aims to retain the trust of its customers, and thereby achieve its mission of being a major influence in developing the economy of the country.

The Sri Lankan Economy

During the year under review, Sri Lanka's economy improved considerably due to continued peace prospects and the Government's commitment to reviving the economy. In November 2004, the Government presented its budget for 2005 in which the policy statement, 'The Economic Policy Framework' sets out the broad economic parameters underlying its economic vision. With its commitment to proactive roles for the private and public sector, this framework provides for continuity of general market based economic policies.

During 2004, the country's economy grew amidst several internal and external factors. A severe drought adversely affected a large extent of agricultural areas and hydropower generation. Rising oil prices were a major external shock although the global economic recovery had a somewhat beneficial effect. The deceleration of the inflation rate bottomed out during the first half of 2004 due to the drought, escalating oil prices, and high international prices of imported commodities.

Sri Lanka's economy achieved a growth of 6.4 percent in the first quarter of 2004 and slowed down somewhat in the second quarter to 5.4 percent registering a first half growth rate of 5.9 percent leading to growth of around 5.4 percent of GDP in 2004.

The Bank's Performance

The Bank, with a substantial contribution from other group companies, performed well. For the year ended December 31st, 2004, the Bank generated Rs. 8.3 billion in net interest income. Capital exceeded Rs. 15 billion and deposits



Mr P M Nagahawatte

"Every kind of peaceful cooperation among men is primarily based on mutual trust."

Albert Einstein 1879 - 1955

rose to Rs. 205.2 billion, while the loan portfolio stood at Rs. 142.2 billion. The Bank earned a pre-tax profit of Rs. 2.6 billion for the year 2004 the best among Sri Lankan commercial banks, compared to Rs. 1.8 billion for the previous year.

The BoC group operates in both the corporate and retail sectors offering a diversified portfolio of services islandwide. The Bank has nine subsidiaries and six associate companies and reviews their performance on a regular basis to ensure satisfactory returns on capital. The strategy envisioned will ensure that priority is given to our core business and our investments in subsidiaries and associates will gradually be divested.

Strategic Enterprise Management Agency - SEMA

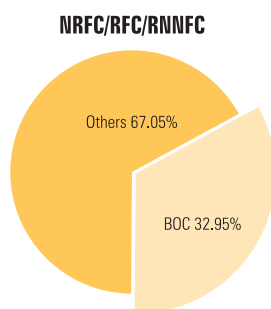
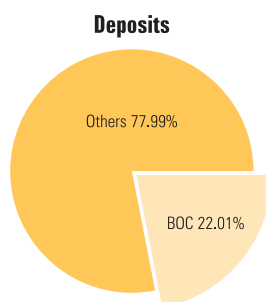
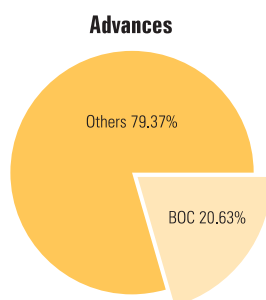
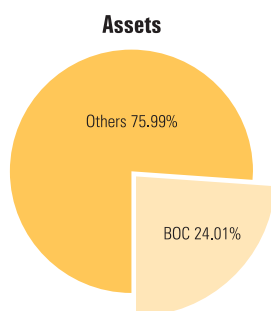
With a view to introducing greater commercial autonomy to public sector enterprises the Government established SEMA, and the Bank is one of twelve enterprises brought under the purview of SEMA. The Bank worked closely with the Ministry of Finance & Planning and SEMA to formulate a strategic plan for 2004 - 2007 to continue with the Bank's restructuring and to provide it with greater autonomy. The plan was subsequently reviewed and approved by the Cabinet of Ministers.

A Growing Retail Presence

With 297 local branches strategically located islandwide, our branch network ensures all parts of the country receive efficient banking services. We continually seek opportunities to expand this coverage, aggressively building our branch network, already one of the largest in the country- opening two branches in 2004, with another nine scheduled for 2005 and six more locations identified for the future. In addition, customers can make use of 106 ATMs across the island. The Bank also offers retail customers SMS banking facilities and intranet banking services for our corporate customers. We ensure that strong customer relationships will remain a focus of our branch system.

Our IT Strategies

The implementation of new software solutions for key banking areas, viz: core banking, Trade Finance and Treasury, is proceeding satisfactorily. This core banking system is extremely user friendly in a well secured IT environment. By the end of 2005, the Bank aims to have installed the new centralized systems in 200 branches. This will provide true "Anywhere Banking" for customers of these branches and bring the Bank close to providing connectivity between all its branches. The new



Source - Central Bank of Sri Lanka



During the year 2004, the Bank continues to engage in rationalising the branches in order to enhance performance in the retail-banking sector. Two new branches were opened in Ragama and Narabepita while thirteen branches were relocated at spacious and convenient locations.

IT system will provide the latest in computerized banking services in all our branches wherever they are situated.

New Products

BoC continues to offer new products to its customers. Among the new products introduced during 2004 was the 14+ Teen Saving Account. Account holders are issued with a Visa Electron Debit Card, to withdraw money, which has proved to be popular among teenagers.

The Bank, during 2005 will offer a broader range of internet services to its retail, middle market and corporate customers. Such services will include fund transfers, utility bill payments and credit card payments and trade finance transactions for corporate customers. The Bank's ATM network has been linked with Sampath Bank's to form - LEAP (Lanka Electronic Access Point), a network consisting a total of 201 ATM machines, which will enable customers of both banks to transact at any ATM belonging to either bank.

Good Corporate Governance

The Bank strives continually to enhance its corporate governance with the fundamental premise of increasing transparency and soundness of its management. The Board considers the introduction of modern risk based auditing systems to be imperative to maintain the appropriate levels of supervision. The Board consists of non-executive directors who bring a wide range of skills and expertise to the Board. The practices it has adopted are the ones that best suit its objectives and the political, economic and social aspects of the environment it operates in.

Corporate Social Responsibility

As responsible corporate citizens in the communities we live and work in, we supported many social initiatives which are listed out in detail on pages 23 and 24 of this Annual Report. After the devastating tsunami that wreaked havoc along the coastlines of our country last December, the Bank was affected with loss of infrastructure in Galle and Hikkaduwa. However, affected branches were moved to other locations and started operations within 03 days of the tsunami in order to assure our customers of our reliability and accessibility in their time of need. The Bank and Bank staff contributed towards the immediate relief and rescue efforts by providing financial assistance and non-financial assistance such as distribution of food and clothing in the affected areas.

Apart from the loss suffered by the Bank, the economy of the coastal areas has also been crippled by the tsunami. Since banks play a key role in the economic development of the country, it is the responsibility of the banks to assist in the rebuilding of the economy of the affected areas. The Bank of Ceylon, as the premier bank in the country, has already embarked on several projects to achieve this objective. It participates in Government sponsored lending programmes as well as other relief programmes initiated by the Government and by itself.

Risk Management

The Bank remains firmly committed to ensuring sound risk control and reporting systems. The Bank recognizes that different types of risk are interlinked and uses an integrated approach in overall risk management

though specific risk types are studied separately.

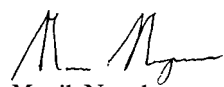
Looking Ahead

We have targeted for significant growth in the coming year with innovative products and increased customer services as we believe in achievement without compromise. Our business philosophy is firmly embedded in our belief in hard work. We will focus with renewed determination to provide advice, products and services that amplify our customers' efforts and advance their ambitions.

The Government, when announcing the budget 2005, laid emphasis on the development of Small and Medium Enterprises, a sector that could substantially contribute to the economic growth of the country. The Bank too has decided to play a significant role in this sector and to embark on some pilot projects to assist the Small and Medium Enterprises in the provinces and thereafter, depending on these results, to establish a fully fledged Small and Medium Enterprise Division in the Bank.

Although we expect the 2005 business environment to remain challenging, we do expect to have a successful year with substantial accomplishments. We are committed to further improving our non-performing loan situation driven by organization-wide dedication to asset quality. And finally we are committed to leadership and teamwork within our organization that will drive improved performance and positively impact on shareholder value.

I take this opportunity to convey my gratitude to the Board of Directors for the excellent job done and the support extended to me during the past year. I thank my staff, customers and stakeholders for their dedication, loyalty and support in making the year a welcoming one for me. I extend my sincere appreciation to the Government, the Minister of Finance & Planning, Hon. Dr. Sarath Amunugama, Secretary to the Ministry of Finance & Planning, Dr. P B Jayasundera, the Governor of the Central Bank, Mr. Sunil Mendis and the Chairman of SEMA, Mr. Mano Tittawella, for their guidance and support. I also thank my predecessor, Mr. Chrisantha Perera, who served as Chairman of the Bank for a part of the year under review.


Manik Nagahawatte
 Chairman

17th March 2005
 Colombo

General Manager's Review of Operations

The Bank of Ceylon's achievements in 2004 clearly reflect the benefits of the Bank's ongoing restructuring program. During the year under review, net profit before tax increased by 42% to a satisfactory Rs. 2.6 billion after setting aside a provision of Rs. 300 million for tsunami related losses. Achieving these profits enabled the Bank to be a major contributor to the Treasury. Dividends and taxes paid to the Government for 2004 exceeded Rs. 2.4 billion.

Being the largest and premier bank in the country, BoC has a responsibility to take the lead in putting into practice the Government financial policies. The Bank demonstrates this responsibility by quickly enacting lending rate reductions in accordance with CBSL policies. Our ability to be a major player in the foreign exchange market was a factor in making dollars available to meet the increased oil import payments.

Financial performance

While reducing lending rates, the Bank strived to maintain its deposit rates, and while this resulted in a fall in the interest margin of 3%, we were still able to achieve a 9% increase in operating income which totaled Rs. 14.9 billion as against Rs. 13.7 billion in the previous year.

BoC also established a milestone in Sri Lankan banking history by becoming the first commercial bank to have customer deposits in excess of Rs. 200 billion. We thank our depositors for this demonstration of confidence in the Bank. Bank of Ceylon has the largest capital base and total assets of any Sri Lankan commercial bank. These factors together with our AA (sri) rating from Fitch (Sri Lanka) are a clear demonstration of the Bank's financial strength and stability. This enables us to continue to raise deposits to be invested in supporting the growth of both small and large Sri Lankan businesses. At a time when the country faced the collapse of a bank, BoC recognized the fact that depositors are looking for safety as well as good deposit rates. We can assure depositors that protecting their funds and ensuring their safe investments is and will remain the first priority of the Bank.

Marketing

While BoC is a household word in Sri Lanka, the Bank considers it has not taken full advantage of the value of its brand. The Marketing Division, in 2004, placed emphasis on developing our brand name. An exercise to give our branches a major face lift and a common exterior and interior making them immediately recognizable as Bank of Ceylon branches was commenced. This included a new logo and a new design for our branch name boards.



Mr S N P Palibena

"It is mutual trust, even more than mutual interest that holds human associations together."

H. L. Mencken 1880 - 1956

The Business Development Department was successful in promoting two products- Ran Kekulu and 18+ accounts across the country. Although, initially our products were not segmented or branded, we were able to capture the market with common deposit products. All these products have identified the need of the target segment and have attracted our desired target groups.

For the first time an advertising campaign of BoC won a Silver Award at the Sri Lanka Institute of Marketing Advertising Awards.

Corporate Social Responsibility

The Bank undertook numerous projects under corporate social responsibility. A Rs. 500,000 contribution was made to the Kalutara Bodhi Trust for a scanner for the Nagoda-Kalutara General hospital. The Bank also undertook the complete renovation of maternity wards in 40 rural hospitals across the country. An additional wing for the Children's Ward at the Maharagama Cancer Hospital was completed with contributions made from the Bank's staff. Responding to the problems caused by the drought that gripped the North Western Province, the Bank contributed Rs 2.75 million to the President's Drought Relief Fund. In addition, funds were allocated for the rehabilitation of Tanks projects.

As part of the post-Tsunami relief activities the Bank made a substantial contribution to the relief funds and all of the staff contributed a days pay to assist in relief activities.

Human Resources and Welfare

During 2004, the Bank continued to recruit entry level staff, a process which will be accelerated in 2005 and continued to provide training under the Tharuna Atuna and graduate skills development programs. The Central Training Institute of the Bank conducted training programmes with an emphasis on 'soft skill' training. Over 7000 employees, island wide were trained under 180 such programmes.

Overseas training was provided for 96 employees and we were able to build closer ties with several overseas training institutions in the region.

In recognition of the many years of loyal service from staff members, the Bank held the Long Services Award Ceremony felicitating 630 recipients in a grand event held at the BMICH. In addition, sports activities were promoted throughout the year and an Awards Night was held in recognition of our achievers in the sports arena.

The Bank of Ceylon recognizes the responsibility it has towards its staff and has undertaken to ensure that the Pension Fund is fully funded. We have calculated with the actuary the necessary funding required and while this can never be totally accurate, we believe it is realistic. A program to fund the deficit over the next six years has been agreed with the actuary with an objective that on retirement of a staff member, there will be sufficient monies in the fund to meet the required pension payments for the remainder of their lives.

Internal Control and Compliance

The Inspection and Audit department continued its focus on strengthening internal controls during the year under review. This critical management function independently evaluates adequacy, effectiveness and efficiency of the systems of controls, and processes within the Bank in order to ensure compliance with internal and external regulatory requirements. The Internal Audit department follows an annual audit plan approved and monitored by the Audit Committee ensuring all the Bank's major risk areas are adequately controlled.

Branch and Development Banking

BoC has a long history of development banking, which is considered to be a must, and this remains a major activity of the Bank. Thus, while some banks are moving away from development banking to commercial banking, BoC continues to see it as a key area.

One of our main focus areas continues to be the uplifting of the agricultural economy of the country and this also includes finding alternative crop sources. Four success stories have been in cultivation of maize in Galenbindunuwewa, ginger at Alawwa, gherkins in the North Central Province and creating market linkages in Dambulla.

Maize cultivation- Galenbindunuwewa

The maize cultivation project in Galenbindunuwewa pioneered the principle of self-help, where fifty women banded together

to grow this drought resistant crop. In addition, the maize is also resistant to common agri-diseases and takes only 45 days to harvesting. The total acreage under harvest is 500 acres and working on the economies of scale, this self help group under the guidance of the BoC has embarked on forward sales agreements with Prima, World Vision and private dealers.

Ginger cultivation- Alawwa

This is an ideal inter-cropping root that can be planted in coconut growing and barren paddy land. The BoC assisted project that began with 31 acres just one year ago, doubled its capacity by the end of 2004 to 60 acres, involving 100 farmers in ginger cultivation. BoC also enabled the farmers to get the facilities of forward sales contracts with Elephant House and other traders ensuring a stable income, and improved economic conditions for these farming families.

Gherkin cultivation - North Central Province

This, by most standards, is the largest cultivation project that the Bank is involved in at present, encompassing 3,750 farmers from Jayanthipura, Eppawela, Melsiripura and Mahiyangana. Gherkins have been cultivated over six seasons thus far on 800 acres with the entire production securing forward sales contracts. Targeted for the export market the Gherkins are packaged in special containers filled with brine.

Beneficiary training/market linkage programmes- Dambulla

350 vegetable and paddy farmers were given support and encouragement by BoC when industry experts were enlisted by the Bank to enable a training programme on quality enhancement and packaging. The importance of quality, good marketing and packaging techniques were impressed upon them leading to the establishment of forward sales contracts with almost 20 buyers promising them opportunities to obtain good prices for their produce.

Small and Medium entrepreneurs remain the backbone in an emerging economy like ours and BoC believes that by uplifting this entrepreneurial segment, the country's economy can be developed. The Bank has always remained mindful of social obligations to empower the rural and urban entrepreneur, which will in turn enhance productivity and profitability, that we believe will permeate across the economy of Sri Lanka.

Strategy for the future

Restructuring

The Bank's restructuring efforts centered on the implementation of three new IT systems: Core Banking, Trade Finance and Treasury. By

the end of 2004, 10 branches had gone live on the Core Banking System, including the corporate and overseas branch. At the time of going to press, the number of branches on the system had increased to 50 and the treasury system was also live. By the end of the year, the Bank will have the largest network of connected branches on the island. Here, I should mention, my appreciation of the members of staff of the three implementation teams, IT department and the branches that have gone live for the many late nights and weekends they have worked to ensure the projects remain on schedule.

IT Operations and Technical Support

Whilst 2004 was a year for development and implementation of IT systems, 2005 will see their delivery and move the Bank to being a leader in the area of information technology.

Currently, Bank of Ceylon provides Online Banking facilities through dial-up medium to Corporate customers via an internal intranet providing facilities for inquiry and downloading of savings and current accounts balances and transaction history and transfer data between branches and head office for management information purposes. The installation has now been completed of firewalls and encryption facilities certified through ethical hacking by external experts. This will, during 2005, enable the provision of banking facilities including fund transfers and utility bill payments such as water bills, electricity bills, and credit card bills through the internet to Corporate and Retail customers in conjunction with the expansion of the Core Banking software across the network.

The implementation of new Trade Finance System will enable corporate customers, via the internet, to open and amend import Letters of Credit as well as track both export and import Letters of Credit. In addition, they will be able to apply for trade finance loans. All this will be possible without even leaving one's office.

With the implementation of the Core Banking System, SMS Banking facilities will, over the next 18 months, be expanded to cover all our branches. Additional enhancements will provide facilities to transfer funds, to make bill payments and other functions

The future

The Bank's strategic and business plans call for significant growth over the next few years. With the investment the Bank is making in IT systems, infrastructure and human resources, it is of the view of the Board and Management that emphasis must be given to increasing revenue generation and providing a satisfactory

return on the investment. In other words, our plan is to do a much greater level of business with the existing infrastructure, thereby growing revenue at a faster rate than the attendant costs.

Development Policy in the Year 2005

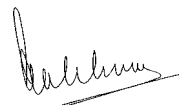
Our focus will be on strengthening and the expansion of business relations with existing customers as well as seeking new customers especially in the retail and SME sectors. Adjusting to the changes in the industry, the Bank will strive to recognize and foresee the needs of its customers and promptly offer adequate solutions. With such endeavours, the Bank will actively contribute to the growth and development of its customers and thus, the nation.

Emphasizing the importance and role of small and medium size enterprises in the economic development of the country, especially after the aftermath of the devastating tsunami, the Bank will initiate special programs to support development projects for these companies. A unit dedicated to serving SME customers was established in Colombo in the early part of 2005 and it is the Bank's objective to expand such units to cover all the provinces.

Special attention will be directed towards the development and implementation of a new risk management system in all the three key risk areas; Credit, Operations and Treasury. The ultimate objective is a modern financial institution successfully confronting the challenges of a changing environment and nourishing good business relations with customers.

In conclusion, I would like to take this opportunity to express my thanks to those who have supported me. My appreciation goes out to the Secretary to the Ministry of Finance, the Auditor General and the Governor of the Central Bank of Sri Lanka for their unstinted support.

I thank my employees for their loyalty and dedication in making this Bank the success it is. My sincere thanks go out to our valued customers, business partners and other global representatives and lastly, I thank my Board of Directors for their support throughout the year under review.



S N P Palihena
General Manager

17th March 2005
Colombo

Board of Directors



Mr P M Nagahawatte

Chairman

Mr. Nagahawatte holds a LLB (Hons) Degree and a Master of Law Degree. He was appointed to the Board of Directors of Bank of Ceylon as a Director and Chairman on May 24th, 2004.

Previously, he held the position of Deputy Governor of the Central Bank of Sri Lanka. As Senior Deputy Governor he functioned as the Chief Executive Officer and Chairman of the Monetary Board of the Central Bank in the absence of the Governor. He held several senior positions, including Controller of Exchange and Executive Director during a 38 year career with the Central Bank.

He has also been the Chairman of the Credit Information Bureau of Sri Lanka, a Commissioner of the Securities & Exchange Commission of Sri Lanka, a Director of the Insurance Board of Sri Lanka, the Private Sector Infrastructure Development Company and the National Development Bank of Sri Lanka.



Mr Cubby Wijetunge

Director

Mr. Cubby Wijetunge is a Fellow of the Institute of Management UK and holds an MBA from the Open International University for Complimentary Medicines and Medicina Alternative Institute.

He was appointed as a Director of Bank of Ceylon in May 2004 and is a member of the Audit Committee.

Mr. Wijetunge is the Executive Vice President, Corporate Affairs and Executive Director of Nestle, Sri Lanka and a Trustee at The Joseph Fraser Memorial Hospital.

He also serves as Chairman of Lion Breweries Ceylon Ltd., Ceylon Breweries Ltd. and Union Residencies Colombo and is a Director of Merchant Bank of Sri Lanka Ltd, Janashakthi Insurance Co. Ltd, Hunter & Co. Ltd, and Belvoir College.

“Honor begets honor; trust begets trust; faith begets faith, and hope is the mainspring of life.”

Henry Lewis Stimson 1742 - 1799

“Our strong roots in local culture and market experience both here and abroad are what make the Bank of Ceylon unique in the industry. This is our inheritance, our strongest value and the foundation that we continue to build upon.

We believe in bringing this strength, knowledge and deep understanding of the requirements of the nation to every customer however great or small...



Mrs Lakmali C. Gunawardena Nanayakkara

Director

Mrs. Lakmali Gunawardena Nanayakkara is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK.

A Partner of Ernst & Young-Chartered Accountants since April 1988 and head of the tax practice, she has extensive experience in the field of auditing, taxation and accounting.

She was appointed as a Director of Bank of Ceylon in May 2004 and is a member of the Audit Committee.

She is also an elected Member of Council of the Institute of Chartered Accountants of Sri Lanka, a founder member of the Taxation Faculty, a member of the Statutory Accounting Standards Committee and a member of the Ceylon Chamber of Commerce.

She also functions as a non-executive director and chairperson of the Audit Committee of Ceylon Tobacco Company Limited, non-executive director of Chemanex Ltd, Lanka Orix Leasing Company Ltd (Alternative), Delmege Insurance Brokers (Pvt) Ltd and Delmege Forsythe & Company (Exports) Ltd.



Mr Lalith Withana

Director

Mr. Lalith Withana is a Fellow Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants - UK. He also holds a Honours Degree in Clothing from the University of Manchester Metropolitan - UK and a Masters Degree in Business Administration from the Postgraduate Institute of Management of Sri Jayewardenepura University.

He was appointed as a Director of Bank of Ceylon in May 2004 and is the Chairman of the Bank's Audit Committee.

He serves presently on the board of Merchant Bank of Sri Lanka Limited. He is the Chief Executive Officer - Procurement of Brandix Apparels Ltd.



Mr Sumith Abeysinghe

Director

Mr Sumith Abeysinghe holds B.A (Hon.) Degree in Geography (Sri Lanka) and Master of Economics Degree (University of New England, Australia).

Mr Abeysinghe who functions as Deputy Secretary to the Treasury, was appointed as a Director of Bank of Ceylon in May 2004.

He previously held senior positions in the Ministry of Finance and Planning such as Director General of National Budget, Director of Fiscal Policy and Economic Affairs. He is also an ex-officio Director of Securities and Exchange Commission, Director of University Grants Commission and Southern Development Authority.

We understand that our success has and will continue to depend upon our commitment to the highest standards of service, transparency and productivity.”

Corporate Management



1 Mr. K Dharmasiri

B.Com. (1st Class Hons.), B. Phil. (Econ.), A.I.B.
Deputy General Manager (Corporate & Offshore Banking)

Mr. Dharmasiri possesses 29 years of noteworthy service in BoC. He has an exemplary track record in the domestic as well as overseas banking. He has served as the Country Manager, Maldives and the Managing Director of Nepal Bank of Ceylon Ltd.

2 Mr. J B V Fernando

A.C.I.B. (London), Exe. Dip. in Business Administration
Deputy General Manager (Inspection & Audit)

Mr. Fernando is an Associate of the Chartered Institute of Bankers' (London) and has obtained a Distinction Pass in the Executive Diploma in Business Administration from the University of Colombo.

Mr. Fernando possesses banking experience spanning over 38 years in the Bank of Ceylon with significant contributions to Branch Banking, Developmental Banking, Inspection & Audit and Administration.

He is a Member of the Governing Board of the Institute of Bankers' Sri Lanka, and also is a Director/Member of several Subsidiaries, Associate Companies and Committees of the Bank and is the President of the Bank of Ceylon Sports Club.

3 Mr. D Weerasinghe

B.A., Executive Diploma in Business Administration, Dip. Law Relating to International Trade & Practice
Deputy General Manager (International & Treasury)

Mr. Weerasinghe has made a significant contribution during his 37 years career, specializing in credit, development banking, business development, and international & treasury operations. He was also engaged in several overseas assignments including UK, where he was the Country Manager.

4 Ms. W A Nalani

B.A.(Hons.) Economics, B.Phil. (Economics), A.I.B (Sri Lanka)
Deputy General Manager (Recovery)

Ms. Nalani has over 29 years experience in the Bank, specializing in corporate and consumer credit, branch banking and trade finance. She has made a significant contribution towards Corporate recoveries and in staff training in Credit and Recovery management.

5 Mr. B A C Fernando

F.I.B., M.B.A., B.A.
Deputy General Manager - (Branches & Development Banking)

Mr. Fernando has served the bank for 34 years. He is experienced in branch banking and specializes in corporate and retail credit. His other contributions include staff training. Prior to his present appointment he was in charge of the bank's restructuring program which was then at its preliminary stages.

6 Mr. S N P Paliheena

F.C.I.B. (Lond.), F.I.B., P.G.Dip. Bus. & Fin. Admn.
General Manager

Mr. Paliheena counts over 37 years experience in his banking career at BOC. He possesses wide experience in all aspects of commercial banking, project lending, investments, treasury, and international operations, having headed key business units of the Bank. He also worked at the National Development Bank of Sri Lanka for a period of two and half years as Manager, SMI Department. He serves on the Board of several Public Companies and Associates/Subsidiaries of Bank of Ceylon. He is a Fellow of both the Chartered Institute of Bankers, London and the Institute of Bankers, Sri Lanka and holds a Post Graduate Diploma in Business and Finance Administration.

7 Mr. Anthony Roger Bamed

A.C.I.B. (London)
Chief Financial Officer

Mr. Bamed has more than 38 years of bank organization, management, finance and operational experience, both as consultant with a leading international management consulting company and as a senior commercial banker for a leading International bank.

8 Mr. N Vignesparamoorthy

F.C.I.B. (London)
Deputy General Manager (Finance & Planning)

Mr. Vignesparamoorthy has 37 years of service in the Bank. He specialized in areas of International, Treasury, Offshore Banking and Corporate Recovery. He has served previously as the Country Manager, India. He also serves as a Director in several Subsidiaries and Associate Companies of the Bank.

9 Mr. M Kiritharan

Solicitor U.K, Attorney-at-Law and Notary Public - Sri Lanka, Diploma in Business Management
Chief Legal Officer

Mr. Kiritharan has more than 28 years service in the Legal Department. He has ample experience in credit documentation and Banking Law. He was the Chief Examiner in the Institute of Bankers, Sri Lanka, President of the Association of Corporate Lawyers of Sri Lanka, Member of the Bar Council of the Bar Association of Sri Lanka, and a Member of the Law Committee of the Sri Lanka Banks' Association. He has undergone training at the International Development Law Institute in Rome, Italy.

10 Ms. Kumudini Kulatunge

B.A, B.Phil., A.I.B., F.I.B.B., Dip. Bank Mgmt., Dip. Per. Mgmt.
Deputy General Manager (Human Resources Development)

Ms. Kulatunge has over 30 years of experience in operational and Human Resource areas. Has taken a key role in enhancing the training activities in the bank to develop the needed skills of employees.

11 Mr. M T Perera

F.C.I.B. (London), Exe. Diploma in Business Administration
Deputy General Manager (Support Services)

Mr. Perera counts over 36 years in Branch Banking and International operations including the assignment as Y2K Co-ordinator. He has also served as Deputy Manager London Branch and Country Manager Karachi Branch. Mr. Perera is currently the Vice President of the Chartered Institute of Bankers, Colombo Centre.

Executive Management



K Balasubramaniam



N B Basnayake



H M Dhanapala



R U D S Dharmawickrema



B H Dole



D Ediriweera



N C B Ekanayake



M A Fernando



H D Gunawardena



K G Jinadasa



K K D Karunaratne



L G Kodikara



K D M Kodituwakku



S Liyanwala



M K Muthukumar



H S R Nandadasa



M K Nandasiri



G M Peiris



Nelum Perera



M A P S K Perera



S M Pothupitiya



J Rajendran



W U S K Ranatunga



P J Ratnayake



C Samarasinghe



W K Samarasinghe



D D W Saparamadu



W Somaweera



N Supramaniam



K Thurairajah



D N Wanniarachchi



H M A B Weerasekara



I D Weerasena



B C D Wijeyakulasuriya



K M Wijayatunga



W A S Wimalaratne



W D F Wimalaratne



K D Wimalasena

Business Performance

The global economy during the year 2004 recovered at a moderate rate, despite the increase in oil prices. World output is estimated to have grown by 4.0% in 2004 in comparison to 3.9% in 2003. The continuation of a growth momentum in Asian emerging market economies also contributed to this recovery.

Sri Lanka's economy, during the year 2004, improved considerably due to continued peace prospects and the Government's commitment to reviving the economy, despite several internal and external factors, which affected the growth to a large extent. As a result, the expected growth in GDP slowed down somewhat in the latter part of the year, leading to a growth of 5.4% of GDP in 2004.

In the background economic growth and financial sector expansion, BoC expanded its activities not only to corporate but also in rural pockets of the economy.

Corporate and Offshore Branch

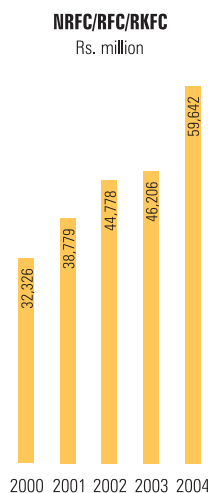
The Corporate Banking Unit continued to make a significant contribution to the Bank's profits and accounted for a major part of the Bank's advances portfolio. This unit has built up a strong trade finance franchise which has enabled the Bank to be a market leader in the foreign currency market. It also plays a dominant role in providing a comprehensive range of financial products and services. We continue to have a longstanding relationship with government corporations, multi-national companies and larger corporates.

Our Offshore Banking Unit deals exclusively in foreign currencies and caters to BOI and customers who are involved in off-shore business activities. This unit maintains a well diversified loan portfolio consisting of loans granted to sectors such as, apparels, hotels, power and other industries. During 2004, financing towards the shipping industry was increased considerably.

The Division's net profit after provision is 67% higher than the previous year. This was mainly due to the increase in business volume and reduction in Non-Performing Advances from 10.7% to 3.4%. Market share in this sector increased to 41.9% due to the expansion of the deposit base by 6.3% and advances by 14.3% during the year 2004.

Treasury & International Operations

The bank retained its market leadership in Treasury Operations. The Treasury Division recorded an increased income of 32% during



the year related to its activities including sale, purchase of foreign currencies, investments and proprietary deals as well as local money market operations. Competitive rates were offered to large corporates retaining our market share amidst severe competition as the leading Treasury amongst the commercial banks. Growth was recorded both in interest income and non interest income streams.

Our Primary Dealer Unit dealing in fixed income securities has recorded a marginal drop in its income largely due to the stable interest rate situation that prevailed. It maintained its position as the country's leading primary dealer unit during the year.

The International Division concentrating on inflow of remittances from Sri Lankan workers abroad has recorded 17% growth in terms of volume of remittances and its market share was over 60% in 2004.

Further, the total NRFC/RFC/RKFC [Resident/Non-resident Sri Lankan foreign currency deposit Schemes] increased by 19% in 2004 in terms of volume of deposits while maintaining market share leadership. The Bank maintains its work force of representatives in the originating countries where Sri Lankans workers are concentrated while improving the range of incentives offered to the migrant workers. New schemes were established during the year with our correspondents in countries such as South Korea, Italy & Singapore to facilitate worker remittances.

The International Division also manages the leading network of gold and silver shops in Sri Lanka. Profitability on sales improved during the year.

Performance of Overseas Branches London, Chennai, Male

Bank of Ceylon continued to streamline the operational viability of its three overseas branches during the year. In Rupee terms the 3 branches added 184 million in post-provisioned profit to the Bank. This was an impressive 72% increase over last year.

Deposits grew by 15% to a LKR equivalent 12,981 million. Total advances declined by a modest 4.5% to LKR 3,546 million in all branches. Non-performing advances too recorded a reduction of 10.6% over last year.

Our London Branch is the only Sri Lankan indigenous Bank branch in a European capital. Established in 1949 with the strategic purpose to be a conduit for overseas forex operations with funds sourced locally in one of the most active financial markets. It continues to support the business of Head Office Treasury and Offshore Banking Unit.

Our Chennai Branch, the Indian window of Bank of Ceylon continued to provide a satisfactory return on investment. During the year under review, The Reserve Bank of India upgraded the Chennai Branch composite rating. This is a considerable achievement as a single branch operation in India. The branch continued to facilitate Indo-Lanka trade following the renewed interest and benefits due to the Free Trade Agreement operative between the two countries.

Male Branch, Maldives profit after provision increased by 15.4%. This was attributable to a reduction of rate of interest on deposits as well as prudent provisioning. The economic impact of tsunami disaster affecting tourism and trade detrimental to banking activities was adversely felt although the situation has since improved. However, the profitability for the year 2005 could be impaired on account of potential re-scheduling of existing facilities.

Recovery Unit

A specialized Recovery Unit staffed by a highly experienced team of officers was formed in 2001. The Unit which focuses on the recovery of large non-performing loans continues to produce results that exceed expectations. The total recoveries made by the Unit during the year under review were Rs. 2.3 billion.

Financial Review



A new core banking system was acquired which when fully implemented, will link all our branches. Corporate Branch and Offshore Banking Unit are already on line and a significant number of branches will go live by year end.

The steady increasing trend in profitability has continued in the year under review. Despite Rs. 300 million specific provision for affected customers in the 26th December Tsunami catastrophe, BoC has made a Rs. 2,559 million Profit before Tax, which is a 42% increase over the year 2003. Although changes in taxation law has resulted in increased provision for taxation, profit after tax amounted to Rs.1,969 million representing a 21% increase. With the continuous pressure to reduce interest margin, which resulted in 3% decrease in net interest income, this is a significant achievement.

Return on Assets increased to 1.01% from 0.77% in the previous year. Operating income increased by 9% to Rs. 14,937 million while the increase in overheads was contained at an increase of 6%. Exchange income increased by 150% resulting from the prudent investment of the OBD retained earnings and was a major factor in the increased operating income. A 36% increase in special VAT on Profit & Staff emoluments amounting to Rs. 234 million and 15% increase in depreciation due to increased investment in Information Technology were the main reasons for the increased overhead costs. Staff costs to total assets ratio was maintained at 2.58%, which remained unchanged when compared to previous year.

Total assets increased by 11% to Rs. 266 billion from Rs. 240 billion in 2003. Increase in net loans by Rs. 17 billion (15%) and increase in Treasury Bills by Rs.12 billion (85%) are the main reasons for this increase.

In a very intense competitive environment leasing business thrived. Net lease rentals

receivable increased to Rs. 578 million representing a 43% increase. Responding to the micro financing needs of the Sri Lankan households BoC's pawning advances recorded a growth of 40% to Rs.8,237 million. Continuing the leadership in Sri Lankan Off-Shore Banking operations foreign currency advances increased by 16 billion, which is a 32% increase. Net bills of exchange decreased by 19% due to reduced Government Sector exposure.

Deposits achieved an important landmark of Rs. 200 billion during the year. The Rs. 19 billion increase in overall deposits includes an increase in demand deposits of Rs. 3.6 billion, savings deposits of Rs. 12 billion and term deposits of clients of Rs. 3.6 billion. Foreign currency deposits which mainly consists of Non Resident Foreign Currency (NRFC) deposits, increased by US \$ 21 million while rupee deposits recorded a growth of 10%.

Improvement in asset quality was observed in the year under review. Non-performing advances decreased by 23% while recovery of NPA increased by 16% to Rs. 1,536 million from Rs. 1,328 million in the year 2003. This has resulted in reduction in NPA Ratio (including foreclosed properties) to 9.82% from 14.35% in 2003. Stringent provisioning policy remained during the year and as a result loan loss reserve covers 84% of NPA's (excluding foreclosed properties) when compared to 71% in 2003.

With the increased profits capital funds rose to Rs.15,348 million which is a 7% increase. BoC maintains a healthy capital adequacy ratio of 12.44% without any external capital injections for past 10 years apart from revaluation of freehold properties.

Key Performance Indicators	2004 %	2003 %	Target for the year %
Return on Assets	1.01	0.77	1.00
Return on Equity	17.25	13.77	20.00
Cost to Income Ratio	66.25	68.38	70.00
NPA Ratio	9.82	14.35	9.00
Capital Adequacy Ratio	12.44	13.61	10.00
Overhead Costs to Average Assets Ratio	1.47	1.50	1.00
Liquidity Ratio	23.82	25.34	20.00
Key Financial Data	2004 Rs. million	2003 Rs. million	Growth %
Gross Income	23,957	22,805	5.05
Profit Before Tax	2,559	1,800	42.17
Total Advances	142,203	125,587	13.23
Total Deposits	205,219	186,386	10.10
Capital Funds	15,348	14,320	7.19
Total Assets	266,399	240,388	10.82
Non Performing Advances (excluding foreclosed properties)	12,291	17,141	(28.29)

Human Capital



During the last few years the Bank embarked on a major Information Technology acquisition programme. The strategic objective was to provide the Bank with a decisive edge over its competition.

The Bank recognizes its Human Capital-its workforce of qualified, experienced and dedicated staff as a major driver in its vision to dominate the banking industry in Sri Lanka. The Bank's main aim is to align its human resource development strategies with its short term and long term business objectives.

Staff training and professional development

Bank of Ceylon responds positively to world wide changes in banking practices. These changes and developments mean that today's bank employee must train to acquire new skills and be prepared to play new roles.

During the last few years the Bank embarked on a major Information Technology acquisition programme. The strategic objective was to provide the Bank with a decisive edge over its competition.

In the past year the Bank's computer projects moved into the implementation phase. With it came the need for re-training staff so as to maximize the efficiency and effectiveness of these packages.

Thus major training activities during the year involved special training on these packages. These involved trips abroad by teams to find out how these function in institutions overseas.

In addition, the Bank maintained its regular training schedule as a part of its long term human resource strategies. This training which goes on throughout the year covers a wide range of areas ranging from practical day-to-

day operational matters for the trainees to the more complex regulatory and compliance issues at a strategic level for the corporate management.

A large number of employees underwent training during the last year. Most of the training was conducted at the Bank's Central Training Institute. A substantial number were also trained in outside institutions both local and overseas.

The Bank also used its resources to provide training to outside parties. Among these were the 296 graduates trained in General Banking under *Tharuna Aruna* -a government sponsored scheme to develop job skills and the 60 school leavers who were trained in house and on the job.

Total number of staff participated in training programmes

	2004	2003
In-house	7,000	6,223
External	474	472
Overseas	96	57
	7,570	6,752

Staff recreation and other facilities

The Bank recognizes the stressful nature of the life of today's banking professionals and the need for leisure and recreation. Leisure and recreation are considered a very important part of keeping the work force, healthy, happy and well-motivated.

The Bank maintains two gymnasiums- at the head office and at York Street, and a library for leisure reading at the head office. Canteens provide subsidized meals. Space is provided for religious activity. The bank actively encourages participation in social service work organized by employee groups.

Two well-equipped pilgrim's rests (i.e. rest houses) and five holiday bungalows are maintained for use by employees. This year saw some major refurbishment being done on these facilities.

The Bank's employees engage in sports and other leisure time activities like music, drama etc. These details are given under 'Sports Club' and 'Other activities'.

Achievements

Sport Club

The sports club records another successful year. Though not as active as in the previous year, members recorded a few successes in the tournaments of the Nationalised Services Sports Federation and at the Interbank Sports Festival.

The Ladies Netball teams emerged Champions in three Divisions at Nationalised Services tournaments. Ladies Badminton Teams won the league Championship. At the open Badminton tournament a member won the Men's Masters Singles event.

In Table Tennis, ladies were able to win the doubles event. Ladies Cricket Team of our club won the six-a-side Softball tournament. At the Nationalised Services Athletics Meet, a female member won the Best Amateur Athlete Award. At the Inter-bank Sports Festival our ladies won both the Winners and the Runner-up titles in the Carrom event.

We were successful in events abroad as well. Two of our athletes performed exceptionally well at the Veterans Athletic Meet held in Thailand.

Other activities

A number of staff members are actively engaged in literature and the arts. Some of them have won major awards and are now recognized names in these fields. The Bank is proud to have such talented people in the staff. It is a proud legacy that the Bank would like to see continued.



Training covers a wide range of areas ranging from practical day-to day operational matters for the trainees to the more complex regulatory and compliance issues at a strategic level for the corporate management.

Service Analysis of the Staff - 31st December 2004

Service (Years)	Corporate & Executive Mgt.	Chief Managers & Senior Managers	Branch Managers & Asst. Managers	Executive Officers & Officer Trainees	Junior Executive Officers	Staff Assistants	Others	Total
Over 25	47	154	618	1,083	1,064	1,038	321	4,325
21 – 25	-	22	62	240	472	569	1,119	2,484
16 – 20	-	13	43	3	55	81	465	660
11 – 15	1	4	62	37	79	68	78	329
6 – 10	-	2	26	52	60	194	91	425
Below 5	-	-	-	86	-	227	182	495
Total	48	195	811	1,501	1,730	2,177	2,256	8,718

However, this year did not see the success or achievements of the previous year. About three films were screened and two dramas were staged.

A few discussions were arranged with personalities actively engaged in the arts and literature. These discussions are highly popular because they give staff members the opportunity to discuss problems and achieve a deeper understanding of critical issues in these fields.

In recognition of their contribution to the institution, 603 members who had completed 25 years were felicitated at a grand 'Long Service Award' ceremony.

Staff Structure

As at 31st December	2004	2003
Corporate Management	10	10
Executive Management	38	37
Chief Managers	56	48
Senior Managers	139	136
Branch Managers	237	304
Assistant Managers	574	430
Executive Officers	1,501	1,685
Junior Executive Officers	1,730	571
Staff Assistants	2,177	3,056
Others	2,256	2,650
Total	8,718	8,927
Income per employee (Rs. '000)	2,748	2,555
Assets per employee (Rs. '000)	30,557	26,928

Risk Management

Banking operations in particular have become increasingly complex over the past several years. This is a direct consequence of increased interest rate volatility; intense competition due to deregulations, the introduction of the regulatory risk based capital requirements, technological advances in systems and risk measurement products, innovation on the capital markets and increased general awareness of the myriad elements of financial risk.

To carry out the risk management functions in an organization wide context fundamental components must be in place within the organization. Here the Bank has to use a methodology, which is most relevant to the needs of the organization. This methodology should cover all risks on assets and liabilities in general, credit processes and trading activities of the Bank.

Asset and Liability Management

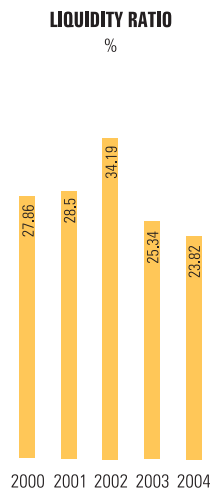
In the consideration of assets and liability risk management, following objectives are eminent

- 1) Liquidity management
- 2) Quantification of various risks in the balance sheet.
- 3) Preserve and enhance the net worth of the Bank.
- 4) Actively and judiciously leverage the balance sheet.
- 5) Management of regulatory capital.

The Bank presently uses a software package to achieve the above objectives by collecting organization wide data into the system and preparing structural liquidity and interest rate sensitivity reports.

These reports give an indication of mismatches in different maturity buckets and weighted average rates for each type of asset or liability. This enable the risk management department to control the liquidity risk of the Bank by using gap limits. Further, the interest rate sensitivity report is instrumental in monitoring the interest rate risk of the Bank, which is achieved through the monitoring of net interest margin. In addition, duration analysis is also operational in interest rate risk management.

Preserving the net worth of the Bank and management of regulatory capital are also coming under asset and liability management and the figures are being monitored monthly



with the help of the software system.

The Bank leverages the balance sheet with the intention of having a substantial profit with a reasonable amount of risk; thus having a risk return trade off.

Credit Risk Management

With regard to the credit processes, credit policy and loan portfolio management are in the forefront and the policies are decided by the credit policy committee, which is headed by the General Manager. These policies are on the selection process of borrowers, different types of diversification in credit and the limitations at each authority level.

On the basis of internal risk ratings, collateralization and expected default frequency, expected loss given default of a certain credit proposal can be arrived at. At corporate levels these methods are followed to evaluate the risk of a credit facility. This enables the Bank to have control on the credit risk exposure.

Market Risks

Basically due to the trading activities Bank faces a risk exposure on market uncertainties, which arise with the volatility of (1) Interest rates (2) Exchange rates (3) Commodity prices and (4) Equity prices. Bank is in the process of focusing on the “three department” concept to its Treasury (ie. Front Office, Middle Office and Back Office) and empowering the Middle office to look after & monitor the market risk by providing the treasury with a new software system which can monitor on line market risk by applying value at risk methods for foreign currency positions, and employing certain

exposure limits and counter party limits while monitoring them in an effective manner. The most prominent characteristic of this system would be the online supervision for value at risk and other exposure limit applications. This system was launched in late March 2005.

Operational and Business Risk Management

Operational risks are related to a Bank’s overall organization and functioning of internal systems, (including computer related) compliance with Bank policies and procedures and measures against mismanagement, fraud and risk mitigation.

Business risks are associated with the Bank’s business environment including microeconomics and policy concerns, legal and regulatory factors and the overall financial sector infrastructure and payment system.

On the basis of returns and performance measurements, the bank can gauge the directions of its risk exposure in operational and business risk. If the returns and performance are not in line with expected figures, the deviation can give a better estimation of the situation. These expected figures are based on the business strategy, systems and reporting.

The Bank monitors these performance measures and risks continuously, taking corrective action on the basis of the legal framework, which the Bank operates in. Regulatory compliance is also coming under operation and business risk management process where an officer is specially assigned for the job.

Corporate Governance

Safeguarding the interests of the stakeholders

The basic concept of Corporate Governance is that the conduct of institutions should be consciously controlled so that the interests of all parties affected by this conduct are kept in fair balance.

By Corporate Governance, in a more limited context, is meant the structure of relationships that sets the frame work for the control of the conduct of business activities of an institution. The relationships in this case are the ones that exist between the Owners/Shareholders and the Board of Directors and between the Board of Directors and the Executive Management.

Good governance will ensure that the Board and Management will pursue objectives that are in the interest of the institution and stakeholders and will facilitate effective monitoring thereby encouraging firms to use resources more efficiently. Absence or erosion of good governance would adversely affect the interests of all stakeholders. Stakeholders are people or institutions that are likely to be affected by the activities of institution and have a right to expect fair treatment. In this manner, the general public too is to be treated as a key stakeholder.

At Bank of Ceylon, the Board of Directors and Corporate Management recognize the need for good Corporate Governance to deliver quality-banking services and build long-term stakeholder value. Within a dynamic business environment, the bank remains committed to strong governance and holds the view that strengthening of Corporate Governance is a continuous process.

The practices it has adopted are the ones that best suit its objectives as set by its owners, and the political, economic, and social aspects of the environment it operates in. This statement describes some of the structure, processes, and procedures of governance at Bank of Ceylon.

Board of Directors

Bank of Ceylon is a state owned enterprise which was created by the Legislative Council using the equivalent of an Act of Parliament. It was nationalized in July 1961 and subsequently molded into its present legal shape through a series of amending of Acts. These Acts set out the way in which the Bank is to be governed.



The government follows a policy of non-interference in the day-to-day operations of the Bank.

The Government of Sri Lanka is the sole shareholder and is in overall control. The Minister of Finance appoints the Board of Directors and the board exercises the powers of the Bank in running its operations.

Though the Minister of Finance is legally empowered, in practice, the minister restricts his intervention to matters of policy and to issues of national importance. The Government follows a policy of non-interference in the day-to-day operations of the Bank allowing the Bank to maintain a healthy economic and business focus.

The Board comprises five members including the Chairman. All the Directors are non-executives and bring a wide range of skills and experience to the Board. The skills experience and expertise of the Directors are set out on pages 12 and 13 of this Annual Report.

Specific responsibilities of the Board include the following:

- Providing strategic direction and approving corporate strategies
- Selecting the General Manager, Chief Financial Officer and other senior executives

- Ensuring that adequate skills and knowledge are being acquired by managers at all levels
- Setting financial and other targets and monitoring financial and management performance
- Ensuring that adequate risk management and reporting systems are established and maintained
- Ensuring that the Bank's business, at all levels, is conducted ethically

Board Meeting

The Board meets at least once a month. In the year under review the Board met 17 times and the Directors average of attendance at Board Meetings was 81 percent. Directors are furnished with monthly reports of performance, and are given necessary documents well in advance of each meeting. Directors also have direct access to members of the Corporate Management and the services of the Corporate Secretary to enable them to discharge their duties.

Corporate Management

Even though the Board of Directors is responsible for supervising the operations and financial soundness of the Bank, the overall responsibility for executive decisions, administration and operation fall on the Corporate Management of the Bank headed by the General Manager.

The Bank has a clear policy on the delegation of authority and the exercise of those powers. Therefore, the staff down the line is fully accountable to the Board.

Audit Committee

This committee is effectively the device through which the Board monitors compliance with policies and regulatory requirements. Its overall objective is to monitor operational risk by maintaining a system of internal controls and by ensuring that formal information channels function smoothly providing the Board with a steady flow of timely and relevant control information.

The Audit Committee comprises three Directors. The Secretary to the Board is the Secretary of the Audit Committee. The Chairman of the Bank, General Manager, the Chief Financial Officer and members of the Corporate Management and the external auditors attend the Audit Committee Meetings by invitation.

The role of the Audit Committee is clearly defined. Its duties include the detailed review of internal control systems, internal audit reports and the resulting remedial action where necessary, external auditor's management letter and the management's response to the same. It also sets the targets for the internal audit unit and reviews and approves its audit plan.

The Report of the Audit Committee is set out on page 30 of the Annual Report.

Management Committee

The Management Committee established as a sub-committee of the Board and consists of two Directors. The Chairman, General Manager, and Chief Financial Officer would be present at meetings by invitation. Members of the Corporate Management, any consultant and other officer would be invited to meetings if required. The secretary to the Board will be the secretary to the committee.

The responsibilities of the committee include review of monthly performance reports, corporate plan, non-performing assets, reports on overseas branches, internal audit reports, investment policy, interest rates and organizational structure and staff changes at management level. It also reviews and discusses new areas of activity, new products and services.

There are three committees that assist and advise the General Manager in his work: the Credit Committee, the Assets and Liability Management Committee, and the Personnel Policy Committee.

Credit Committee

The overall objective of this committee is to optimize gains/profits while maintaining credit risk within acceptable limits. It is also expected to manage operational risk associated with the credit approval process and relevant delegated authority.

The Credit Committee consists of the General Manager, Chief Financial Officer and four Deputy General Managers. The Assistant General Manager (Corporate Credit) acts as the secretary to the committee. The committee meets twice a month.

The committee is responsible for establishing policy with regard to credit matters. It sets out, establishes, reviews and recommends

improvements to credit policies and ensures that adequate processes and underwriting standards are in place. Authority to approve credit facilities have been delegated to many levels comprising branch, province and head office level officers with the General Manager holding the highest approval limit. Any thing above this is forwarded to the Credit Committee for review. The final authority is vested with the Board of Directors.

Assets and Liability Management Committee (ALCO)

As part of Assets and Liability Management this committee is also responsible for managing market risks. Recent years have seen the gradual introduction of advanced scientific methods to support decision making in this area.

The ALCO comprises the General Manager, the Chief Financial Officer and four Deputy General Managers. ALCO is chaired by the General Manager and the Assistant General Manager (Treasury) acts as secretary to the ALCO. The Risk Manager and Chief Dealer attend ALCO meetings by invitation. The ALCO meets at least once a month.

The Committee reviews and recommends policies, limits and guidelines within which ALM strategies are to be executed. It ensures that the key market risks are thoroughly reviewed and assessed, market risk exposure decisions made and profitability optimized within acceptable risk limits. Further it reviews, recommends and approves large capital outlays and investments.

Personnel Policy Committee

This committee is responsible for managing the Bank's most critical asset- its human resources. Personnel Policy Committee comprises the General Manager and four Deputy General Managers. The Committee is chaired by the General Manager and the Assistant General Manager (Personnel) acts as the secretary to the committee. The committee meets at least once every two months.

The Personnel Policy Committee ensures the key personnel policies and processes are consistent with the strategic plan and the Bank will have sufficient qualified people in the right jobs at all times. It ensures that knowledge and skill needs are identified and training developed and delivered. It ensures that all key staff are evaluated annually. It is also responsible for

reviewing and recommending the method and level of compensation and other benefits to be distributed to support individuals in achieving corporate goals. It develops labour relations, strategies, reviewing and recommending new/amended collective bargaining agreements.

Financial Disclosure

The Board of Directors is responsible for presenting financial statements to reflect a true and fair view of the state of affairs of the Bank. The financial statements are prepared in accordance with the requirements of the Sri Lanka Accounting Standards and the Banking Act No.30 of 1988 and the Bank strictly adheres to the accounting formats and other procedures laid down by the regulatory authorities in preparing and presenting the Financial Statements.

These financial statements are published quarterly in newspapers and also made available on the Bank's website. Therefore, all publicly available information is freely accessible to stakeholders.

Directors' interests in contracts and related party transactions are given on pages 78 to 84 of the Annual Report.

Internal Control

The Board is responsible for the operation of an adequate system of internal controls. The Audit Committee oversees the review and assessment of internal controls. Refer Audit Committee Report for details.

Statutory Payments

The Board is confident that all statutory payments payable by the Bank at the balance sheet date have been paid or are provided for. (See also the Directors' Responsibilities for Financial Reporting - page 27).

Corporate Social Responsibility

Empowering Sri Lanka

We believe that Corporate Social Responsibility must be seen as a premise that comes from within the organisation to assist and empower all segments of stakeholders that we, as a responsible corporate citizen, come into contact with in our day to day operations. It also involves a paradigm shift in a sense from short term responses that we would embark upon to a more sustainable long term answer to problems or issues that surround us.

CSR has always been an integral aspect in all our operations, one that has involved all stakeholders whether employees, customers, valued business partners, the community or the nation ever since our inception in 1939 as the primary state bank in the country. In line with our promise to the people of Sri Lanka in calling ourselves "The Bank You Can Trust", which has been the cornerstone of our work with the people of this land, we have built up a milieu of trust, commitment and confidence over decades that has resulted in the building of a reputation of a corporate citizen that cares for its stakeholders.

We have been through many phases of change and from all these phases we have absorbed the positives while overcoming the challenges that have been posed in front of us. This year while we journey towards new horizons, new goals and new challenges, our ethos for CSR remains one that has been honed into a philosophy that is not a mere buzzword in today's corporate context, but rather a one that engages our multi-stakeholder groups to ensure that the two way process of benefits, relationship building and empowerment will see the engagement of a wider range of stakeholder groups and issues. We will use those opportunities that arise to develop related mechanisms that will create socially responsible and sustainable environments for our stakeholders keeping the ideal of being the foremost Bank in the country and the responsibility that goes with it, uppermost in our minds.

Empowering our nation and our communities

Being the principal commercial bank in the country, we have always realised that the key role we play in the development of Sri Lanka is one that is not to be taken lightly. Our input and the vital functions we have played in this endeavour over decades is exemplified and

witnessed amply in the massive infrastructure and other development projects spread across the country. Adhering strongly to the principles of CSR, BOC has always been in the forefront in disaster management, whenever the country has been faced with manmade or natural disasters. Last year for instance, Rs 5 million was expended to flooded areas in the country, while nine schools that had been affected by the floods were reconstructed, enabling victims of this disaster to gain immediate relief and students in those areas to resume a fundamental aspect of their lives, education.

Our focus this year has continued in helping the nation recover from various issues that hamper development and some of the main projects undertaken in the sphere of nation building are detailed below.

Tsunami aftermath

While the country was reeling from shock and despair after being hit by the worst natural disaster in our life time in the last week of December, BOC was one of the first institutions to take up the mantle of leadership to offer immediate relief to the hundreds of thousands who were left homeless, deprived and shattered.

In keeping with our commitment, the Bank's response was instantaneous with an initial contribution of Rs 25 million donated to the Government Relief Fund to be directed towards immediate relief work. Together with this, the Bank's welfare department, trade unions and religious associations set about collecting and distributing dry rations, clothing and medicine, dire needs in the first few days following the disaster, setting up the Head Office as a Collection Centre for the collation of these items. The response was instantaneous and came from the very core of our hearts as the hundreds of employees were in the field, working out logistics, despatching vehicles and pooling the resources of our branch networks to get to those affected as speedily as possible.

200 Drinking Water Wells Project

Acknowledging the problems that have arisen due to protracted drought around the country, the BOC contributed Rs 2.25 million towards the reconstruction and re-establishment of drinking water wells. On the initiation of Her excellency the President of Sri Lanka, the people of the North Western Province where drought is rampant

will be benefited by this long term relief measure.

Refurbishment of Hospitals

The State run health sector catering to substantial numbers has most often not had the wherewithal to maintain and improve the infrastructure especially in the hospitals situated in remote rural areas. In 2002 in fact, we contributed Rs 1 million to the 'Sahanaya Project' assisting in the construction of a special hospital for the psychologically impaired and constructed and continue to maintain the Children's Ward at the Maharagama Cancer Hospital. In December 2004, BOC was extremely honoured to hand over the fully completed Children's Ward Complex constructed at a cost of Rs 5 million to the Cancer Hospital authorities. The Assistant Director of the hospital, Dr Yasantha Ariyaratne commended BOC for its selfless gesture in garnering the drive and motivation of its entire staff to enable this hospital with 800 indoor patients at any given time of which 10% are children, to treat them more effectively and with greater care.

With the Government bearing the onus for every aspect of healthcare in the country, we were inspired once more to begin a massive project that will resolve the problems arising to some extent by refurbishing the maternity wards in small state run rural hospitals. Working together with the provincial AGMs who identified the hospitals in need of urgent repair, BOC allocated Rs 500,000 for each hospital which included tiling, repainting of buildings and furniture, acquisition of linen and the improvement of sanitation, working closely with the hospital authorities until completion of the project. Eight provinces benefited from this project with 34 hospitals in total being refurbished. The North Central Province had nine hospitals refurbished, while the Eastern, Northern, Uva and Southern Provinces has an average of five hospitals each and the Central, North Western and Sabaragamuwa Provinces also benefiting with some of their remote hospitals coming under this project.

Kalutara Bodhi Trust

The importance of Buddhism in Sri Lanka and the role the country has played in propagating Buddhism to the world is a thought that has always inspired us to continue our work in places of religious significance. While we have over the years partnered various organisations

in religious observances, festivals and projects, this year we donated Rs 500,000 to the Kalutara Bodhi Trust. The Trust in turn will provide a much needed dialysis unit to the Government Hospital in Nagoda Kalutara, in line with the precepts of Lord Buddha's teachings of facilitating the healing of people in distress.

Empowering Our Customers

Our customers are the axis of our existence. We are constantly made aware of the loyalty and trust they have in us by the concrete partnerships they continue to maintain with the BOC despite many exciting and rewarding opportunities that they are assailed with by our competitors. We in turn have evolved into better understanding and responding to changing customer profiles, wants and needs and have striven to ensure that our customers are rewarded for their unwavering loyalty and the partnerships we have forged over the years. Each year, every segment and profile of our customers is analysed and studied independently and we have worked out schemes and rewards to enhance their benefits. This year too was no different.

Ran Kekulu Year Five Scholarship Awards

The future leaders of our nation are the children. We must nurture and guide them into a knowledge based culture that will enable them to meet the numerous challenges they will face in the highly competitive era ahead. Most often however, even the most intelligent children have no wherewithal to continue their education due to economic hardships. To mitigate some of the problems faced by children and also as a source of encouragement for them to continue their education, 500 of our Ran Kekulu account holders this year were awarded Rs 10,000 each. These students were all high flyers in the Year 5 Scholarship examination, obtaining the highest marks in the island and we are sure, will prove to be the leaders who will shape the future of this country.

Ran Kekulu continued to be in the forefront of educational development this year. A host of projects that inculcate good behaviour, tolerance and honing of cognitive development were given a boost. The Sooriya Mangalaya during the Sinhala and Tamil New Year was held in Galle bringing together children of all ethnicities and faiths to a two day long festival. The Mihira Art Competition to sharpen

creative and artistic abilities was also conducted and pedestrian crossings adjacent to thirty schools were marked by Ran Kekulu boards to demarcate crossing points and create awareness among motorists.

Commitment to Youth

Our hallmark savings account aimed specifically at the youth of Sri Lanka, 18+ heralds a new dawning in banking. A customer segment that we feel needs to be given due recognition for their might and strength in building the economy, the 18+ Savings account also aims to inculcate a savings habit among youth. This year, we presented 65 scholarships of Rs 35,000 each to 18+ account holders who had successfully gained entrance into the highly competitive Sri Lanka University system, on the basis of the 2003 Advanced Level examination results.

*“The superior man will not be known
in little matters, but he may be
entrusted with great concerns.”*

Confucius 551 BC - 479 BC

Financial Information

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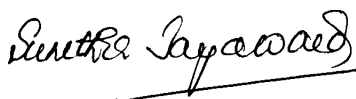
Directors' Responsibilities for Financial Reporting

In terms of the provisions of the Banking Act No.30 of 1988 read with the Bank of Ceylon Ordinance, Directors are responsible to ensure that proper Financial Statements are prepared. The Directors are also responsible to take reasonable steps to safeguard the assets of the Bank and the Group, and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting frauds and other irregularities.

The Directors are of the view that, in preparing the Financial Statements; appropriate accounting policies have been applied consistently. Material differences, if any, have been disclosed and explained. All applicable Accounting Standards have been followed and judgements and estimates made are reasonable and prudent. The Directors are also of the view that the Bank has adequate resources to continue to be financially sound and have applied the going concern basis in preparing these Financial Statements.

The Financial Statements for the year 2004 are presented in this Report. They are in conformity with the requirements of the Banking Act and the Sri Lanka Accounting Standards, and they reflect a true and fair view of the state of affairs of the Bank and the Group as at 31st December 2004.

By order of the Board



Sunethra Jayawardena, ACIS
Secretary, Bank of Ceylon/Secretary to the Board

17th March 2005

Directors' Report

The Directors of the Bank of Ceylon have pleasure in presenting their Report together with the audited Financial Statements for the year ended 31st December 2004. These were approved by the Directors on 17th March 2005.

Principal Activities

Bank

The principal activities of the Bank during the year were general banking, development financing, mortgage financing, lease financing, investment banking, corporate financing, dealing in government securities, pawn broking, credit card facilities and other financial services. There were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review.

Subsidiaries

The principal activities of subsidiaries are given in Note 25 to the Financial Statements.

Associates

The principal activities of associates are given in Note 24 to the Financial Statements.

Review of Business

A review of the operations of the Bank during the financial year and results of those operations are contained in the Chairman's Report and the General Manager's Review of Operations on pages 8 to 11 of this Annual Report. These reports form an integral part of the Directors' Report.

Branch Expansion and Future Developments

Bank continued to engage in rationalizing the branches in order to enhance performance in the retail banking sectors and accordingly two branches in Ragama and Pugoda were opened during the year.

As at 31st December 2004, the Bank had 300 branches, a list of which is given on pages 93 to 100 of this Annual Report.

Internal Control

The Board of Directors is responsible for the implementation of an adequate system of internal controls. Internal control systems are designed to meet the particular needs of Bank and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material mis-statement or loss. The Bank's internal control systems have been designed to provide the directors with reasonable assurance that assets are safeguarded, transactions are authorized and properly recorded, and material

errors and irregularities are either prevented or detected within a reasonable period of time. The directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems are effective.

Corporate Governance

The main Corporate Governance practices of the Bank are given on pages 21 and 22 of the Annual Report.

Human Resources

One of the most valuable assets of the Bank is its employees and it is important for the Bank to develop its employees. Several measures were taken to further consolidate the much valued human capital of the Bank. The Bank's Human Resource Management policies and practices are detailed under "Human Capital" on pages 18 and 19.

Audit Committee

The members of the Audit Committee at the date of the Directors' Report are:

Mr. Lalith Withana (Chairman)

Mrs. Lakmali C. Gunawardena Nanayakkara

Mr. Cubby Wijetunge

All members of the Committee are Non-Executive Directors and the report of the Chairman, Audit Committee is contained on page 30 of this Annual Report.

Vision, Mission, and Corporate Conduct

The Bank's Vision and Mission are given on inner front cover of this Annual Report. The Bank maintains very high ethical standards in its activities whilst pursuing the objectives stated under "Vision" and "Mission".

Risk Management

Risk Management is now a well-established management function at Bank of Ceylon. Specific measures taken by the Bank in managing risks are detailed on page 20 of this Report.

Gross Income

The Gross Income of the Group for the year 2004 was Rs. 24,306.2 million (Rs. 24,097.7 million in year 2003). The Bank's gross income for the year has increased from Rs. 22,805.3 million to Rs.23,956.6 million reflecting an increase of Rs.1,151.3 million over the previous year.

Profit

The Bank recorded a healthy pre-tax profit of Rs.2,558.7 million in 2004 reflecting a growth of 42.12% compared with of Rs. 1,800.4 million recorded for the previous year, whilst the pre-tax profit of the Group increased from Rs. 2,043.9 million to Rs. 2,077.3 million, an increase of 1.63% over the previous year.

Details of profit relating to the Bank are given in the table 1.

Dividends

All profits after deduction of tax, loan loss provision and any such portion for reserves, if any, as the Government shall determine, will be declared as dividends to the Government. Accordingly, a sum of Rs.1,000 million has been paid by the Bank as dividends for the year.

Provision for Taxation

Income Tax for year 2004 has been computed at the rates given in Note 12.1 to the Financial Statements.

Table 1	2004 Rs. 000	2003 Rs. 000
Profit for the year after payment of all expenses and providing for depreciation, possible loan losses and contingencies	2,558,700	1,800,373
Provision for taxation	589,356	167,884
Net profit after taxation	1,969,344	1,632,489
Unappropriated profit brought forward from previous year.	8,097,405	7,173,097
Profit available for appropriation	10,066,749	8,805,586
Appropriations		
Transfer to permanent reserve	40,000	35,000
Dividends	1,000,000	673,181
Unappropriated profit to be carried forward	9,026,749	8,097,405

Due to the tax losses available for carry forward exceeding timing difference arising on accelerated capital allowances, there is no liability for deferred tax at the Balance Sheet date, as explained in Note 12.4 and 33 to the Financial Statements.

Corporate Donations

During the year, the Bank had made donations amounting to Rs. 57,877,700 out of that Rs. 27,750,000 had been towards the President's Drought Relief Fund and the rehabilitation of Tanks project. Additionally, the Bank has contributed Rs. 25,000,000 to Tsunami Rehabilitation projects.

Issue of Debentures

The debentures issued by the group as at 31st December 2004 was Rs. 7,178.3 million (2003 : Rs. 9,600.0 million). The details of debentures outstanding as at the date of Balance Sheet are given in the Note 30(c) to the Financial Statements.

Property, Plant and Equipment

The total capital expenditure incurred on the acquisition of property, plant and equipment during the year amounted to Rs.900.6 million (Rs.539.6 million in year 2003) the details of which are given in Note 28 to the Financial Statements on pages 64 and 65 of the Annual Report.

Market Value of Freehold Properties

The value of freehold properties owned by the Bank as at 31st December 2004 is included in the accounts at Rs. 2,989 million (Rs. 2,940 million in year 2003). A proportion of freehold properties were revalued by professionally qualified independent valuers and surpluses arising on revaluation have been accounted for as an increase to the carrying value of such properties.

The Directors are of the view that this value is not in excess of current market value of such properties.

Reserves

The total reserves of the Group stood at Rs. 13,037 million as at 31st December 2004 (Rs. 12,545 million as at 31st December 2003). The increments of reserves are given in Note 38 and 39 to the Financial Statements.

Share Capital

The total issued and fully paid up capital of the Bank as at 31st December 2004 was Rs. 2,600 million consisting of 2,600,000 ordinary shares of Rs. 1,000 each.

Share Information

Earnings per share and net asset per share of the Bank were Rs. 757.44 and Rs. 5,902.97 respectively for the period under review.

Shareholding

The Government of Sri Lanka is the sole shareholder of Bank of Ceylon.

Directors

The Board of Directors of Bank of Ceylon consists of six members including the Chairman. All the Directors (including Chairman) are Non-Executive and bring a wide range of skills and experience to the Board. The qualifications and experience of the present Directors are given on pages 12 and 13.

The following were the Directorates of the Bank during the year under review.

From 1st January 2004 to 5th February 2004

Mr. Sunil Mendis - Acting Chairman
- from 01.01.2004 to 05.02.2004
Mr. Faiz Mohideen - Ex Officio Director
(Alternate - Ms. Anushya Coomaraswamy)
Mr. Janaka Bogollagama - Director
Mr. Ronald C. Perera - Director

From 6th February 2004 to end April 2004

Mr. Chrisantha Perera - Chairman
- appointed on 06.02.2004 and
resigned on 08.04.2004
Mr. Sunil Mendis - Director
Mr. Faiz Mohideen - Ex Officio Director
(Alternate - Ms. Anushya Coomaraswamy)
Mr. Janaka Bogollagama - Director
Mr. Ronald C. Perera - Director

The Board was reconstituted in May 2004 as follows

Mr. P.M. Nagahawatte - Chairman
- appointed with effect from 24.05.2004
Mr. Sunil Mendis - Director
re-appointed with effect from 26.05.2004
Mr. Cubby Wijetunge - Director
appointed with effect from 26.05.2004
Mrs. Lakmali C. Gunawardena Nanayakkara
- Director
appointed with effect from 26.05.2004
Mr. Lalith Withana - Director
appointed with effect from 26.05.2004
Mr. Sumith Abeysinghe - Director
- appointed with effect from 09.06.2004

Mr. Sunil Mendis, Director resigned with effect from 30.06.2004

Directors' Responsibility for Financial Statements

The directors are of the view that Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. Statement of Directors' Responsibilities on page 27 of the Annual Report describe in detail the Directors' Responsibilities.

Directors' Interests in Contracts

Directors' Interests in contracts with the Bank, both direct and indirect are referred to in Note 47 to the Financial Statements. These interests have been declared at Meetings of the Board of Directors. The Directors' have no direct or indirect interest in any other contract or proposed contract with the Bank.

Environmental Protection

The Bank/Group has not engaged in any activity, which has caused detriment to the environment. Specific measures taken to protect the environment are given in the General Manager's Review of Operations on pages 10 and 11 of this Report.

Statutory Payments

The Board is confident that all statutory payments due to the Government and in relation to employees have been made on time.

Events After the Balance Sheet Date

There have been no any material events that had occurred subsequent to the date of the Balance Sheet that require adjustments to the Financial Statements, other than those disclosed in Note 44 to the Financial Statements.

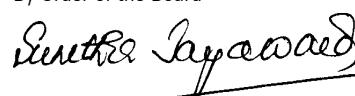
Going Concern

The Directors are confident that the Bank has adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements.

Appointment of Auditors

The Auditor General is the Auditor of Bank of Ceylon in terms of statutory provisions.

By Order of the Board



Mrs Sunethra Jayawardena, ACIS
Secretary, Bank of Ceylon/Secretary to the Board.

07th April 2005

Audit Committee Report

The Audit Committee comprises of three non-executive Directors of the Board, the Secretary of the Bank functioning as the Secretary to the Committee. The Chairman of the Bank, General Manager, Chief Financial Officer, DGM (Inspection & Audit), Chief Legal Officer, Consultant IT and other members of the Corporate Management attend meetings of the Audit Committee. The External Auditors of the Bank also attend Audit Committee Meetings by invitation.

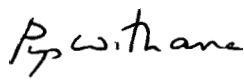
The Audit Committee met two times during this year.

The principal activities carried out during the year under review are as follows:

1. Working closely with the Internal Audit Division to guide on its work. This involved looking at their staffing requirements, training needs, and advising on the work being performed.
2. Guiding and setting plans for both Internal and External Auditors in carrying out their audits.
3. Studying in to the areas of risk, internal controls and formulating strategies to minimize risk.
4. Recommended suggestions on the above areas to the Board of Directors and kept the Board informed on any weaknesses identified.
5. Reviewed the Bank's compliance with the relevant accounting policies, the Central Bank requirements and matters arising out of the external audits.

I am happy to say that a large amount of work have been undertaken by the Committee to improve the internal audit functions to minimize the future risk. Plans are also under way to change the role of the Audit Committee to benefit the Bank.

The Audit Committee is of the view that adequate controls are in place to satisfy that the financial position and the results disclosed in the audited accounts are free from any material misstatement.



Lalith Withana
Chairman, Audit Committee

20th January 2005

Report of the Auditor General



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR-GENERAL'S DEPARTMENT



මගේ අංකය } EF/F/BC/2004
எனது இல. }
My No. }

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය }
திகதி }
Date }

29 March 2005

1. The audit of the accompanying balance sheet of the Bank of Ceylon (herein after referred to as "Bank") and the consolidated balance sheet of the Bank and its Subsidiaries as at 31 December 2004 and the related statements of income, changes in equity and cash flows for the year then ended together with the accounting policies and notes 1 to 49 to the Accounts was carried out under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. The accounts of the Subsidiaries are audited by firms of Chartered Accountants in public practice appointed by the members of the respective Subsidiaries.

Respective Responsibilities of Directors and Auditors

2. The directors are responsible for preparing and presenting the financial statements in accordance with Sri Lanka Accounting Standards (SLAS). My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion

3. The audit was conducted in accordance with Sri Lanka Auditing Standards. Those standards require that the audit shall be planned and performed to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors as well as evaluating the overall presentation of

financial statements and determining whether the financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of my audit. I believe that my audit provides a reasonable basis for my opinion.

Opinion

4. In my opinion, so far as appears from my examination, the Bank maintained proper books of accounts for the year ended 31 December 2004, and to the best of my information and according to the explanations given to me, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provided the information required by the Banking Act No. 30 of 1988, give a true and fair view of the Bank's state of affairs as at 31 December 2004 and of its profit, and cash flows for the year then ended.

5. In my opinion, the consolidated balance sheet and statements of income, changes in equity and cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Banking Act No. 30 of 1988 and Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31 December 2004 and of its profit and cash flows for the year then ended of the Bank and its Subsidiaries dealt with thereby, so far as concern the Bank.

Directors' Interest in Contracts with the Bank

6. According to the information made available to me, the Directors of the bank were not directly or indirectly interested in contracts with the bank during the year ended 31 December 2004 except as stated in Note 47 to the financial statements.

Exemption

7. The Bank has been exempted from provisions of Part II of the Finance Act No 38 of 1971 by an Order of the Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Section 5 (1) of the said Finance Act.

Report to Parliament

8. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

S. C. Mayadunne

Auditor General

Auditor General's Department

Colombo 7

Income Statement

For the year ended 31st December	Note	Bank		Group	
		2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000
Income	1	23,956,587	22,805,276	24,306,191	24,097,736
Interest income	2	16,609,416	17,040,245	17,587,203	18,220,633
Interest expenses	3	(8,256,084)	(8,437,916)	(8,572,311)	(8,984,093)
Net interest income		8,353,332	8,602,329	9,014,892	9,236,540
Fee and commission income		1,770,711	1,665,320	1,779,525	1,672,157
Fee and commission expenses		(257,172)	(240,374)	(259,126)	(242,451)
Net fee and commission income		1,513,539	1,424,946	1,520,399	1,429,706
Foreign exchange income		1,781,448	707,323	1,781,448	707,323
Dividend income	4	236,548	164,333	237,276	166,776
Net gain from investment & dealing securities		681,143	953,327	681,143	1,150,163
Other operating income	5	2,371,137	1,800,281	2,239,037	2,138,572
Operating income		14,937,147	13,652,539	15,474,195	14,829,080
Less: Operating expenses	6				
Personnel costs	7	5,163,401	4,841,530	5,347,354	4,988,425
Staff retirement benefits	8	1,374,532	1,209,280	1,384,929	1,218,008
Premises, equipment and establishment expenses		1,460,475	1,474,495	1,642,307	1,661,121
Other operating expenses		2,000,424	1,788,819	2,029,935	1,799,873
Profit before provision for loan losses and fall in value of investment securities		4,938,315	4,338,415	5,069,670	5,161,653
Provision for loan losses	9	2,879,526	3,012,489	2,986,217	3,159,807
Provision for fall in value of investment securities	10	6,273	-	6,755	-
Profit from operations		2,052,516	1,325,926	2,076,698	2,001,846
Share of subsidiaries' & associate companies' profit before taxation	11	506,184	474,447	559	42,112
Profit before taxation		2,558,700	1,800,373	2,077,257	2,043,958
Provision for taxation	12	(589,356)	(167,884)	(595,582)	(178,225)
Profit from ordinary activities after taxation		1,969,344	1,632,489	1,481,675	1,865,733
Minority interest		-	-	(41,405)	(70,561)
Net profit for the year		1,969,344	1,632,489	1,440,270	1,795,172
Earnings per share (Rs)	13	757.44	627.88	553.95	690.45
Dividends per share (Rs)		384.62	258.92	384.62	258.92

The accounting policies on pages 37 to 40 and notes on pages 41 to 85 form an integral part of these Financial Statements.

Balance Sheet

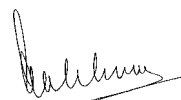
As at 31st December	Note	Bank		Group	
		2004 Rs ' 000	2003 Rs ' 000 Re-stated	2004 Rs ' 000	2003 Rs ' 000 Re-stated
ASSETS					
Cash and short term funds	15	5,583,823	4,179,195	5,604,802	4,224,819
Balances with Central Banks	16	12,479,713	7,944,512	12,479,713	7,944,512
Treasury bills and other eligible bills	17	25,502,074	13,836,608	26,324,683	14,783,244
Dealing securities	18	506,629	1,410,881	508,843	1,412,806
Placements with and loans to other banks	19	27,361,554	26,412,451	27,361,554	26,412,451
Loans & advances to customers					
Bills of exchange	20.1	4,871,615	5,992,454	5,237,703	6,481,872
Loans & advances	20.2	125,183,065	107,085,365	125,706,228	107,572,726
Lease rentals receivable - within one year	20.3	316,360	233,828	1,792,772	1,651,609
Lease rentals receivable - one to five years	20.4	261,172	171,695	2,905,748	2,365,760
Lease rentals receivable - after five years	20.5	1,238	-	1,691	732
		130,633,450	113,483,342	135,644,142	118,072,699
Government of Sri Lanka restructuring bonds	21	17,883,300	17,883,300	17,883,300	17,883,300
Investment securities	22	21,828,364	26,781,105	22,072,471	27,048,585
Investment properties	23	1,149,910	1,149,910	1,149,910	1,149,910
Investments in associates	24	1,224,483	251,650	1,224,483	251,650
Investments in subsidiaries	25	3,759,158	3,756,385	-	-
Other assets	26	12,498,323	17,746,191	12,933,240	18,079,799
Group balances receivable	27	1,040,858	1,209,240	66,737	284,433
Property, plant and equipment	28	4,946,882	4,343,590	6,504,535	6,692,147
Total assets		266,398,521	240,388,360	269,758,413	244,240,354
FINANCED BY LIABILITIES					
Deposits from customers	29	205,164,270	186,301,099	206,751,627	188,067,489
Debt securities in issue	30	22,408,547	17,282,668	23,836,897	18,532,668
Other borrowed funds	31	12,119,153	8,975,362	12,377,499	9,268,973
Group balances payable	32	1,019,769	955,178	34,111	191,778
Deferred tax liability	33	-	-	74,485	67,420
Tax payable		137,258	61,722	168,199	81,627
Other liabilities	34	9,151,799	11,242,515	9,534,673	11,542,752
Subordinated debentures	35	1,050,000	1,250,000	1,050,000	1,250,000
Total liabilities		251,050,796	226,068,544	253,827,491	229,002,707
Minority interest	36	-	-	293,861	92,885
SHAREHOLDER'S EQUITY					
Share capital	37	2,600,000	2,600,000	2,600,000	2,600,000
Permanent reserve fund	38	1,505,000	1,465,000	1,505,000	1,465,000
Retained profits		9,033,940	8,097,405	9,072,306	8,671,381
Reserves	39	2,208,785	2,157,411	2,459,755	2,408,381
Total shareholder's equity		15,347,725	14,319,816	15,637,061	15,144,762
Total equity and liabilities		266,398,521	240,388,360	269,758,413	244,240,354
Commitments and contingencies	40	58,841,033	50,087,271	59,145,093	50,198,508

The accounting policies on pages 37 to 40 and notes on pages 41 to 85 form an integral part of these Financial Statements.

Approved and signed for and on behalf of the Board by,



Manik Nagahawatte
Chairman



S.N.P Paliheena
General Manager

17th March 2005
Colombo

Statement of Changes in Shareholder's Equity

	Share capital	Permanent reserve fund	Other reserves	Revaluation reserves	Retained earnings	Total equity
Bank	Rs ' 000	Rs ' 000	Rs ' 000	Rs ' 000	Rs ' 000	Rs ' 000
Balance at 1 January 2003						
As previously reported	2,600,000	1,430,000	122,404	512,748	7,173,097	11,838,249
Prior year adjustment [Note 39.2(c)]	-	-	454,069	-	-	454,069
As restated	2,600,000	1,430,000	576,473	512,748	7,173,097	12,292,318
Profit after tax for the year 2003	-	-	-	-	1,632,489	1,632,489
Transfer to permanent reserve [Note 38]	-	35,000	-	-	(35,000)	-
Dividends [Note 14]	-	-	-	-	(673,181)	(673,181)
Revaluation adjustment	-	-	51,534	1,016,656	-	1,068,190
Change in shareholding	-	-	-	-	-	-
Balance at 31 December 2003	2,600,000	1,465,000	628,007	1,529,404	8,097,405	14,319,816
Balance at 1 January 2004 as restated	2,600,000	1,465,000	628,007	1,529,404	8,097,405	14,319,816
Profit after tax for the year 2004	-	-	-	-	1,969,344	1,969,344
Transfer to permanent reserve [Note 38]	-	40,000	-	-	(40,000)	-
Dividends [Note 14]	-	-	-	-	(1,000,000)	(1,000,000)
Revaluation adjustment	-	-	51,374	-	-	51,374
Change in shareholding	-	-	-	-	7,191	7,191
Balance at 31 December 2004	2,600,000	1,505,000	679,381	1,529,404	9,033,940	15,347,725
Group						
Balance at 1 January 2003						
As previously reported	2,600,000	1,430,000	319,981	566,141	7,584,390	12,500,512
Prior year adjustment [Note 39.2(c)]	-	-	454,069	-	-	454,069
As restated	2,600,000	1,430,000	774,050	566,141	7,584,390	12,954,581
Profit after tax for the year 2003	-	-	-	-	1,795,172	1,795,172
Transfer to permanent reserve [Note 38]	-	35,000	-	-	(35,000)	-
Dividends [Note 14]	-	-	-	-	(673,181)	(673,181)
Revaluation Adjustment	-	-	51,534	1,016,656	-	1,068,190
Change in shareholding	-	-	-	-	-	-
Balance at 31 December 2003	2,600,000	1,465,000	825,584	1,582,797	8,671,381	15,144,762
Balance at 1 January 2004 as restated	2,600,000	1,465,000	825,584	1,582,797	8,671,381	15,144,762
Profit after tax for the year 2004	-	-	-	-	1,440,270	1,440,270
Transfer to permanent reserve [Note 38]	-	40,000	-	-	(40,000)	-
Dividends [Note 14]	-	-	-	-	(1,000,000)	(1,000,000)
Revaluation Adjustment	-	-	51,374	-	-	51,374
Change in shareholding	-	-	-	-	656	656
Balance at 31 December 2004	2,600,000	1,505,000	876,958	1,582,797	9,072,306	15,637,061

The accounting policies on pages 37 to 40 and notes on pages 41 to 85 form an integral part of these Financial Statements.

Cash Flow Statement

For the year ended 31st December	Note	Bank		Group	
		2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000
Cash flows from operating activities					
Interest and commission receipts		16,131,897	17,413,262	16,985,263	18,407,892
Interest payments		(8,312,054)	(8,301,896)	(9,306,647)	(7,843,630)
Other operating income		3,207,613	2,617,037	3,499,829	3,160,054
Non-performing advances recovered		1,536,195	1,328,411	1,538,585	1,329,206
Cash payments to employees and suppliers		(10,557,485)	(8,984,047)	(10,862,244)	(9,256,666)
Cash flows from operating profits before					
changes in operating assets and liabilities	I	<u>2,006,166</u>	<u>4,072,767</u>	<u>1,854,786</u>	<u>5,796,856</u>
(Increase) / decrease in operating assets					
Deposits held for regulatory or monetary control purposes		(5,526,389)	1,253,195	(5,526,389)	1,253,195
Funds advanced to customers		(20,091,187)	(2,650,782)	(20,581,901)	(2,790,302)
Credit card receivable		(67,446)	(165,638)	(67,446)	(165,638)
Short term marketable securities		1,018,245	(713,825)	1,017,956	(711,673)
Other assets		6,434,331	1,693,686	6,947,304	2,158,828
Increase / (decrease) in operating liabilities					
Deposits from other banks		89,800	7,962	89,800	7,962
Deposits from customers		18,843,361	15,872,302	18,664,328	16,139,553
Other liabilities		(1,223,903)	(794,599)	(995,109)	(3,089,067)
Net cash from / (used in) operating activities before income tax		<u>1,482,978</u>	<u>18,575,068</u>	<u>1,403,329</u>	<u>18,599,714</u>
Income tax paid		(108,817)	(388,074)	(201,342)	(439,873)
Net cash from / (used in) operating activities		<u>1,374,161</u>	<u>18,186,994</u>	<u>1,201,987</u>	<u>18,159,841</u>
Cash flows from investing activities					
Proceeds from sale of investment & dealing securities		5,811,236	7,914,631	5,811,536	10,445,922
Disposal of a branch	III	640,144	-	640,144	-
Dividend received		353,879	238,237	267,102	183,886
Proceeds from liquidation of a subsidiary		-	12,433	-	12,433
Purchase of investment securities		(297,992)	(6,701,688)	(274,226)	(6,706,067)
Investment in subsidiaries and associates		(260,883)	(149,186)	(259,241)	-
Purchase of property, plant & equipment		(910,824)	(518,721)	(961,024)	(578,747)
Proceeds from sale of property, plant & equipment		239,807	442,781	243,624	597,771
Net cash from / (used in) investing activities		<u>5,575,367</u>	<u>1,238,487</u>	<u>5,467,915</u>	<u>3,955,198</u>
Cash flows from financing activities					
Proceeds from borrowed funds and debt securities		7,725,878	(4,683,779)	7,725,519	(7,526,119)
Redemption of debentures		(2,800,000)	(1,625,000)	(2,621,650)	(1,625,000)
Net increase on other borrowings		3,143,791	1,081,447	3,108,526	817,345
Dividends paid		(1,000,000)	(673,181)	(1,000,000)	(673,181)
Minority interest		-	-	(11,772)	16,748
Net cash from / (used in) financing activities		<u>7,069,669</u>	<u>(5,900,513)</u>	<u>7,200,623</u>	<u>(8,990,207)</u>
Net increase / (decrease) in cash and cash equivalents		<u>14,019,197</u>	<u>13,524,968</u>	<u>13,870,525</u>	<u>13,124,832</u>
Cash and cash equivalents at the beginning of the year		44,428,254	30,903,286	45,420,514	32,295,682
Cash and cash equivalents at end of the year	II	<u>58,447,451</u>	<u>44,428,254</u>	<u>59,291,039</u>	<u>45,420,514</u>

For the year ended 31st December	Note	Bank		Group	
		2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000
Note I					
Reconciliation of operating profit before tax					
Profit before tax		2,558,700	1,800,373	2,077,257	2,043,958
Net gain from dealing securities		(79,783)	(80,912)	(80,511)	(83,355)
Net gain from investment securities		(828,934)	(709,227)	(837,907)	(709,227)
Profit on sale of property plant & equipment		50,189	(92,306)	68,983	(92,306)
Provision for investments securities		6,273	(14,788)	5,578	(12,565)
Exchange revaluation		(710,628)	(309,491)	(710,630)	(309,491)
Share of profit of related companies	11	(506,184)	(474,447)	(559)	(42,113)
Depreciation	28	376,885	328,013	479,775	430,892
Bad debt provision	9	2,841,068	2,928,282	2,947,759	3,045,600
Provision for accrued interest		(1,105,262)	726,392	(1,908,049)	1,545,078
Provision for lease rentals receivable	9	2,753	1,400	2,753	31,400
Provision for fall in value of foreclosed properties	9	35,705	82,807	35,702	82,807
Equity adjustment of related companies		-	20,493	-	-
Amortisation of goodwill		-	49,472	-	49,472
Notional credit on With-Holding Tax		(154,381)	(183,294)	(154,381)	(183,294)
Karachi branch goodwill		(70,984)	-	(70,984)	-
Reversal of MBSL provision due to capital reduction		(409,251)	-	-	-
Cash flow from operating profits before changes in operating assets and liabilities		2,006,166	4,072,767	1,854,786	5,796,856
Note II					
Analysis of cash and cash equivalents					
Cash and short term funds		5,583,823	4,179,195	5,604,802	4,224,819
Placement with and loans to other banks		27,361,554	26,412,451	27,361,554	26,412,451
Treasury bills & other eligible bills		25,502,074	13,836,608	26,324,683	14,783,244
		58,447,451	44,428,254	59,291,039	45,420,514
Note III					
Disposal of the operations of the branch in Karachi					
Cash & balance with other banks		22,713			
Deposits held for regulatory control purposes		991,188			
Advances & other assets		4,780			
Fixed assets		5,315			
Deposits		(69,990)			
Other liability		(69,389)			
Goodwill net of tax of 30%		70,984			
Total disposal consideration		955,601			
Less:-					
Cash & cash equivalents as at the date of disposal		(22,713)			
Amount not received during the year		(292,744)			
Cash inflow on disposal		640,144			

The accounting policies on pages 37 to 40 and notes on pages 41 to 85 form an integral part of these Financial Statements.

Significant Accounting Policies

1. GENERAL

1.1 Domicile and Legal Form

Bank of Ceylon is a banking corporation domiciled in Sri Lanka established under the Bank of Ceylon Ordinance No.53 of 1938. The Consolidated Financial Statements of the Bank for the year ended 31 December 2004 comprise the Bank, its subsidiaries and group's interests in its associate companies.

1.2 Principal Activities

The principal activities of the Group consist of the business of commercial banking and other financial services including trade financing, custodial services, primary dealership in Government of Sri Lanka treasury bills and development financing. There have been no significant changes in the nature of these activities during the year.

1.3 Accounting Convention

The financial statements of the Bank and the group encompassing the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Accounting Policies and the Notes thereto are prepared in conformity with Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and on the basis of historical cost convention except otherwise is required by the above standards, which have been applied consistently with that of the previous year. The financial statements are presented in Sri Lankan Rupees. No adjustment has been made for inflationary factors affecting the Financial Statements except on certain land and buildings, investment properties and dealing securities.

The Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards and present fairly the financial position, financial performance and cash flows of the Bank.

1.4 Foreign Currency Translation

1.4.1 Assets and liabilities denominated in foreign currencies are translated using the middle rate of exchange that ruled on the date of the Balance Sheet and transactions in foreign currencies during the year are converted at the rates of exchange that ruled at the transaction dates. Exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those, which were initially recorded are dealt with the Income Statement.

1.4.2 Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Resulting net unrealized gains and losses are dealt with through the Income Statement.

1.4.3 Translations of the Off-Shore Banking Division and the foreign branches are in accordance with the paragraph 1.4.1 above except for the application of yearly average rate for the Income Statement.

1.5 Basis of Consolidation

The Bank's Financial Statements comprise the consolidation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Unit and the foreign operations that are integral to the Bank. The Group Financial Statements comprise of the Financial Statements of the Bank, its Subsidiaries in terms of Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries and equity method of accounting for investments in Associates in terms of Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

1.5.1 Subsidiaries

Subsidiaries are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the financial and operating policies. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All inter-company transactions, balances and unrealized surpluses and deficits on transactions between the Bank and subsidiary companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made in respect of minority interests.

A listing of the Bank's principal subsidiaries is given in Note 25 to the Financial Statements.

1.5.2 Associates

These are undertakings over which the Bank has between 20% to 50% of the voting rights,

and over which the Bank exercises significant influence, but which it does not control.

Investments in Associates are accounted for by using the equity method of accounting. Equity accounting involves recognizing in the Income Statement the Bank's share of the associates' profit or loss for the year. The Bank's interest in the Associate is carried in the Balance Sheet at an amount that reflects its share of the net assets of the Associate.

A listing of the Bank's principal Associates is shown in Note 24 to the Financial Statements.

1.5.3 Transactions Eliminated on Consolidation

Intra group balances and transactions and unrealized gains arising from such inter-company transactions and balances have been eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from Associates are eliminated to the extent of the group's interest in the enterprise.

1.5.4 Goodwill on Acquisition of Subsidiaries and Associates

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Acquired goodwill, if any, is written off in full in the year of acquisition.

1.6 Taxation

Provision for taxation on Sri Lanka operations is made on the basis of the net profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and the amendments thereto. Provision for taxation on the overseas branches is made on the basis of the net profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes.

1.7 Deferred Taxation

Deferred taxation is provided on the liability method and the balance in the deferred taxation account represents income tax applicable to the difference between the written down values for tax purposes of the assets on which depreciation allowances are claimed and the net book value of such assets. Current tax rates are used to determine the deferred taxation.

2. ASSETS AND BASES OF THEIR VALUATION

2.1.1 Loans and Advances

All loans and advances are recognized when cash is advanced to borrowers. Loans and Advances are stated in the Balance Sheet net of provisions for loan losses and net of interest, which is not accrued to revenue.

2.1.2 Finance Leases

Assets leased to customers, which transfer substantially all the risks and rewards associated with ownership other than legal title for a specific period are accounted for as finance leases.

Lease receivables are stated in the Balance Sheet net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery.

2.1.3 Credit Card Receivable

Amounts receivable on credit cards are included in advances to customers at the amounts expected to be recovered.

2.2 Provisions for Loan Losses

2.2.1 Loans and Advances

Provisions for bad and doubtful loans are made on the basis of a continuous review of all advances in accordance with the applicable Accounting Standards and the regulations imposed by the Central Bank of Sri Lanka. In the case of loans to borrowers in countries where there is an increased risk of difficulty in servicing external debt, an assessment of the political and economic situation is made, and additional country risk provisions are established as necessary. Accordingly, specific provisions have been made as follows.

Period Outstanding	Classification	Provision made net of realizable value of the security
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

Additional provisions have also been made over and above the minimum percentages specified above, on a case by case basis depending on the risk associated with such loans.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the Income Statement, if previously written off.

2.2.2 Provision for Lease Receivable

The transfer of lease facilities to non-performing section has been restricted to loss provisioning only.

Specific provision is made for following two categories.

Category	Provision
A	100% of capital outstanding of lease assets minus 50% of the invoice value/condition and valuation report whichever is lower, net of up front rentals and cash security obtained, if any.
B	100% of capital outstanding net of up front rentals and cash security obtained, if any.

Category A - Identified at the time of termination of lease contract.

Category B - Identified where total loss of assets occur.

2.2.3 Provision for Credit Card Receivable

Specific provision is made on credit card receivable as follows:

Period Outstanding	Classification	Provision
3 - 6 months	Overdue	50%
Over 6 months	Loss	100%

2.2.4 Provision for Pawning

100% specific provision is made for the total amount advanced for unsold articles at every auction.

In addition, a general provision of 0.5% on total performing and overdue advances portfolio is made in accordance with Sri Lanka Accounting Standards, No.23; Revenue Recognition and Disclosure in the Financial Statements of Banks.

2.3 Investments

2.3.1 Investments in Subsidiaries

Investments in Subsidiaries are accounted for under the equity method of accounting in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

2.3.2 Investments in Associates

Investments in Associates are accounted for under the equity method in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

2.3.3 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are recorded at the lower of cost or market value on an aggregate portfolio basis. Provision for fall in value of investments is made if the market value falls below the cost.

2.3.4 Investment Securities

These are acquired and held for yield or capital growth in the medium/long terms. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be diminution in value, which is other than temporary.

2.3.5 Foreclosed Properties

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the market value of the foreclosed assets and the related loan outstanding is recognized as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties in satisfaction of the debts. If the market value falls below the cost, subsequently a provision is made in the Income Statement for the difference between the market value and the cost. Foreclosed properties are not subject to depreciation.

Subsequent gains and losses on the disposal of the foreclosed properties are taken into account in determining operating profits.

2.3.6 Investment Properties

Investment property is property (Land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both and the future economic benefits that are associated with the investment property will flow to the bank. An investment property is initially measured at its cost and thereafter, the measurement is done based on fair value model. A gain or loss arising from a change in fair value of investment property is included in the Income Statement in which it arises.

2.4 Property, Plant, and Equipment

2.4.1 All property, plant and equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. The assets are stated at historical cost or at re-valuation less depreciation which is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives specified in 2.4.2 below.

2.4.2 Depreciation is provided at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

Freehold Building	2.5% per annum
Office Equipment	12.5% per annum
Furniture & Fittings	12.5% per annum
Computer Equipment	20.0% per annum
Motor Vehicles	25.0% per annum

Leasehold land and premises are amortised over the life of each lease. No depreciation is provided on freehold land. Generally, costs associated with developing computer software programmes are recognized as an expense as incurred. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortised using the straight-line method over their useful lives.

2.4.3 Provision for depreciations to Property, Plant & Equipment is made on pro-rata basis.

2.4.4 A proportion of freehold properties are revalued each year so that all such properties are revalued over a period of five years. These

valuations are based on open market value of existing use. The surplus arising on the revaluations has been credited to the Revaluation Reserve Account. The revaluation reserve included in the equity will be transferred to retained earnings if the underlying assets are sold.

2.5 Government of Sri Lanka Treasury Bills and Bonds

2.5.1 Investments in Treasury Bills

Investments in Treasury Bills and Treasury Bonds in the trading portfolio are marked to market and carried at that value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

2.5.2 Long term Investments in Treasury Bonds

Long term investments in Treasury Bonds are reflected at the value of the Bonds purchased and the discount / premium accrued thereon. Discount received/ premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

2.5.3 Securities purchased under Re-sale Agreements

Securities purchased under Re-sale Agreements are recorded at the consideration paid and interest accrued thereon.

3. LIABILITIES AND PROVISIONS

3.1 Defined Benefit Plans

3.1.1 The Bank of Ceylon Pension Trust Fund

The 'Bank of Ceylon Pension Trust Fund' is a funded, non-contributory defined retirement benefit plan, operated for the payment of pensions until death to the permanent employees who have completed ten years of continuous service with the Bank, at their retirement on reaching the retirement age of 55 years or on medical grounds, before reaching retirement age. The pension is based on a percentage of the last drawn salary excluding certain allowances. Contributions to the Pension Trust Fund are made monthly, based on the advice of a qualified actuary, currently at 48% of gross salary for employees who joined the Bank prior to 1 January 1996. Employees who joined the Bank on and after 1 January 1996 contribute 20% of their gross salary to the Pension Trust Fund whilst the Bank

contributes 5%. This arrangement is tentative pending the formulation of a contributory pension scheme.

3.1.2 Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund

The Bank is liable for and guarantees the payments to the beneficiaries of the 'Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund' to which the Bank's employees monthly contribute 5% of their gross salary. The Bank's liability towards the beneficiaries of the employees arises when an employee who has contributed to the fund for five continuous years dies while in service or on the death of a pensioner where the Bank will be liable to pay a monthly Widows' and Orphans' Pension to his/ her beneficiaries. The pension to beneficiaries of an employee who dies while in service is based on the last drawn salary excluding certain allowances. The fund is actuarially valued by a qualified actuary from time to time and the deficit is bridged piece meal. Bridging of full deficit is currently in evaluation. This would be done in conjunction with the Actuary, Trustees and Beneficiaries.

Both the Pension Trust Fund and the Widows' / Widowers' and Orphans' Pension Fund are approved by the Government and are independently administered.

3.1.3 Provision for Gratuity

Provision is not made in the financial statements for retirement gratuity payable under the Payment of Gratuity Act No.12 of 1983, to employees who joined the Bank prior to 1 January 1996 as the Bank has its own non-contributory retirement benefit scheme in force. However, employees whose services are terminated other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the basic or consolidated wage or salary, cost of living and all other allowances applicable to the last month of the financial year, for each year of continuous service. These expenses are accounted for on a cash basis. A provision has been made in this financial statements for retirement gratuities from the 1st year of service for all employees who joined the Bank on or after 1st January 1996, as they are not covered by the pension scheme of the Bank, in conformity with the Sri Lanka Accounting Standards No.16 on Retirement Benefit Cost.

However, under the Payment of Gratuity Act No.12 of 1983, the liability for payment to an employee arises only on completion of 5 years of continued services.

3.2 Defined Contribution Plans

Contributions to defined contribution plans are recognized as an expense in the Income Statement as incurred.

3.2.1 Bank of Ceylon Provident Fund

All employees of the Bank are members of the 'Bank of Ceylon Provident Fund' to which the Bank contributes 12% of employee's monthly gross salary excluding overtime. The Bank's Provident Fund is an approved fund, which is independently administered.

3.2.2 Employees' Trust Fund

All employees of the Bank are members of the Employees' Trust Fund to which Bank contributes 3% of employee's monthly gross salary excluding overtime.

3.3 Securities sold under Re-purchase Agreements

Securities sold under re-purchase agreements ('repos') are stated at the consideration received and interest accrued thereon. These are retained in the Financial Statements and the counter-party liability is accounted for as a liability and classified under borrowings. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreement.

3.4 Provisions for Liabilities

A provision is recognized in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

4. INCOME STATEMENT

4.1 Interest Income from Loans and Advances

Interest income from loans and advances is recognized on an accrual basis. Interest ceases to be accrued when the recovery of principal or interest is in arrears for more than 90 days. Interest income from non-performing loans and advances is accounted for on a cash basis. Interest falling due on non-performing loans and advances are credited to interest in suspense account on

memorandum basis. In addition, interest accrued upto three months on such non performing loans and advances is also eliminated from the interest income and transferred to interest in suspense.

4.2 Interest Income from Other Sources

Interest income from Government or Central Bank of Sri Lanka securities is recognized on a time proportion basis as premia / discounts on purchase and amortised to income on a straight line basis over the period to maturity. Income from all other interest bearing securities is recognized on an accrual basis.

4.3 Commission and Fee Income

Commission and fee income mainly comprise fees receivable from customers for guarantees and other services provided by the Bank, and fees for foreign and domestic payment tariff. Such income is recognized as revenue as the services are provided. Income on the endorsement of bills of exchange is recognized only when the bill is received and either issued or endorsed, and the payment under the particular instrument has been effected.

4.4 Dividend Income

Dividend income is recognized when the right to receive payment is established.

4.5 Gains or Losses Arising from Investment Securities

Gains or losses arising from the sale of equity shares, units, and financial instruments, including treasury bills sold prior to maturity, are accounted for on the date on which the transaction takes place.

4.6 Lease Income

Lease income is the interest component of the lease rentals of all finance leases receivable during the year. The excess to the aggregate rental receivable over the cost of the leased assets constitutes unearned income, which is taken into revenue over the term of the lease, from the month in which the lease is executed, in proportion to the remaining receivable balance of the lease. Interest on finance leases ceases to be accrued when they are in arrears for more than 90 days. Thereafter, such income is recognized on a cash basis.

4.7 Interest Expenses

Interest expenses are recognized on an accrual basis.

4.8 Operating Expenses

All the expenses payable are recognized on accrual basis in the Income Statement to the period to which they relate.

5. COMMITMENTS AND CONTINGENCIES

All discernible risks are accounted for in determining the amount of other liabilities.

6. SEGMENTAL REPORTING

Segmental information is presented in respect of the Group's business. These segments comprise banking, leasing, treasury, property and investments.

7. CASH FLOW

The cash flow has been prepared by using the "Direct Method" in preparing cash flows. Cash and cash equivalents comprise of cash, amounts due from other banks and other short-term highly liquid investments with less than 90 days maturity from date of acquisition.

8. COMPARATIVE FIGURES

Where necessary, amounts shown for the previous year have been reclassified to facilitate comparison.

9. EVENTS AFTER THE BALANCE SHEET DATE

Where necessary, all the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements.

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements.

Notes to the Financial Statements

For the year ended 31st December	Bank		Group	
	2004 Rs ' 000	2003 Rs' 000	2004 Rs ' 000	2003 Rs' 000
1. Income				
Interest income (Note 2)	16,609,416	17,040,245	17,587,203	18,220,633
Dividend income (Note 4)	236,548	164,333	237,276	166,776
Net gain from investment securities	681,143	953,327	681,143	1,150,163
Fee and commission income	1,770,711	1,665,320	1,779,525	1,672,157
Foreign exchange income	1,781,448	707,323	1,781,448	707,323
Other operating income (Note 5)	2,371,137	1,800,281	2,239,037	2,138,572
Share of related companies' profit before tax (Note 11)	506,184	474,447	559	42,112
	23,956,587	22,805,276	24,306,191	24,097,736
2. Interest income				
Customer advances	10,105,190	9,840,047	10,965,618	10,375,277
Short term funds	2,338,086	1,909,256	2,443,391	2,542,151
Government of Sri Lanka restructuring bonds	2,332,722	2,332,722	2,332,722	2,332,722
Investment and dealing securities	1,833,418	2,958,220	1,845,472	2,970,483
	16,609,416	17,040,245	17,587,203	18,220,633
3. Interest expenses				
Customer deposits	6,251,780	6,113,129	6,418,640	6,313,911
Debt securities in issue	1,532,373	1,935,246	1,668,006	2,272,627
Other borrowed funds and refinance	462,428	378,841	473,297	386,855
Others	9,503	10,700	12,368	10,700
	8,256,084	8,437,916	8,572,311	8,984,093
4. Dividend income				
Investment securities (Quoted)	91,371	59,996	91,371	59,995
Investment securities (Unquoted)	13,332	9,526	13,332	9,526
Dealing securities (Quoted)	79,783	62,146	80,511	64,590
Income from Unit Trust	52,062	32,665	52,062	32,665
	236,548	164,333	237,276	166,776
5. Other operating income				
Recovery of non performing advances	1,536,195	1,328,412	1,538,585	1,329,206
Write back of provision for fall in value of dealing & investment securities	-	97,220	122,127	95,372
Write back of provision for fall in value of investments made in subsidiaries	409,251	-	-	-
Profit/(loss) on sale of property - including foreclosed properties	(50,189)	163,182	(50,189)	163,182
Other operating income	475,880	211,467	628,514	550,812
	2,371,137	1,800,281	2,239,037	2,138,572

For the year ended 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
6. Operating expenses				
Operating expenses include the following:				
Directors' emoluments	408	575	4,150	4,982
Auditors' remuneration	25,908	19,231	26,633	20,057
Depreciation / amortization (Note 28)	376,885	328,013	479,775	430,892
Donations	57,878	5,022	57,878	5,022
Professional expenses	45,890	47,555	47,996	48,614
Legal expenses	26,672	28,809	32,120	32,081
Amortization of goodwill	-	49,473	-	49,473
Special VAT on profit & staff emoluments	871,569	638,014	871,569	638,014
7. Personnel costs				
Staff emoluments	4,197,374	3,982,119	4,358,592	4,100,460
Bank's contribution to defined contribution plans				
Employees' Provident Fund	323,627	316,783	342,164	336,984
Employees' Trust Fund	80,631	78,962	83,162	84,963
Bank's contribution towards employees' tax	258,955	207,750	258,955	207,750
Other personnel costs	302,814	255,916	304,481	258,268
	5,163,401	4,841,530	5,347,354	4,988,425

The number of persons employed by the bank as at 31 December, 2004 was 8,718. (2003; 8,927)

For the year ended 31st December	Bank		Group	
	2004 Rs ' 000	2003 Rs' 000	2004 Rs ' 000	2003 Rs' 000
8. Staff retirement benefits				
Bank's contribution to defined benefit plans				
Bank of Ceylon Pension Trust Fund	1,198,115	1,049,307	1,198,115	1,049,307
Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund	156,000	152,000	156,000	152,000
Provision for terminal gratuity	20,417	7,973	30,814	16,701
	1,374,532	1,209,280	1,384,929	1,218,008

The Bank has established two pension schemes namely the Bank of Ceylon Pension Trust Fund and the Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund. These funds cover substantial portion of liabilities towards employees. Both schemes are defined as benefit plans and are funded. Both funds have been closed to new active members since 1st January 1996. The assets of the funded plans are held independently of the Bank's assets in separate trustee administered funds. Both schemes are valued by an independent actuary at least once in every three years.

The latest actuarial valuations were carried out as at 1st January 2004 by an independent consultancy firm. The valuation method corresponds to the requirement under the Sri Lanka Accounting Standard No.16-Retirement Benefit Costs. The valuation was done on an on going basis and based on a projected benefit valuation method. This method projects the current data using the actual assumptions and calculates a projected benefit at the participants' assumed retirement date. The actuarial value of this projected benefits is then valued and discounted to the valuation date to derive the current liability .

8. Staff retirement benefits (Contd.)

The principal actuarial assumptions are as follows,

	Current Valuation	Previous Valuation
Discount rates		
- Pre retirement	8.0%	9.0%
- Post retirement	8.0%	9.0%
Expected return on plan assets (net of taxes)	8.0%	9.0%
Increase in cost of living	6.5%	6.5%
Future salary increase	7.0%	7.0%
Early retirement (Age)		
Below age of 55	-	14.0%
At the age of 55	40.0%	52.0%
At the age of 56	10.0%	34.0%
At the age of 57	6.0%	
At the age of 58	10.0%	
At the age of 59	4.0%	

(1) Bank of Ceylon Pension Trust Fund

In the last valuation carried out as at 01.01.2004, the estimated deficit of the fund is Rs 2.45 billion. (Rs. 2.24 billion as at 31.12.2002). The fair value of the plan assets as at 01.01.2004 was Rs.18.33 billion (Rs. 17.52 billion as at 31.12.2002) and the total liabilities of the Fund was Rs. 20.78 billion (Rs. 19.76 billion as at 31.12.2002). The most significant effect on the result of the actuarial valuation are the changes in the assumptions used for revaluation. The expected investment returns are assumed to be 1.5% higher than the rate of inflation. The absolute yield gap in the previous valuation was estimated as 2.5%. Due to this, the Management has decided to increase the required contribution rate from 48% to 56.76% of gross salary with effect from January 2005.

(2) Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund

The valuation revealed a deficit of funds and accordingly, an amount of Rs 2.02 billion has been estimated as the deficit as at 01.01.2004 (Rs.2.45 billion as at 31st December 2002).

The fair value of the plan assets of the W & OP Fund as at 01.01.2004 was Rs.2.77 billion (Rs 2.5 billion as at 31.12.2002) and the total liabilities of the fund was Rs. 4.79 billion. (Rs. 4.95 billion as at 31.12.2002)

An amount of Rs.156 million was provided in the accounts for the year 2004 in addition to the members contribution (Rs.152 million in 2003) . In order to meet the deficit, the Management has decided to increase the required special contribution from Rs. 13 million per month to Rs.38 million per month with effect from January 2005.

For the year ended 31st December	Bank		Group	
	2004 Rs ' 000	2003 Rs' 000	2004 Rs ' 000	2003 Rs' 000
9. Provision for loan losses				
Specific provision for loans and advances (Note 9.1)	2,556,897	3,292,955	2,608,343	3,410,386
Specific provision for pawning advances	9,427	4,521	9,427	4,521
Specific provision for credit card receivable (Note 9.2)	104,363	4,942	104,363	4,942
General provision made / (reversed) for loans and advances	27,746	(95,947)	29,246	(96,060)
General provision made for credit cards receivable	35	2,495	35	2,495
	2,698,468	3,208,966	2,751,414	3,326,284
Specific provision for foreclosed properties	35,705	82,807	35,705	82,807
Specific provision for leasing facilities	2,753	1,400	56,498	31,400
Specific provision made / (reversed) for bills of exchange	142,600	(280,684)	142,600	(280,684)
	2,879,526	3,012,489	2,986,217	3,159,807

9.1 Provision for Tsunami affected customers

The Bank has carried out an investigation to identify the possible credit losses that could arise due to the Tsunami catastrophe occurred on 26 December 2004. Accordingly, Bank has made a specific provision of Rs. 300 million in the accounts for 2004 against the facilities given to customers who were affected by Tsunami.

9.2 Specific provision for credit card receivable

During the year, the Bank changed the accounting policy on provision for credit card receivable to make it comply with the industry practices. Accordingly, 100% specific provision is made on credit card receivable outstanding for 6 months and over, and 50% for amount outstanding for 3 to 6 months.

Previously, provision for credit card receivables was made in terms of guidelines issued by the Central Bank of Sri Lanka on provisioning.

The impact of this change on the prior years can not reasonably be determined and therefore, a sum of Rs. 75 million has been charged to the Income Statement for the year 2004.

For the year ended 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
10. Provision for fall in value of investment securities				
Investment securities	6,273	-	6,755	-
Other securities	-	-	-	-
	<u>6,273</u>	<u>-</u>	<u>6,755</u>	<u>-</u>
11. Share of subsidiaries & associate companies profit before taxation				
Subsidiaries				
<i>Quoted companies</i>				
Property Development Ltd	204,470	183,995		
Merchant Bank of Sri Lanka Ltd				
- Share of profit for the year	68,847	-		
- Share of net assets increased *	132,914	-		
<i>Unquoted companies</i>				
Hotels Colombo (1963) Ltd	16,703	-		
BOC Management & Support Services (Pvt) Ltd	683	104		
BOC Property Development & Management (Pvt) Ltd	2,538	(13,972)		
Ceybank Securities Ltd	27,483	236,561		
Ceylease Financial Services Ltd	6,830	12,242		
BOC Travels (Pvt) Ltd	-	(2,975)		
Merchant Credit of Sri Lanka Ltd	36,533	16,380		
Sub Total	<u>497,001</u>	<u>432,335</u>		

For the year ended 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
11. Share of subsidiaries & associate companies profit before taxation Contd.				
Associates				
<i>Quoted companies</i>				
Capital Development and Investment Company Ltd	19,017	18,425	19,017	18,425
<i>Unquoted companies</i>				
Unit Trust Management Company (Pvt) Ltd	2,365	3,000	2,365	3,000
Lanka Securities (Pvt) Ltd	10,123	19,974	10,123	19,974
Mireka Capital Land (Pvt) Ltd	8,737	-	8,737	-
Transnational Lanka Records Solutions (Pvt) Ltd	3,468	2,630	3,468	2,630
Ruhuna Venture Capital Company Ltd	(1,230)	(1,917)	(1,230)	(1,917)
Sub Total	42,480	42,112	42,480	42,112
Adjustments	(33,297)	-	(41,921)	-
Total	506,184	474,447	559	42,112

* This represents the share of net assets increased due to capital reduction programme carried out by Merchant Bank of Sri Lanka Ltd during the year.

For the year ended 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
12. Provision for taxation				
Income tax on profits for the year				
Income tax on profit of domestic banking unit	47,421	-	128,453	61,799
Income tax on profits of off-shore banking unit	283,573	-	283,573	-
Income tax on profits of overseas branches	162,975	104,839	162,975	104,839
Share of income tax of subsidiary companies	81,871	56,458	-	-
Share of income tax of associate companies	7,792	6,349	7,792	6,349
Under provision in respect of prior years	5,724	238	5,724	238
Deferred tax charged / (released) (Note 33)	-	-	7,065	5,000
	589,356	167,884	595,582	178,225

12.1 The tax liability on profit has been computed at the following rates,

	2004	2003
Income of domestic banking unit	32.5%	32.5%
On -shore income of the off-shore banking unit		
From 01 January 2003 to 30 June 2003	-	15.0%
From 01 July 2003 to 31 December 2004	32.5%	32.5%
Off -shore income of the off-shore banking unit		
From 01 January 2003 to 31 March 2004	-	-
From 01 April 2004 to 31 December 2004	20.0%	-
Income of branch in Maldives	25.0%	25.0%
Income of branch in Chennai	42.5%	45.0%
Income of subsidiaries & associates - Quoted	30.0%	30.0%
Income of subsidiaries & associates - Unquoted	32.5%	32.5%

12.2 In terms of provisions in the Inland Revenue (Amendment) Act No. 12 of 2004, the tax losses brought forward can be set off against the current year tax liability only to the extent of a maximum limit of 35% of the total statutory income of the period under review and any losses which can not be deducted, may be carried forward to the future years. The tax losses available as at 31 December 2004 amounted to Rs. 4,199,258,379/- (Rs. 4,711,793,415/- ; as at 31 December 2003)

12.3 The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows.

For the year ended 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Profit before tax	2,558,700	1,800,373	2,077,257	2,043,958
Prima facie tax calculated at a rate of 32.5%	831,577	585,120	675,109	664,286
Effect of different tax rate in other countries	162,975	75,979	162,975	75,979
Income not assessable for tax	(1,157,826)	(1,026,439)	(1,373,895)	(1,108,289)
Expenses not deductible for tax purposes	913,480	722,479	1,292,243	723,778
Deferred tax assets not released	(166,574)	(189,493)	(166,574)	(177,767)
Under provision in respect of previous years	5,724	238	5,724	238
Provision for taxation	589,356	167,884	595,582	178,225
Effective tax rate	23.03%	9.32%	28.67%	8.72%

12.4 Due to the tax losses available for carry forward exceeding timing difference arising on accelerated capital allowances there is no liability for deferred tax at the balance sheet date.

12.5 Notional credit for With-Holding Tax on Government Securities on secondary market transactions

According to the Inland Revenue (Amendment) Act No. 19 of 2003, Bank is entitled to a notional tax credit for the interest income from the secondary market transactions in Government Securities (from 1st April 2002) subject to such interest income forms part of the statutory income of the Bank for that year of assessment.

Accordingly, the net income earned by the Bank from the secondary market transactions in Government Securities has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 154,381,480/- has been recognized in the Financial Statements for the year ended 31st December 2004. (Rs. 183,294,258/- ; 31st December 2003)

13. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

For the year ended 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Net profit attributable to shareholders	1,969,344	1,632,489	1,440,270	1,795,172
Weighted average number of ordinary shares in issue ('000)	2,600	2,600	2,600	2,600
Earnings per share (Rs)	757.44	627.88	553.95	690.45

14. Dividends

Under the agreement between the Bank and the Government of Sri Lanka, on re-capitalising and granting of autonomy to the Bank of Ceylon, the Government reserves the option of allowing the Bank to retain any level of profit after tax. All profits after deduction of tax, loan loss provision and any such portion for reserves, if any, as the Government shall determine, will be issued as dividends to the Government at the end of each year . Accordingly, Rs. 1,000 million has been paid by the Bank as dividends during the year (2003- Rs 673 million).

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
15. Cash and short term funds				
Cash in hand	3,713,397	3,569,979	3,734,376	3,610,668
Balances with other banks	1,870,426	609,216	1,870,426	614,151
	<u>5,583,823</u>	<u>4,179,195</u>	<u>5,604,802</u>	<u>4,224,819</u>
16. Balances with Central Banks				
Central Bank of Sri Lanka	10,810,113	6,058,444	10,810,113	6,058,444
Reserve Bank of India	148,764	182,910	148,764	182,910
State Bank of Pakistan	-	13,337	-	13,337
Maldivian Monetary Authority	1,520,836	1,689,821	1,520,836	1,689,821
	<u>12,479,713</u>	<u>7,944,512</u>	<u>12,479,713</u>	<u>7,944,512</u>

Note

A cash balance is required to be maintained with the Central Bank of Sri Lanka and the respective monetary authorities where the overseas branches are located. The minimum cash reserve required to be maintained at the Central Bank of Sri Lanka as at 31 December 2004 was 10% (2003 - 10%) on Sri Lanka Rupee deposit liabilities.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
17. Treasury bills and other eligible bills				
Treasury bills	24,635,074	7,817,569	25,298,643	8,552,552
Treasury bills purchased under agreement to resell	867,000	6,019,039	1,026,040	6,230,692
	<u>25,502,074</u>	<u>13,836,608</u>	<u>26,324,683</u>	<u>14,783,244</u>

Treasury bills and other eligible bills are debt securities issued by the Government of Sri Lanka and the respective Government authorities where the overseas branches are located for a period of less than twelve months. All purchase agreements mature within twelve months from inception. Treasury bills include the bills pledged under repurchase agreements with other banks and customers. The value of such bills as at 31 December 2004 was Rs. 7.5 billion (2003- Rs.3.5 billion).

As at 31st December	2004			2003		
	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000
18. Dealing securities - Bank						
Listed equity securities						
<i>Banking, Finance and Insurance</i>						
Asia Capital Ltd	-	-	-	75,000	1,030	1,013
Commercial Bank of Ceylon Ltd	41,340	6,679	6,604	1,199,840	193,938	170,977
Sampath Bank Ltd	460,600	40,107	28,903	439,800	44,679	36,723
Seylan Bank Ltd	348,400	20,294	10,452	468,300	27,278	22,010
Hatton National Bank Ltd	679,600	66,644	38,737	680,200	66,702	46,934
Nations Trust Bank Ltd	425,800	14,730	7,771	338,700	12,706	9,653
		<u>148,454</u>	<u>92,467</u>		<u>346,333</u>	<u>287,310</u>
Balance carried over		148,454	92,467		346,333	287,310

	No of ordinary shares*	2004 Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	2003 Cost of investment Rs'000	Market value Rs'000
18 Dealing securities - Bank Contd.						
Balance brought over		148,454	92,467		346,333	287,310
Listed equity securities						
<i>Beverage, Food & Tobacco</i>						
Distilleries Co of Sri Lanka Ltd (Rs. 1 / =)	-	-	-	50,000	1,435	1,225
		-	-		1,435	1,225
<i>Chemicals and Pharmaceuticals</i>						
Haycarb Ltd	-	-	-	600,750	26,734	19,224
		-	-		26,734	19,224
<i>Diversified Holdings</i>						
Aitken Spence & Co. Ltd	-	-	-	133,400	36,890	33,617
Hayleys Ltd	942,464	153,055	118,986	842,086	149,579	101,050
Hemas Holdings Ltd	-	-	-	568,800	52,308	39,816
John Keells Holdings Ltd	-	-	-	4,618,342	513,995	457,216
		153,055	118,986		752,772	631,699
<i>Footwear & Textiles</i>						
Kandy Textiles Industries Ltd	-	-	-	191,790	1,918	-
		-	-		1,918	-
<i>Hotels & Travels</i>						
Asian Hotels Ltd	-	-	-	1,013,500	26,855	22,550
AHOT Properties Ltd	913,000	24,192	26,934	-	-	-
Aitken Spence Hotel Holdings	280,800	23,060	25,763	280,800	23,060	17,831
Ceylon Hotels Corporation (Rs. 2/=)	1,069,994	6,720	97,369	1,069,994	6,720	104,859
Connaissance de Ceylan Ltd	318,660	9,959	13,782	340,600	11,709	8,856
Light House Hotels Ltd	-	-	-	175,000	628	464
Royal Palm Beach Hotels Ltd	184,000	6,302	7,498	246,000	8,425	6,150
Trans Asia Hotels Ltd	-	-	-	124,500	7,418	6,412
		70,233	171,346		84,815	167,122
<i>Manufacturing</i>						
Caltex Lubricants Ltd	1,291,300	32,960	82,320	3,192,800	81,502	229,882
Ceylon Grain Elevators Ltd	390,600	9,568	4,199	550,000	13,472	12,650
Ceylon Leather Products Ltd	-	-	-	89,900	899	674
Dankotuwa Porcelain Ltd	173,900	6,012	2,739	390,000	13,484	5,850
Magpek Exports Ltd	-	-	-	300,000	4,355	-
Lanka Walltiles Ltd	-	-	-	44,400	1,663	1,332
Lanka Tiles Ltd	-	-	-	173,600	7,029	5,946
Richard Pieris Ltd	-	-	-	135,600	15,017	19,662
Singer Sri Lanka Ltd	186,200	15,229	13,127	149,200	15,318	12,682
Tokyo Cement Co. (Lanka) Ltd	200,300	32,040	28,042	200,400	32,057	25,050
		95,809	130,427		184,796	313,728
Balance carried over		467,551	513,226		1,398,803	1,420,308

	2004			2003		
	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000
18. Dealing securities - Bank Contd.						
Balance brought over		467,551	513,226		1,398,803	1,420,308
<i>Power & Energy</i>						
Lanka IOC Ltd	1,000,000	27,000	43,250	-	-	-
		<u>27,000</u>	<u>43,250</u>		<u>-</u>	<u>-</u>
<i>Services</i>						
Sri Lanka Telecom Ltd	515,000	12,078	7,983	515,000	12,078	9,270
		<u>12,078</u>	<u>7,983</u>		<u>12,078</u>	<u>9,270</u>
Total		506,629	564,459		1,410,881	1,429,578
Less : Provision for fall in value		-	-		-	-
Value of dealing securities net of provision		<u>506,629</u>	<u>564,459</u>		<u>1,410,881</u>	<u>1,429,578</u>

Note

The par value of all shares, if not specifically mentioned, is Rs. 10/= and paid in full.

	2004			2003		
	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000
18. Dealing securities - Group						
Listed equity securities						
<i>Banking, Finance and Insurance</i>						
Asia Capital Ltd	-	-	-	75,000	1,030	1,013
Commercial Bank of Ceylon Ltd	41,380	6,685	6,616	1,199,880	193,944	170,983
Sampath Bank Ltd	460,600	40,107	28,903	439,800	44,679	36,723
Seylan Bank Ltd	348,400	20,294	10,452	468,300	27,278	22,010
DFCC Bank	-	-	-	10	2	3
Hatton National Bank Ltd	679,600	66,644	38,737	680,200	66,702	46,934
Nations Trust Bank Ltd	425,800	14,730	7,771	338,700	12,706	9,653
Mercantile Credit Ltd			-	2,848	156	-
		<u>148,460</u>	<u>92,479</u>		<u>346,497</u>	<u>287,319</u>
<i>Beverage, Food & Tobacco</i>						
Distilleries Co of Sri Lanka Ltd (Rs 1/=)	-	-	-	50,000	1,435	1,225
		<u>-</u>	<u>-</u>		<u>1,435</u>	<u>1,225</u>
<i>Chemicals and Pharmaceuticals</i>						
Haycarb Ltd	-	-	-	600,750	26,734	19,224
		<u>-</u>	<u>-</u>		<u>26,734</u>	<u>19,224</u>
Balance carried over		<u>148,460</u>	<u>92,479</u>		<u>374,666</u>	<u>307,768</u>

	2004			2003		
	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000
18. Dealing securities - Group Contd.						
Balance brought over		148,460	92,479		374,666	307,768
Listed equity securities						
<i>Diversified Holdings</i>						
Aitken Spence & Co. Ltd				133,400	36,890	33,617
Hayleys Ltd	942,464	153,055	118,986	842,086	149,579	101,050
Hemas Holdings Ltd	-	-	-	568,800	52,308	39,816
John Keells Holdings Ltd	6,312	795	694	4,624,081	514,790	457,784
		<u>153,850</u>	<u>119,680</u>		<u>753,567</u>	<u>632,267</u>
<i>Footwear & Textiles</i>						
Kandy Textiles Industries Ltd				191,790	1,918	-
		<u>-</u>	<u>-</u>		<u>1,918</u>	<u>-</u>
<i>Hotels & Travels</i>						
Asian Hotels Ltd	-	-	-	1,013,500	26,855	22,550
AHOT Properties Ltd	913,000	24,192	26,934	-	-	-
Aitken Spence Hotel Holding Ltd	280,800	23,060	25,763	280,800	23,060	17,831
Ceylon Hotels Corporation (Rs 2/=)	1,069,994	6,720	97,369	1,069,994	6,720	104,859
Connaissance de Ceylan Ltd	318,660	9,959	13,782	340,600	11,709	8,856
Light House Hotels Ltd	-	-	-	175,000	627	464
Royal Palm Beach Hotels Ltd	184,000	6,302	7,498	246,000	8,425	6,150
Trans Asia Hotels Ltd		-	-	124,500	7,418	6,412
		<u>70,233</u>	<u>171,346</u>		<u>84,814</u>	<u>167,122</u>
<i>Manufacturing</i>						
Caltex Lubricants Ltd	1,291,300	32,960	82,320	3,192,800	81,502	229,882
Ceylon Grain Elevators Ltd	390,600	9,568	4,199	550,000	13,472	12,650
Ceylon Leather Products Ltd	-	-	-	269,600	2,696	2,022
Dankotuwa Porcelain Ltd	173,900	6,013	2,739	390,000	13,484	5,850
Magpek Exports Ltd	-	-	-	300,000	4,355	-
Lanka Walltile Ltd	-	-	-	44,400	1,663	1,332
Lanka Tiles Ltd	-	-	-	173,600	7,029	5,946
Richard Pieris and Company Ltd	-	-	-	135,600	15,017	19,662
Singer Sri Lanka Ltd	186,200	15,229	13,127	149,200	15,318	12,682
Tokyo Cement Company (Lanka) Ltd	200,300	32,040	28,042	200,400	32,057	25,050
Pugoda Textile (Lanka) Ltd	-	-	-	2,250	79	-
		<u>95,810</u>	<u>130,427</u>		<u>186,672</u>	<u>315,076</u>
<i>Power & Energy</i>						
Lanka IOC Ltd	1,035,000	27,944	44,764	-	-	-
		<u>27,944</u>	<u>44,764</u>		<u>-</u>	<u>-</u>
Balance carried over		496,297	558,696		1,401,637	1,422,233

	No of ordinary shares*	2004 Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	2003 Cost of investment Rs'000	Market value Rs'000
18. Dealing securities - Group Contd.						
Balance brought over		496,297	558,696	-	1,401,637	1,422,233
<i>Services</i>						
Lanka Hospital Corporation Ltd	-	-	-			
Sri Lanka Telecom Ltd	515,000	12,078	7,983	515,000	12,078	9,270
		<u>12,078</u>	<u>7,983</u>		<u>12,078</u>	<u>9,270</u>
<i>Trading</i>						
Carsons Marketing Limited	-	-	-	124,500	1,881	-
		<u>-</u>	<u>-</u>		<u>1,881</u>	<u>-</u>
Total		508,375	566,679		1,415,596	1,431,503
Less: Provision for fall in value		468	-		(2,790)	-
Value of dealing securities net of provision		<u>508,843</u>	<u>566,679</u>		<u>1,412,806</u>	<u>1,431,503</u>

Note:- The par value of all shares, if not specifically mentioned, is Rs. 10/= and paid in full.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
19. Placements with and loans to other banks				
Placements with other banks	27,361,554	26,027,296	27,361,554	26,027,296
Loans under re-purchase agreements	-	385,155	-	385,155
	<u>27,361,554</u>	<u>26,412,451</u>	<u>27,361,554</u>	<u>26,412,451</u>
All re-purchase agreements mature within twelve months from inception.				
20. Loans and advances to customers				
20(1) Bills of exchange				
Export bills	3,788,873	3,802,719	3,788,873	3,802,719
Import bills	1,553,865	2,641,567	1,553,865	2,641,567
Local bills	351	42,947	366,485	532,411
	<u>5,343,089</u>	<u>6,487,233</u>	<u>5,709,223</u>	<u>6,976,697</u>
Provision for loan losses [Note 20.1 (b)]	(471,474)	(494,779)	(471,520)	(494,825)
Net bills of exchange	<u>4,871,615</u>	<u>5,992,454</u>	<u>5,237,703</u>	<u>6,481,872</u>
20.1(a) Analysis of net bills of exchange				
Not later than 3 months	4,148,278	5,941,332	4,513,965	6,426,579
Later than 3 months and not later than 6 months	723,337	51,122	723,738	55,293
	<u>4,871,615</u>	<u>5,992,454</u>	<u>5,237,703</u>	<u>6,481,872</u>

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
20.1(b) Movement in provision for bills of exchange				
Balance at 1 January	494,779	853,724	494,825	853,770
Amount provided during the year	142,600	(280,684)	142,600	(280,684)
Amount reversed during the year	(165,905)	(78,261)	(165,905)	(78,261)
Balance at 31 December	<u>471,474</u>	<u>494,779</u>	<u>471,520</u>	<u>494,825</u>
20.2 Loans and advances				
Sri Lanka rupee loans and advances				
Overdrafts	17,493,127	19,038,239	17,493,128	19,038,239
Trust receipts	4,528,889	4,537,016	4,528,889	4,537,015
Staff loans	10,847,901	10,217,789	10,885,916	10,246,901
Loan under schemes	3,613,868	5,148,997	3,613,868	5,148,997
Other term loans	28,146,290	34,919,411	28,621,058	35,481,381
Pawning advances	8,237,229	5,890,347	8,237,229	5,890,346
Foreclosed properties [Note 20.2 (b)]	1,557,830	864,814	1,698,052	1,010,935
	<u>74,425,134</u>	<u>80,616,613</u>	<u>75,078,140</u>	<u>81,353,814</u>
Foreign currency loans and advances				
Overdrafts	2,471,431	3,683,364	2,471,431	3,683,364
Trust receipts	639,711	441,836	639,711	441,836
Staff loans	10,089	6,990	10,089	6,990
Other term loans	65,348,653	49,630,766	65,348,653	49,630,766
	<u>68,469,884</u>	<u>53,762,956</u>	<u>68,469,884</u>	<u>53,762,956</u>
Total Sri Lanka rupee and foreign currency loans & advances	<u>142,895,018</u>	<u>134,379,569</u>	<u>143,548,024</u>	<u>135,116,770</u>
Provision for loan losses [Note 20.2 (c)]	(10,123,232)	(11,586,214)	(10,250,109)	(11,828,167)
Provision for foreclosed properties [Note 20.2 (d)]	(99,718)	(82,807)	(99,718)	(82,807)
Interest in suspense [Note 20.2 (e)]	(7,489,003)	(15,625,183)	(7,491,969)	(15,633,070)
Net loans and advances	<u>125,183,065</u>	<u>107,085,365</u>	<u>125,706,228</u>	<u>107,572,726</u>
20.2(a) Analysis of net loans and advances				
Not later than 1 year	56,532,118	55,004,437	56,830,070	54,999,762
Later than 1 year and not later than 5 year	60,642,606	44,436,945	60,827,727	44,814,173
Later than 5 year	8,008,341	7,643,983	8,048,431	7,758,791
	<u>125,183,065</u>	<u>107,085,365</u>	<u>125,706,228</u>	<u>107,572,726</u>
20.2 (b) Foreclosed properties				
Balance at 1 January	864,814	754,369	1,010,935	1,048,799
Additions during the year	989,781	357,338	995,882	357,338
Disposals during the year	(296,790)	(246,893)	(308,790)	(395,202)
Adjustments / Transfers	25	-	25	-
Balance at 31 December	<u>1,557,830</u>	<u>864,814</u>	<u>1,698,052</u>	<u>1,010,935</u>

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
20.2(c) Movement in provision for loan losses				
Balance at 1 January	11,586,214	11,791,030	11,828,167	12,125,379
Adjustments for difference of currency conversion	294,685	198,965	294,685	198,590
	<u>11,880,899</u>	<u>11,989,995</u>	<u>12,122,852</u>	<u>12,323,969</u>
Amounts recovered / written back on account of provisions previously made	(1,348,520)	(1,103,127)	(1,349,626)	(1,124,036)
Amount reversed due to loans written off	(2,927,169)	(2,509,620)	(3,092,801)	(2,655,834)
Re classifications / transfers	(180,446)	-	(181,730)	(42,216)
Provision for loan losses (Note 9)				
Specific	2,670,687	3,302,418	2,722,133	3,419,849
General	27,781	(93,452)	29,281	(93,565)
Balance at 31 December	<u>10,123,232</u>	<u>11,586,214</u>	<u>10,250,109</u>	<u>11,828,167</u>
20.2(d) Movement in provision for foreclosed properties				
Balance at 1 January	82,807	-	82,807	-
Amount reversed during the year	(18,794)	-	(18,794)	-
Amount provided during the year	35,705	82,807	35,705	82,807
Balance at 31 December	<u>99,718</u>	<u>82,807</u>	<u>99,718</u>	<u>82,807</u>
20.2(e) Movement in interest in suspense				
Balance at 1 January	15,625,183	17,428,054	15,633,070	17,429,760
Adjustments for difference of currency conversion	177,386	87,168	177,386	87,168
	<u>15,802,569</u>	<u>17,515,222</u>	<u>15,810,456</u>	<u>17,516,928</u>
Amount reversed due to recovery	(2,340,616)	(835,327)	(2,346,660)	(840,266)
Amount reversed due to loans written off	(3,710,015)	(3,823,431)	(3,710,015)	(3,828,324)
Amount suspended during the year	1,685,233	2,768,719	1,686,356	2,784,732
Adjustments and reversals	(3,948,168)	-	(3,948,168)	-
Balance at 31 December	<u>7,489,003</u>	<u>15,625,183</u>	<u>7,491,969</u>	<u>15,633,070</u>
20.3 Lease rentals receivables - Not later than one year				
Gross investment in finance leases	423,849	313,442	2,688,664	2,716,508
Prepaid rentals	(10,165)	(9,203)	(326,185)	(489,720)
Net rentals receivable	<u>413,684</u>	<u>304,239</u>	<u>2,362,479</u>	<u>2,226,788</u>
Unearned income	(88,231)	(61,874)	(431,312)	(454,867)
Provision for loan losses (Note 20.6)	(9,093)	(8,537)	(138,395)	(120,312)
Net investment in finance leases	<u>316,360</u>	<u>233,828</u>	<u>1,792,772</u>	<u>1,651,609</u>
20.4 Lease rentals receivables - Later than one year and not later than five years				
Gross investment in finance leases	320,583	230,519	4,559,733	3,703,326
Prepaid rentals	(5,154)	(5,340)	(674,579)	(397,378)
Net rentals receivable	<u>315,429</u>	<u>225,179</u>	<u>3,885,154</u>	<u>3,305,948</u>
Unearned income	(51,160)	(48,312)	(806,993)	(652,319)
Provision for loan losses (Note 20.6)	(3,097)	(5,172)	(172,413)	(287,869)
Net investment in finance leases	<u>261,172</u>	<u>171,695</u>	<u>2,905,748</u>	<u>2,365,760</u>

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
20.5 Lease rentals receivables - Later than five years				
Gross investment in finance leases	1,728	-	2,204	754
Prepaid rentals	(284)	-	(302)	(14)
Net rentals receivable	1,444	-	1,902	740
Unearned income	(194)	-	(198)	(6)
Provision for loan losses (Note 20.6)	(12)	-	(13)	(2)
Net investment in finance leases	1,238	-	1,691	732
20.6 Movement in provision for lease rental receivables				
Balance at 1 January	13,709	15,602	408,183	374,221
Amount recovered / written back o/a provisions previously made	(2,976)	(1,446)	(71,770)	(2,368)
Adjustments / Reclassification			1,342	42,216
Amount written off	(1,284)	(1,847)	(83,432)	(37,286)
Provisions made during the year	2,753	1,400	56,498	31,400
Balance at 31 December	12,202	13,709	310,821	408,183
20.7 Movement in provision for bills of exchange, loans & advances, foreclosed properties and lease rental receivables				
Balance at 1 January	12,177,509	12,660,356	12,813,982	13,353,370
Adjustments for difference of currency conversion	294,685	198,965	294,685	198,590
	12,472,194	12,859,321	13,108,667	13,551,960
Amounts recovered / written back on account of provisions previously made	(1,536,195)	(1,182,834)	(1,606,095)	(1,204,665)
Amount reversed due to loans written off	(2,928,453)	(2,511,467)	(3,176,233)	(2,693,120)
Re classifications / transfers	(180,446)	-	(180,388)	-
Provision for loan losses (Note 9)				
Specific	2,851,745	3,105,941	2,956,936	3,253,372
General	27,781	(93,452)	29,281	(93,565)
Balance at 31 December	10,706,626	12,177,509	11,132,168	12,813,982

As at 31st December	Bank		Group					
	2004 Rs'000	%	2003 Rs'000	%	2004 Rs'000	%	2003 Rs'000	%
20.8 Non - performing loans & advances								
Non - performing loans & advances								
Bills of exchange	593,049		791,511		593,049		791,511	
Loans & advances	11,669,077		16,316,685		12,682,272		17,832,097	
Foreclosed properties	1,557,830		864,814		1,698,052		1,010,935	
Lease receivable	28,468		32,640		871,315		936,918	
Total non performing advances	13,848,424	9.82*	18,005,650	14.35*	15,844,688	11.03*	20,571,461	16.04*
(Net of interest in suspense)								

As at 31st December	2004		Bank 2003		2004		Group 2003	
	Rs'000	%	Rs'000	%	Rs'000	%	Rs'000	%
20.8 Non - performing loans & advances Contd.								
Less: Provision for loan losses								
Provision for bills of exchange	471,474		494,779		471,520		494,825	
Provision for loans & advances	10,123,232		11,586,214		10,250,109		11,828,167	
Provision for foreclosed properties	99,718		82,807		99,718		82,807	
Provision for lease receivable	12,202		13,709		310,821		408,183	
Total provision for loans & advances	10,706,626	(7.59)	12,177,509	(9.70)	11,132,168	(7.75)	12,813,982	(9.99)
Net exposure	3,141,798	2.23	5,828,141	4.64	4,712,520	3.28	7,757,479	6.05

*Note :- as a percentage of total gross loans & advances (Net of interest in suspense)

The bank's net exposure on non performing advances amounting to Rs. 3,141.8 million as at 31 December 2004 (2003- Rs. 5,828.1 million) is covered by securities valued at approximately Rs. 4,800 million (2003 - approximately Rs. 7,300 million).

20.9 Credit concentration - Geographic sector risk concentrations

Geographic sector risk concentrations within the customer loan portfolio were as follows:

As at 31st December	2004		Bank 2003		2004		Group 2003	
	Rs'000	%	Rs'000	%	Rs'000	%	Rs'000	%
Sri Lanka	137,262,958	98	121,866,642	98	139,884,857	98	124,614,977	98
United Kingdom	384,851	0	378,241	0	384,851	0	378,241	0
Republic of Maldives	1,609,930	1	1,703,434	1	1,609,930	1	1,703,434	1
Pakistan	-	-	23,364	0	-	-	23,364	0
India	1,816,817	1	1,512,302	1	1,816,807	1	1,512,302	1
	141,074,556	100	125,483,983	100	143,696,445	100	128,232,318	100

20.10 Credit concentration - Economic sector risk concentrations

Economic sector risk concentrations within the customer loan portfolio were as follows:

As at 31st December	2004		Bank 2003		2004		Group 2003	
	Rs'000	%	Rs'000	%	Rs'000	%	Rs'000	%
Exports and imports	40,469,505	30	31,784,361	25	40,869,710	30	31,784,361	25
Wholesale and retail trade	9,052,107	6	10,134,067	8	9,316,677	6	10,641,332	8
Banking, finance and insurance	4,677,245	3	5,538,725	4	4,759,250	3	5,544,355	4
Agriculture and fisheries	3,557,181	3	7,055,669	6	3,583,732	2	7,067,974	6
Manufacturing	7,742,463	5	6,943,928	6	7,824,015	5	7,034,198	5
Hotels, travels and services	5,264,389	4	5,168,135	4	5,265,129	4	5,168,244	4
Housing, construction & property development	13,374,646	9	13,867,061	11	13,588,446	9	14,118,511	11
Consumption and others	55,379,190	39	44,127,224	35	56,791,434	40	45,862,408	36
Foreclosed properties	1,557,830	1	864,814	1	1,698,052	1	1,010,935	1
Gross loans & advances	141,074,556	100	125,483,984	100	143,696,445	100	128,232,318	100

21. Government of Sri Lanka restructuring bonds

- (a) On 24 March 1993 the Bank received Restructuring Bonds that can not be sold, amounting to Rs 13,547 million from the Government of Sri Lanka (GOSL) in consideration of recapitalization of the Bank and settlement of certain loans given to state organisations and guaranteed by GOSL.

Under the agreement between GOSL and the Bank, on recapitalising and granting of autonomy to the Bank, the bonds may be cancelled to the extent of the dividends payable to the Government and retained by the Bank as determined by the Secretary to the Treasury in consultation with the Bank. But no part of profit could be retained by the Bank in lieu of cancellation of the bonds unless the tax and dividends paid by the Bank to the Government is at least 70% of the interest that the Bank received on these bonds from the Government.

During 1993, bonds to the value of Rs. 3,000 million were transferred to the BoC Pension Trust Fund. Two bonds amounting Rs. 2,000 million were redeemed in 1997 and 1999.

- (b) On 11 October 1996, the Bank entered into another agreement with the GOSL, whereby it acquired further Rs 9,336 million worth of restructuring bonds from the Government. Of this, a sum of Rs 2,708 million was for further disbursements to be made by the Bank on the directive / guarantees given by the GOSL, and the balance was for settlement of loans (together with accrued interest) which have been disbursed by the Bank on directives / guarantees given by the GOSL. The bonds carry an interest rate of 14% per annum, payable semi-annually from the date of issue.

The bonds have a maturity of 10 years from 16 October 1996, (date of issue) and are non-transferable. Further, as per the agreement, the Bank is required to pay back 25% of the bond interest received, for the first two years in the form of dividends. The agreement also states that the conditions may be revised by mutual agreement in writing every two years, and dividend payments to GOSL would be made according to the fresh terms & conditions. However, in case the terms and conditions are not revised for any such period of two years, the Bank will continue to pay GOSL as agreed initially. In case the Bank is able to recover the whole or any part of the loans stated above it shall take immediate steps to have an equivalent amount of the said bonds redeemed.

Details of Bonds are as follows

Date Issued	Description	2004 Rs '000	2003 Rs '000	Interest Rate	Date of Maturity
24.03.1993	For recapitalisation purpose	4,780,000	4,780,000	12%	24.03.2023
24.03.1993	For settlement of loans	3,767,000	3,767,000	12%	24.03.2023
16.10.1996	For settlement of loans	9,336,300	9,336,300	14%	16.10.2006
	Total	17,883,300	17,883,300		

As at 31st December	Bank		Group	
	2004 Rs'000	2003 Rs'000	2004 Rs'000	2003 Rs'000
22. Investment securities				
Listed equity securities [Note 22 (a)]	1,334,401	1,334,401	1,549,083	1,547,692
Unlisted equity securities [Note 22 (b)]	350,607	111,325	355,649	116,445
Unlisted preference shares [Note 22 (c)]	50,000	50,000	50,000	50,300
Units in Unit Trusts [Note 22 (d)]	759,094	707,032	759,093	707,032
Bonds, warrants and other securities [Note 22(e)]	19,334,262	24,578,347	19,358,646	24,627,116
	21,828,364	26,781,105	22,072,471	27,048,585

	2004			2003		
	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	Cost of investment Rs'000	Market value Rs'000
22. Investment securities - Bank Contd.						
22(a) Listed equity securities (Bank)						
DFCC Bank Ltd	8,453,333	340,169	1,741,387	6,340,000	340,169	1,711,800
Asian Cotton Mills Ltd	100	-	-	100	-	-
Ceylon Hotels Corporation (Rs 2/=)	2,500	16	228	2,500	16	245
National Development Bank Ltd	7,841,900	994,216	1,254,704	7,841,900	994,216	1,115,510
		<u>1,334,401</u>	<u>2,996,319</u>		<u>1,334,401</u>	<u>2,827,555</u>

	2004			2003		
	No of ordinary shares*	Cost of investment Rs'000	Directors' valuation Rs'000	No of ordinary shares*	Cost of investment Rs'000	Directors' valuation Rs'000
22(b) Unlisted equity securities (Bank)						
Credit Information Bureau (Rs 100/=)	27,000	2,700	2,700	27,000	2,700	2,700
Dawood Bank Ltd	15,000,000	254,280	254,280	-	-	-
Fitch Ratings Lanka Ltd	62,500	625	625	62,500	625	625
Janasakthi Life Insurance Co. Ltd	-	-	-	1,500,000	15,000	15,000
Lanka Clear (Pvt) Ltd	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Megpek Exports Ltd	300,000	4,355	-	-	-	-
Serendib Coconut Products Ltd	37,500	375	-	37,500	375	-
Rajarata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandurata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandy Textile Industries Ltd	191,790	1,918	-	-	-	-
Ruhunu Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Wayamba Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Sabaragamuwa Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Uva Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
		<u>357,253</u>	<u>350,605</u>		<u>111,700</u>	<u>111,325</u>
Less - Provision for fall in value		(6,646)	-		(375)	-
		<u>350,607</u>	<u>350,605</u>		<u>111,325</u>	<u>111,325</u>

	2004			2003		
	No of preference shares*	Cost of investment Rs'000	Directors' valuation Rs'000	No of preference shares*	Cost of investment Rs'000	Directors' valuation Rs'000
22(c) Unlisted preference shares (Bank)						
Carson Cumberbatch Co Ltd 12.0%	5,000,000	50,000	50,000	5,000,000	50,000	50,000
		<u>50,000</u>	<u>50,000</u>		<u>50,000</u>	<u>50,000</u>

	No of units	2004 Cost of investment Rs'000	Manager's valuation Rs'000	No of units	2003 Cost of investment Rs'000	Manager's valuation Rs'000
22. Investment securities - Bank Contd.						
22(d) Units in Unit Trusts (Bank)						
Ceybank Unit Trust	63,705,894	656,228	797,598	59,274,394	608,456	612,304
Ceybank Unit Trust - Seed Fund	4,421,052	42,000	55,352	4,421,052	42,000	45,669
Ceybank Century Growth Fund	5,986,455	60,866	103,386	5,719,520	56,576	91,226
		<u>759,094</u>	<u>956,336</u>		<u>707,032</u>	<u>749,199</u>

	2004 Rs'000	2003 Rs'000
22(e) Bonds and securities (Bank)		
Treasury bonds **		
- less than 12 months	527,583	947,186
- over 12 months	15,334,140	16,554,419
Tradable bonds		
- less than 12 months	3,381,642	47,020
- over 12 months	3,540	4,646,928
Government securities (overseas)	87,357	2,382,470
Commercial papers	-	324
Total investment securities	<u>19,334,262</u>	<u>24,578,347</u>
Aggregate value of investment securities	<u>21,828,364</u>	<u>26,781,105</u>

* Note

The par value of all shares, if not specifically mentioned is Rs.10 /= and paid in full.

** Note

Treasury bonds include the bonds pledged under repurchase agreement with other banks and customers. The value of such bonds as at 31 December 2004 was Rs. 11.2 billion. (2003; Rs. 7.0 billion)

	No of ordinary shares*	2004 Cost of investment Rs'000	Market value Rs'000	No of ordinary shares*	2003 Cost of investment Rs'000	Market value Rs'000
22. Investment securities - Group						
22(a) Listed equity securities (Group)						
Asian Cotton Mills Ltd	100	-	-	100	-	-
DFCC Bank Ltd	8,453,333	340,169	1,741,387	6,340,000	340,169	1,711,800
National Development Bank Ltd	7,841,900	994,217	1,254,704	7,841,900	994,217	1,115,510
Ceylon Hotels Corporation (Rs 2/=)	2,500	16	228	2,500	16	245
Leather Products Ltd	179,700	1,794	1,390	-	-	-
Pugoda Textiles Ltd	2,250	79	-	-	-	-
Lanka Hospital Corporation Ltd	21,329,000	213,290	271,945	21,329,000	213,290	250,616
		<u>1,549,565</u>	<u>3,269,654</u>		<u>1,547,692</u>	<u>3,078,171</u>
Less : Provision for fall in value		(482)	-		-	-
		<u>1,549,083</u>	<u>3,269,654</u>		<u>1,547,692</u>	<u>3,078,171</u>

		2004			2003	
	No of ordinary shares *	Cost of investment Rs'000	Directors' valuation Rs'000	No of ordinary shares *	Cost of investment Rs'000	Directors' valuation Rs'000
22 . Investment securities - Group Contd.						
22(b) Unlisted equity securities (Group)						
Credit Information Bureau (Rs 100/=)	27,300	2,744	2,744	27,024	2,744	2,744
Dawood Bank Ltd	15,000,000	254,280	254,280			
Fitch Ratings Lanka Ltd	62,500	625	625	62,500	625	625
Kandy Textile Industries Ltd	191,790	-	-			
Janasakthi Life Insurance Co. Ltd	-	-	-	1,500,000	15,000	15,000
Lanka Clear (Pvt) Ltd	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Megpek Export Ltd	300,000	4,355	-	478,700	19,149	-
Serendib Coconut Product Ltd	37,500	375	-	37,500	375	-
Rajarata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandurata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandy Textile Industries Ltd	191,790	1,918	-	-		
Ruhunu Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Wayamba Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Sabaragamuwa Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Uva Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Ruhunu Cement (Pvt) Ltd	-	-	-	2,475,000	32,843	32,843
Colombo Business School (Pvt) Ltd	-	-	-	600,000	6,000	6,000
Tri Star Apparel Export (Pte) Ltd	-	-	-	2,000,000	50,000	50,000
Lanka Glass Manufacturing Corp. Ltd	-	-	-	1,500,000	15,000	15,000
Mega Containers Ltd	1,000,000	10,000	10,000	1,000,000	10,000	10,000
Sterling Walton Steel (Pvt) Ltd	-	-	-	1,000,000	10,000	10,000
Sherapak (Pvt) Ltd	-	-	-	170,000	1,700	1,700
GTB Colombo Corporation Ltd	3,200,000	32,000	32,000	3,200,000	32,000	32,000
Lanka Management & Procurement Services Ltd	-	-	-	200,000	2,000	2,000
Finance Ceylon Ocean Services Ltd	-	-	-	148,736	1,400	1,400
		399,297	392,649		291,836	272,312
Less : Provision for fall in value		(43,648)			(175,391)	
		355,649	392,649		116,445	272,312

		2004			2003	
	No of preference shares*	Cost of investment Rs'000	Directors' valuation Rs'000	No of preference shares*	Cost of investment Rs'000	Directors' valuation Rs'000
22(c) Unlisted preference shares (Group)						
Carson Cumberbatch Co Ltd 12.0%	5,000,000	50,000	50,000	5,000,000	50,000	50,000
Sherapak (Pvt) Ltd	-	-	-	30,000	300	300
		50,000	50,000		50,300	50,300

	No of units	2004 Cost of investment Rs'000	Manager's valuation Rs'000	No of units	2003 Cost of investment Rs'000	Manager's valuation Rs'000
22(II) Investment securities - Group Contd.						
22(d) Units in Unit Trusts (Group)						
Ceybank Unit Trust	63,705,895	656,228	797,598	59,274,394	608,456	612,304
Ceybank Unit Trust - Seed Fund	4,421,052	42,000	55,352	4,421,052	42,000	45,669
Ceybank Century Growth Fund	5,986,455	60,865	103,386	5,719,520	56,576	91,226
		<u>759,093</u>	<u>956,336</u>		<u>707,032</u>	<u>749,199</u>

	2004 Rs'000	2003 Rs'000
22(e) Bonds and securities (Group)		
Treasury bonds **		
- less than 12 months	527,583	947,186
- over 12 months	15,334,140	16,603,188
Tradable bonds - Government of Sri Lanka		
- less than 12 months	3,381,642	47,020
- over 12 months	3,540	4,646,928
Government securities (overseas)	87,357	2,382,470
Commercial Papers	-	324
Loan stock	24,384	-
Total investment securities	<u>19,358,646</u>	<u>24,627,116</u>
Aggregate value of investment securities	<u>22,072,471</u>	<u>27,048,585</u>

* Note

The par value of all shares, if not specifically mentioned is Rs.10/= and paid in full.

** Note

Treasury bonds include the bonds pledged under repurchase agreement with other banks and customers. The value of such bonds as at 31 December 2004 was Rs. 11.2 billion. (2003; Rs. 7.0 billion)

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
23. Investment properties				
The Condominium Units of World Trade Center Echelon Square, Colombo 1	1,149,910	1,149,910	1,149,910	1,149,910
	<u>1,149,910</u>	<u>1,149,910</u>	<u>1,149,910</u>	<u>1,149,910</u>

As agreed by both parties, the Condominium Units on 11 floors of World Trade Center was transferred to the bank in settlement of a debt due to the bank on 30 October 2003. The Bank intends to hold the title of this property as long term investment.

The market value of these Condominium Units as at balance sheet date was Rs 1,290 million. (2003; Rs 1,290 million)

As at 31st December	Principal activity	% Holding	2004		2003	
			Cost Rs'000	Equity value Rs'000	Cost Rs'000	Equity value Rs'000
24. Investments in associates						
Quoted						
Capital Development & Investment Company Ltd (10,489,042 ordinary shares of Rs.10/= each fully paid)	Investment banking	24	463,630	407,706	204,392	195,601
Unquoted						
Transnational Lanka Records Solutions (Pvt) Ltd (2,000,000 ordinary shares of Rs.10/= each fully paid)	Archives management	25	20,000	21,021	20,000	18,993
Unit Trust Management Company (Pvt) Ltd (500,000 ordinary shares of Rs.10/= each fully paid)	Fund management	20	5,000	11,609	5,000	10,059
Ruhuna Venture Capital Company Ltd (2,500,000 ordinary shares of Rs.10/= each fully paid)	Venture Capital Funding	42	25,000	3,795	25,000	5,025
Mireka Capital Land (Pvt) Ltd (40,800,000 ordinary shares of Rs.10/= each fully paid) (34,200,000 participating redeemable, non cumulative, non voting Preference shares of Rs. 10 each fully paid.)	Property development	40	408,000	416,737	-	-
Lanka Securities (Pvt) Ltd (1,398,000 ordinary shares of Rs.10/= each fully paid)	Stock broking	44*	13,980	21,615	13,980	21,972
Total investments in associates			1,277,610	1,224,483	268,372	251,650

* The % holding in associate companies includes indirect holdings as well.

	2004 Rs' 000	2003 Rs' 000
24(a) Movement in investments in associates		
Equity value at 1 January	251,650	227,912
Increase / (Decrease) in investment	1,009,238	-
Consolidation adjustments	(41,268)	5,084
Share of profit/(loss) net of taxes & dividend	4,863	18,654
Equity value at 31 December	1,224,483	251,650

As at 31st December	Principal activity	% Holding	2004		2003	
			Cost Rs'000	Equity value Rs'000	Cost Rs'000	Equity value Rs'000
25. Investments in subsidiaries						
Quoted						
Property Development Ltd (61,485,050 Ordinary shares of Rs.10 each fully paid)	Property development	93	740,070	1,163,474	740,070	1,111,252
Merchant Bank of Sri Lanka Ltd (MBSL) (49,340,274 Ordinary shares of Rs.10 each fully paid)	Merchant banking	82	694,276	609,290	694,275	-
(80,000,000 12% redeemable non cumulative preference shares of Rs 10/= each) (Note I)			-	-	800,000	800,000
Provision for diminution in value			-	-	(800,000)	(800,000)
			<u>1,434,346</u>	<u>1,772,764</u>	<u>1,434,345</u>	<u>1,111,252</u>
Unquoted						
BOC Management & Support Services (Pvt) Ltd (100,000 Ordinary shares of Rs.10 each fully paid)	Management services	100	1,000	4,490	1,000	3,944
BOC Property Development & Management (Pvt) Ltd (101,000,000 Ordinary shares of Rs.10 each fully paid)	Property development	100	1,256,900	1,015,284	1,256,900	1,012,746
BOC Travels (Pvt) Ltd (250,000 Ordinary shares of Rs.10 each fully paid)	Travel related services	100	2,500	-	2,500	-
Ceybank Securities Ltd (15,000,000 Ordinary shares of Rs.10 each fully paid)	Primary dealer	100	150,000	696,694	150,000	676,076
Hotels Colombo (1963) Ltd (73,669 Ordinary shares of Rs.10 each fully paid)	Hotel operations	98	737	26,064	1	1
Merchant Credit of Sri Lanka Ltd (4,900,018 Ordinary shares of Rs.10 each fully paid)	Financial services	91*	22,047	179,155	22,047	139,488
Ceylease Financial Services Ltd 5,000,000 Ordinary shares of Rs.10 each fully paid)	Leasing	50	50,000	64,707	50,000	62,878
Mireka Capital Land (Pvt) Ltd (40,800,000 ordinary shares of Rs.10/= each fully paid) (34,200,000 participating redeemable, non cumulative, non voting Preference shares of Rs. 10 each fully paid)	Property development	100	-	-	408,000	408,000
			-	-	342,000	342,000
			<u>1,483,184</u>	<u>1,986,394</u>	<u>2,232,448</u>	<u>2,645,133</u>
Total Investments in subsidiaries			<u>2,917,530</u>	<u>3,759,158</u>	<u>3,666,793</u>	<u>3,756,385</u>

* The % holding in subsidiaries includes indirect holdings as well.

Note I : - Under the capital reduction programme, carried out by Merchant Bank of Sri Lanka Ltd during the year, the 12% redeemable non cumulative preference shares of Rs 10 each, were converted to fully paid ordinary shares of Rs 10 each in the proportion of 6 : 13 basis.

	Bank	
	2004 Rs' 000	2003 Rs' 000
25(a) Movement in investment in subsidiaries		
Equity value at 1 January	3,756,385	2,603,165
Increase / (Decrease) in investment	(750,000)	899,186
Consolidation adjustments	425,147	(25,577)
Share of profit/(loss) net of taxes & dividend	327,626	279,611
Equity value at 31 December	<u>3,759,158</u>	<u>3,756,385</u>

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
26. Other assets				
Accrued interest and other receivables	2,901,725	2,578,587	3,119,128	2,671,569
Consumable stock in hand	162,548	158,285	189,174	187,594
Foreign cheques purchased	275,573	411,626	275,573	411,626
Local cheques purchased	5,147,106	6,749,246	5,147,106	6,749,246
Tax paid in advance	504,673	1,060,253	513,486	1,089,470
Other assets	3,506,698	6,788,194	3,688,773	6,970,294
	<u>12,498,323</u>	<u>17,746,191</u>	<u>12,933,240</u>	<u>18,079,799</u>

27. Group balances receivable

Merchant Bank of Sri Lanka Ltd	115,800	122,989	-	-
BOC Travels (Pvt) Ltd	16,497	19,564	-	-
Hotels Colombo (1963) Ltd	24,300	18,218	-	-
Merchant Credit of Sri Lanka Ltd	227	17	-	-
Property Development Ltd	153,505	144,549	-	-
Ceylease Financial Services Ltd	663,792	619,470	-	-
Lanka Securities (Pvt) Ltd	-	-	-	-
Unit Trust Management Company (Pvt) Ltd	108	-	108	-
Transnational Lanka Records Solutions (Pvt) Ltd	979	-	979	-
Capital Development & Investment Co. Ltd	65,650	284,433	65,650	284,433
	<u>1,040,858</u>	<u>1,209,240</u>	<u>66,737</u>	<u>284,433</u>

	Freehold property Rs'000	Leasehold property Rs'000	Equipment Rs'000	Motor vehicles Rs'000	2004 Total Rs'000	2003 Total Rs'000
28. Property, plant and equipment						
Bank						
<i>Cost or valuation</i>						
Balance at 1 January	3,064,600	548,010	3,623,525	217,182	7,453,317	6,160,857
Exchange rate adjustments	70,208	-	17,008	388	87,604	58,331
	<u>3,134,808</u>	<u>548,010</u>	<u>3,640,533</u>	<u>217,570</u>	<u>7,540,921</u>	<u>6,219,188</u>
Additions	17,857	8,425	868,289	6,030	900,601	539,661
Revaluation adjustment	-	-	-	-	-	854,252
Transfers/ adjustments	(83)	-	(2)	-	(85)	(915)
Disposals	(1,393)	-	(57,372)	(5,888)	(64,653)	(158,868)
Balance at 31 December	<u>3,151,189</u>	<u>556,435</u>	<u>4,451,448</u>	<u>217,712</u>	<u>8,376,784</u>	<u>7,453,318</u>
<i>Accumulated Depreciation</i>						
Balance at 1 January	124,157	200,639	2,598,910	188,474	3,112,180	2,993,088
Exchange rate adjustments	1,404	-	16,061	236	17,701	8,147
	<u>125,561</u>	<u>200,639</u>	<u>2,614,971</u>	<u>188,710</u>	<u>3,129,881</u>	<u>3,001,235</u>
Charge for the year	36,794	20,627	309,964	9,500	376,885	328,013
Revaluation adjustment	-	-	-	-	-	(162,405)
Transfers/ adjustments	-	-	(7,033)	-	(7,033)	620
Disposals	(407)	-	(51,880)	(4,869)	(57,156)	(55,283)
Balance at 31 December	<u>161,948</u>	<u>221,266</u>	<u>2,866,022</u>	<u>193,341</u>	<u>3,442,577</u>	<u>3,112,180</u>
Net book value - 2004	2,989,241	335,169	1,585,426	24,371	4,934,207	-
Net book value - 2003	2,940,442	347,371	1,024,615	28,708	-	4,341,136
Capital work in progress (a)					12,675	2,454
					<u>4,946,882</u>	<u>4,343,590</u>
Group						
<i>Cost or valuation</i>						
Balance at 1 January	5,643,925	610,499	4,425,208	247,328	10,926,960	8,826,908
Exchange rate adjustments	70,208	-	17,008	388	87,604	58,331
	<u>5,714,133</u>	<u>610,499</u>	<u>4,442,216</u>	<u>247,716</u>	<u>11,014,564</u>	<u>8,885,239</u>
Additions	17,857	8,425	908,644	15,876	950,802	1,329,188
Revaluation adjustment	-	-	-	-	-	854,251
Transfers/ adjustments	(750,083)	(936)	14,353	-	(736,666)	32,553
Disposals	(1,393)	-	(79,501)	(11,711)	(92,605)	(174,272)
Balance at 31 December	<u>4,980,514</u>	<u>617,988</u>	<u>5,285,712</u>	<u>251,881</u>	<u>11,136,095</u>	<u>10,926,959</u>
<i>Accumulated Depreciation</i>						
Balance at 1 January	535,526	211,161	3,284,865	205,713	4,237,265	4,006,678
Exchange rate adjustments	1,404	-	16,061	236	17,701	8,147
	<u>536,930</u>	<u>211,161</u>	<u>3,300,926</u>	<u>205,949</u>	<u>4,254,966</u>	<u>4,014,825</u>
Charge for the year	78,240	21,048	365,083	15,404	479,775	430,892
Revaluation adjustment	-	-	-	-	-	(162,405)
Transfers/ adjustments	-	-	(7,033)	-	(7,033)	17,964
Disposals	(407)	-	(74,993)	(8,073)	(83,473)	(64,010)
Balance at 31 December	<u>614,763</u>	<u>232,209</u>	<u>3,583,983</u>	<u>213,280</u>	<u>4,644,235</u>	<u>4,237,266</u>
Net book value - 2004	4,365,751	385,779	1,701,729	38,601	6,491,860	-
Net book value - 2003	5,203,327	264,851	1,181,504	40,011	-	6,689,693
Capital work in progress (a)					12,675	2,454
					<u>6,504,535</u>	<u>6,692,147</u>

28. Property, plant and equipment Contd.

- (a) Capital work in progress which is accounted for on the basis of value of work certified includes mobilization of advances and other construction expenses.
- (b) No property, plant and equipment have been pledged as security for any liability.
- (c) The amount of commitments for the acquisition of property, plant and equipment is given in the Note No. 41 (a)
- (d) The cost of fully depreciated assets that are still in use amounted to Rs. 968.1 million as at balance sheet date. (2003 : Rs. 934.6 million)
- (e) A proportion of freehold properties were revalued by professionally qualified independent valuers based on open market value of existing use and the surpluses arising on the revaluation have been directly credited to the revaluation reserve of the bank .

The details of revaluation done were as follows,

Effective Date	Revaluation Surplus	
	Bank Rs. Million	Group Rs. Million
31 October 1990	231.5	231.5
30 November 1991	229.8	229.8
30 November 1993	331.1	384.5
31 March 2002	248.5	248.5
31 March 2003	1,016.1	1,016.1

The carrying amount of the freehold properties, if they were carried at cost less accumulated depreciation are as follows,

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Cost of freehold properties				
Land	43,221	43,221	43,371	43,371
Building	703,669	688,435	714,869	699,635
Accumulated depreciation on building	(265,156)	(247,978)	(269,216)	(252,038)
	<u>481,734</u>	<u>483,678</u>	<u>489,024</u>	<u>490,968</u>

The bank is making arrangements to revalue all freehold properties over a period of five years.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
29. Deposits				
Local currency deposits				
Current account deposits	30,481,146	26,925,144	30,481,146	26,925,144
Savings deposits	62,926,478	56,780,629	62,926,478	56,780,629
Time deposits	27,189,064	25,837,371	28,746,216	27,569,676
Certificates of deposit	546,835	824,341	576,835	857,878
Other deposits	1,917,232	2,167,654	1,917,437	2,168,202
	<u>123,060,755</u>	<u>112,535,139</u>	<u>124,648,112</u>	<u>114,301,529</u>

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
29. Deposits Contd.				
Foreign currency deposits				
Current account deposits	3,357,783	3,331,871	3,357,783	3,331,871
Savings deposits	35,720,452	29,855,630	35,720,452	29,855,630
Time deposits	41,964,735	39,719,789	41,964,735	39,719,789
Other deposits	1,060,545	858,670	1,060,545	858,670
	<u>82,103,515</u>	<u>73,765,960</u>	<u>82,103,515</u>	<u>73,765,960</u>
	<u>205,164,270</u>	<u>186,301,099</u>	<u>206,751,627</u>	<u>188,067,489</u>
29(a) Analysis of deposits				
Deposits from banks	531,425	451,233	531,425	451,233
Deposits from finance companies	477,930	567,869	477,930	567,869
Deposits from other customers	204,154,915	185,281,997	205,742,272	187,048,387
	<u>205,164,270</u>	<u>186,301,099</u>	<u>206,751,627</u>	<u>188,067,489</u>

Note: The maturity analysis of deposits is given in Note No. 45

The interest rate risk analysis of deposits is given in Note No. 46

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
30. Debt securities in issue				
Securities sold under repurchase agreements [Note 30(a)]	16,658,547	8,932,668	16,658,547	8,932,668
Debentures [Note 30(c)]	5,750,000	8,350,000	7,178,350	9,600,000
	<u>22,408,547</u>	<u>17,282,668</u>	<u>23,836,897</u>	<u>18,532,668</u>

30(a) The securities sold under repurchase agreements are debt securities issued by the Bank for short term funding purposes and mature within a period of less than twelve months. The interest rate for such securities varied from 6% to 8.25% during the year. (2003 : 5.5% to 8%)

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
30(b) Maturity of debt securities in issue				
Not later than 1 year	16,908,547	11,532,668	16,958,547	11,542,668
Later than one year and not later than 5 years	5,500,000	5,750,000	6,878,350	6,990,000
Later than 5 years	-	-	-	-
	<u>22,408,547</u>	<u>17,282,668</u>	<u>23,836,897</u>	<u>18,532,668</u>

30(c) The Bank has issued unsecured, redeemable debentures to the value of Rs 5,750 million as at 31.12.2004 (2003 Rs 8,350 million) as private placements to meet short term liquidity mismatches. The details of debentures issued are as follows:

Lender	Bank		Group		Maturity Date	Rate of interest Effective Rate
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000		
BoC Pension Fund	2,000,000	2,000,000	2,000,000	2,000,000	10.01.06	Floating interest rate equivalent to one year fixed deposit rate plus 1.0% p.a and payable annually. Effective annual yield for 2004; 7.29% (2003; 9.15 %)
BoC Pension Fund	1,500,000	1,500,000	1,500,000	1,500,000	22.02.06	Floating interest rate equivalent to one year fixed deposit rate plus 1.0% p.a and payable annually. Effective annual yield for 2004; 7.43% (2003; 9.28 %)
BoC Provident Fund	1,000,000	1,000,000	1,000,000	1,000,000	12.06.06	Floating interest rate equivalent to one year fixed deposit rate plus 1.0% p.a and payable annually. Effective annual yield for 2004; 7.69% (2003; 9.91 %)
BoC Provident Fund	1,000,000	1,000,000	1,000,000	1,000,000	12.06.06	Floating interest rate equivalent to one year fixed deposit rate plus 1.0% p.a and payable annually. Effective annual yield for 2004; 7.69% (2003; 9.91 %)
BoC Provident Fund	250,000	250,000	250,000	250,000	10.09.05	Floating interest rate equivalent to one year fixed deposit rate plus 1.0% p.a and payable annually. Effective annual yield for 2004; 8.71% (2003; 10.21 %)
BoC Provident Fund	-	1,000,000	-	1,000,000	21.06.04	Floating interest rate equivalent to one year fixed deposit rate plus 2.25% p.a and payable annually. Effective annual yield for 2003; 9.5%.
BoC Widows'/Widowers' & Orphans' Fund		1,250,000		1,250,000	10.10.04	Floating interest rate equivalent to one year fixed deposit rate plus 1.0% p.a and payable annually. Effective annual yield for 2003; 7.75 %
National Insurance Corporation		300,000		300,000	30.06.04	Floating interest rate equivalent to six months Treasury bill rate plus 1% p.a and payable semi annually. Effective annual yield for 2003; 8.30 %
National Insurance Corporation		50,000		50,000	02.08.04	Floating interest rate equivalent to six months Treasury bill rate plus 1% p.a and payable semi annually. Effective annual yield for 2003; 8.66 %
Employees' Trust Fund*			680,000	680,000	10.01.06 to 10.01.08	Effective rate for 2004; 12.00%. Interest is paid annually
National Savings Bank*			60,000	70,000	10.12.04 to 10.12.08	Effective rate for 2004; 8.78% & 9.25%. Interest is paid annually.
National Savings Bank*			400,000	400,000	05.12.07	Effective rate for 2004; 8.53% & 9%. Interest is paid annually
Listed debentures*			163,350	-	11.03.08	Effective rate for 2004; 10.38%. Interest is paid annually
National Savings Bank**			125,000	100,000	01.08.2005	Effective rate for 2004; 12.8%. Interest is paid annually
	5,750,000	8,350,000	7,178,350	9,600,000		

* The purpose of debenture issue is to replace short term money market borrowings.

** These debentures are secured on company 's lease agreements accordingly, to the Deed of Trust of the debenture issue.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
30(d) Movement in Debentures				
Balance at 1 January	8,350,000	10,225,000	9,600,000	11,425,000
Issued during the year	-	250,000	288,350	350,000
Redemption	(2,600,000)	(2,125,000)	(2,710,000)	(2,175,000)
Balance at 31 December	5,750,000	8,350,000	7,178,350	9,600,000

30(e) The interest rate risk analysis of debt securities in issue is given in Note No, 46

31. Other borrowed funds

Refinance borrowings	2,527,262	3,919,375	2,527,262	3,919,375
Placements and call money borrowings	9,591,891	5,055,987	9,850,237	5,349,598
	12,119,153	8,975,362	12,377,499	9,268,973

(a) Maturity of borrowings

Not later than 1 year	10,964,806	7,054,868	11,223,152	7,348,479
Later than one year and not later than 5 years	1,060,115	1,763,719	1,060,115	1,763,719
Later than 5 years	94,232	156,775	94,232	156,775
	12,119,153	8,975,362	12,377,499	9,268,973

32. Group balances payable

BOC Management and Support Services (Pvt) Ltd	1,855	3,114	-	-
Hotels Colombo (1963) Ltd	12,454	14,753	-	-
Merchant Credit of Sri Lanka Ltd	18,815	22,950	-	-
Ceybank Securities Ltd	698,378	680,860	-	-
Property Development Ltd	189,936	15,075	-	-
BOC Property Development and Mgt. (Pvt) Ltd	55,111	14,363	-	-
Merchant Bank of Sri Lanka Ltd	9,109	3,428	-	-
Ceylease Financial Services Ltd	-	8,857	-	-
Unit Trust Management Company (Pvt) Ltd	14,752	118,043	14,752	118,043
Capital Development and Investment Company Ltd	179	-	179	-
Lanka Securities (Pvt) Ltd	16,679	72,372	16,679	72,372
Mireka Capital Land (Pvt) Ltd	1,875	-	1,875	-
Transnational Lanka Records Solutions (Pvt) Ltd	414	1,118	414	1,118
Ruhuna Venture Capital Company Ltd	212	245	212	245
	1,019,769	955,178	34,111	191,778

33. Deferred tax liability

Deferred tax liability is calculated on all temporary differences under the liability method using a principal tax rate of 32.5 %. (2003; 32.5 %) The movement of the deferred tax liability is as follows,

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Balance at 1 January	-	-	67,420	62,420
Income statement charged / (released) (Note 12)	-	-	7,065	5,000
Balance at 31 December	-	-	74,485	67,420

Due to the tax losses available for carry forward exceeding timing defERENCE arising on accelerated capital allowances, the deferred tax assets exceed the deferred tax liability. The benefit of the net deferred tax assets has not been recognized in the financial statement of the Bank due to uncertainty of the recoverability within a reasonable period.

The details of deferred tax assets & liabilities are given below,

	2004		2003	
	Timing Difference Rs' 000	Tax Liability @ 32.5 % Rs' 000	Timing Difference Rs' 000	Tax Liability @ 32.5 % Rs' 000
Deferred tax liability for bank				
Deferred tax liability				
- Accelerated capital allowances	1,065,475	346,279	1,165,886	378,913
Deferred tax assets				
- Tax loss carry forward	(4,199,258)	(1,364,759)	(4,711,793)	(1,531,333)
Net deferred tax assets	<u>(3,133,783)</u>	<u>(1,018,480)</u>	<u>(3,545,907)</u>	<u>(1,152,420)</u>

Deferred tax liability has not been established for the income taxes that would be payable on the exchange revaluation on the unremitted earnings of offshore banking unit and overseas branches, as such amounts are permanently reinvested. The revaluation income amounts to Rs. 1,586.4 million as at 31 December 2004. (Rs. 1,108.6 million as at 31 December 2003.)

	2004		2003	
	Timing Difference Rs' 000	Tax Liability @ 30 % Rs' 000	Timing Difference Rs' 000	Tax Liability @ 30 % Rs' 000
Deferred tax liability for Group				
Deferred tax liability				
- Accelerated capital allowances	248,283	74,485	224,727	67,420
	<u>248,283</u>	<u>74,485</u>	<u>224,727</u>	<u>67,420</u>

	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
As at 31st December				
34. Other liabilities				
Accrued interest and expenditure	2,809,695	3,544,031	2,917,864	3,732,919
Cheques sent for clearing	4,334,002	6,038,446	4,334,002	6,038,446
Provision for gratuities (34.1)	42,793	25,427	82,100	54,886
Other liabilities	1,965,309	1,634,611	2,200,707	1,716,501
	<u>9,151,799</u>	<u>11,242,515</u>	<u>9,534,673</u>	<u>11,542,752</u>
34.1 Provision for gratuities				
Balance at 1 January	25,427	20,365	54,886	39,067
Provision made during the year	20,416	7,972	59,722	18,961
Payment made during the year	(3,050)	(2,910)	(32,508)	(3,142)
Balance at 31 December	<u>42,793</u>	<u>25,427</u>	<u>82,100</u>	<u>54,886</u>

35. Subordinated Debentures

These are unsecured subordinated redeemable debentures issued by the bank as private placements to the following lenders in order to improve the Tier ii supplementary capital of the bank.

The details of subordinated debentures as at 31 December 2004 are as follows,

As at 31st December	Bank		Date Issued	Maturity Date	Rate of interest
	2004 Rs' 000	2003 Rs' 000			
Lender					
National Savings Bank	800,000	1,000,000	24.12.1998	Redemption: Rs. 200 mn per annum w.e.f 24.12.2004 to 24.12.2008	Floating interest rate equivalent to 6 months Treasury bill weighted average rate plus 1.5 % p.a, payable semi annually. Effective annual yield for 2004 was 9.03 % (2003; 10.69%)
Sri Lanka Insurance Corporation Ltd	250,000	250,000	31.12.2003	31.12.2011	Floating interest rate equivalent to 6 months Treasury bill weighted average rate plus 1.5 % p.a, payable semi annually. Effective annual yield for 2004 was 9.06% (2003; 8.80%)
	<u>1,050,000</u>	<u>1,250,000</u>			

As at 31st December	Group	
	2004 Rs' 000	2003 Rs' 000
36. Minority interest		
Balance at 1 January	92,885	121,991
Share of net profit of subsidiaries	41,405	70,561
Dividends	(11,772)	(16,748)
Adjustments arising due to change in shareholding	171,343	(82,919)
Balance at 31 December	<u>293,861</u>	<u>92,885</u>

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
37. Share capital				
Authorized				
50,000,000 ordinary shares of Rs 1000 /- each	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid				
2,600,000 ordinary shares of Rs 1000 /- each	<u>2,600,000</u>	<u>2,600,000</u>	<u>2,600,000</u>	<u>2,600,000</u>

Government of Sri Lanka holds 100% of the issued & fully paid share capital

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
38. Permanent reserve fund				
Balance at 1 January	1,465,000	1,430,000	1,465,000	1,430,000
Appropriations during the year	40,000	35,000	40,000	35,000
Balance at 31 December	<u>1,505,000</u>	<u>1,465,000</u>	<u>1,505,000</u>	<u>1,465,000</u>

The permanent reserve fund is maintained as required by the Bank of Ceylon Ordinance (Chapter 397) whereby the Bank must, out of net profit after taxation but before any dividend is declared, transfer to a reserve a sum equivalent to not less than 20% of such profit until the reserve is equal to 50% of the issued and paid up capital and thereafter an appropriate amount, determined at 2% per annum under the Banking Act No 30 of 1988 until the reserve is equal to the paid up capital.

Since the balance in the permanent reserve fund is in excess of 50% of the paid up capital an amount of Rs. 40 million was transferred to the reserve during the year. (2003 - Rs. 35 million)

The balance in the permanent reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
39. Reserves				
Revaluation reserve (Note 39.1)	1,529,404	1,529,404	1,582,797	1,582,797
Other reserves (Note 39.2)	679,381	628,007	876,958	825,584
	<u>2,208,785</u>	<u>2,157,411</u>	<u>2,459,755</u>	<u>2,408,381</u>
39.1 Revaluation reserve				
Balance at 1 January	1,529,404	512,748	1,582,797	566,141
Revaluation adjustment	-	1,016,656	-	1,016,656
Balance at 31 December	<u>1,529,404</u>	<u>1,529,404</u>	<u>1,582,797</u>	<u>1,582,797</u>

The revaluation reserve represents the surpluses arising on the revaluation of freehold properties which are still in use for banking operations. According to the regulatory directives, bank can account for the revaluation surpluses every seven years. Revaluation reserve is generally used for the issue of bonus shares or for capital reduction programme.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
39.2 Other reserves				
Free reserve (Note 39.2.(a))	122,404	122,404	319,981	319,981
Exchange gain reserve (Note 39.2.(b))	556,977	505,603	556,977	505,603
	<u>679,381</u>	<u>628,007</u>	<u>876,958</u>	<u>825,584</u>
39.2(a) Free reserve				
Balance at 1 January	122,404	122,404	319,981	319,981
Transfer from retained profit	-	-	-	-
Balance at 31 December	<u>122,404</u>	<u>122,404</u>	<u>319,981</u>	<u>319,981</u>

Free reserve has been created for unforeseeable risk and future losses.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
39.2(b) Exchange gain reserve				
Balance at 1 January	505,603	454,069	505,603	454,069
Currency translation difference during the year	154,431	51,534	154,431	51,534
Transfer to Income Statement due to disposal of a foreign branch	(103,057)	-	(103,057)	-
	<u>556,977</u>	<u>505,603</u>	<u>556,977</u>	<u>505,603</u>

This represents the unrealized exchange difference on the investments made in the capital of foreign branches, from the date of investment. If and when the investments in foreign branches are disposed, the gain or loss will be recognized in the income statement.

39.2(c) Prior year adjustment

The unrealised exchange gain amounting to Rs. 505.6 million as at 31.12.2003, which was shown under other liabilities in the previous year has now been reclassified under the shareholder's equity in order to comply with Sri Lanka Accounting Standard No. 21; the Effects of Changes in Foreign Currency Rates, and the amounts shown in the previous year have been re-stated to that extent.

40. Commitments and contingencies

(a) Contingencies

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments are quantified below.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Acceptances and documentary credits	21,913,227	22,260,065	21,913,227	22,260,065
Bills for collection	2,217,092	2,466,566	2,217,092	2,466,566
Forward exchange contracts	15,598,556	10,434,520	15,598,556	10,434,520
Guarantees	18,681,189	14,774,894	18,716,091	14,774,894
Other commitments	430,969	151,226	700,127	262,463
	<u>58,841,033</u>	<u>50,087,271</u>	<u>59,145,093</u>	<u>50,198,508</u>

(b) Unutilised irrevocable commitments

The unutilised value of irrevocable commitments relating to letters of credit, acceptances and permanent overdrafts which cannot be withdrawn at the discretion of the Bank, without risk of incurring significant penalties or expenses approximates to Rs 5,267 million as at the balance sheet date. (2003; Rs. 4,792 million)

(c) Financial instruments with off-balance sheet risk

In the normal course of business, the Bank enters into contractual agreements involving various types of financial instruments with off-balance sheet risk to accommodate the financing and investing needs of clients, to conduct trading activities, and to manage its own exposures to losses. These financing instruments generate interest or fees and possess elements of credit risk in excess of those amounts recognised as assets and liabilities in the balance sheet.

41. Contingent liabilities and commitments

(a) Capital commitments

Capital expenditure approved by the Directors for which no provision has been made in the financial statements, amounts to:

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Approved and contracted for	714,995	1,088,946	714,995	1,088,946
Approved and not contracted for	1,071,277	366,272	1,071,277	366,272
	<u>1,786,272</u>	<u>1,455,218</u>	<u>1,786,272</u>	<u>1,455,218</u>
(b) Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows;				
Not later than 1 year	441,763	377,160	441,763	377,160
Later than 1 year and not later than 5 years	742,003	1,508,640	742,003	1,508,640
	<u>1,183,766</u>	<u>1,885,800</u>	<u>1,183,766</u>	<u>1,885,800</u>

(c) Litigation

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims and defences. The Bank's Legal Department confirms approximately 7,700 pending recovery cases filed by the Bank against defaulters and 303 pending cases against the Bank, including Fundamental Rights and Labour Tribunal cases filed by staff members for termination of services as at 31st December 2004. 1,010 recovery cases have been filed and 18,585 letters of demand have been dispatched for the year 2004.

An aggregate sum of Rs.483 million is claimed in 28 cases where claims have been made on the Bank. Out of which, the court has originally awarded Rs. 7.4 million in 5 cases. However, bank has appealed against the orders. The ultimate liability of the Bank which would result in a material loss to the Bank cannot be ascertained by the Legal Department, as the amount will depend on the final judgment of the respective Courts which will be subject to appeal by either party to the Appeal Courts. As such, no provision has been made in the financial statement for the year 2004. Further, Labour Tribunal / Industrial Courts has awarded a sum of Rs. 1.2 million as bank wages in 2 cases filed by the bank employees.

In the opinion of the directors, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank will not have a material impact on the financial condition or future operations of the Bank as a whole.

42. Amalgamation of Bank of Ceylon Karachi Branch

As per the State Bank of Pakistan's Circular No. 31 dated 6th December 2000, all banks were required to raise their paid up capital, net of losses to Pakistan Rupees (PKR) 1.0 billion by 31st December 2002. Accordingly, pursuant to such policy on 24th March 2004, Bank of Ceylon amalgamated the business of Bank of Ceylon- Karachi branch into Dawood Bank Limited leaving a 15% ownership in the new bank, The Bank of Ceylon Karachi Branch contributed an operating income of PK Rs. 0.828 million to the bank for the period from 01st January 2004 to 24th March 2004. (PK Rs. 168.7 million for the period from 01st January 2003 to 31st December 2003). The details of assets & liabilities amalgamated and the consideration were as follows,

	PK Rs.'000
Cash and balances with other banks	13,439
Deposits held for regulatory control purposes	586,467
Advances and other assets	2,828
Operating fixed assets	3,145
Deposits and other account payables	(44,352)
Other liabilities	(38,116)
Goodwill net of tax of 30%	42,000
Total disposal consideration	<u>565,411</u>

43. Assets pledged as security

The securities sold under repurchase agreement are debt securities issued by the bank, and the assets pledged as security were as follows.

As at 31st December	Bank		Group	
	2004 Rs' 000	2003 Rs' 000	2004 Rs' 000	2003 Rs' 000
Securities sold under repurchase agreements	16,658,547	8,932,668	16,658,547	8,932,668
Debentures			125,000	100,000
	<u>16,658,547</u>	<u>8,932,668</u>	<u>16,783,547</u>	<u>9,032,668</u>
Secured by				
Treasury bills held by the Bank	7,500,000	3,500,000	7,500,000	3,500,000
Treasury bonds held by the bank	11,200,000	7,000,000	11,200,000	7,000,000
Leased assets			125,000	100,000
	<u>18,700,000</u>	<u>10,500,000</u>	<u>18,825,000</u>	<u>10,600,000</u>

44. Post balance sheet events

No events have occurred since the balance sheet date which would require adjustments to, or disclosure in, the financial statements.

45. Maturities of assets & liabilities

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Bank	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Interest earning assets						
Treasury Bills & other short term bills	11,240,995	13,394,079	-	-	-	24,635,074
GOSL treasury bonds	3,473,786	435,439	7,192,869	5,575,780	2,656,388	19,334,262
Securities purchased under agreement to resell	867,000	-	-	-	-	867,000
Placements with and loans to other banks	27,361,554	-	-	-	-	27,361,554
Investments	506,629	1,040,858	3,644,012	-	4,983,641	10,175,140
Bills of exchange	4,148,278	723,337	-	-	-	4,871,615
Loans and advances	33,175,181	23,356,937	33,431,568	27,211,038	8,008,341	125,183,065
Lease rentals receivable	90,640	225,720	241,662	19,510	1,238	578,770
GOSL - Restructuring bonds	-	-	9,336,300	-	8,547,000	17,883,300
	<u>80,864,063</u>	<u>39,176,370</u>	<u>53,846,411</u>	<u>32,806,328</u>	<u>24,196,608</u>	<u>230,889,780</u>
Non interest earning assets						
Cash and balance with other banks	5,583,823	-	-	-	-	5,583,823
Balances with Central Banks	8,763,277	3,480,300	213,284	21,794	1,058	12,479,713
Accrued interest & others	2,901,725	-	-	-	-	2,901,725
Other assets	8,664,117	-	932,481	-	-	9,596,598
Property, plant and equipment	-	-	-	-	4,946,882	4,946,882
	<u>25,912,942</u>	<u>3,480,300</u>	<u>1,145,765</u>	<u>21,794</u>	<u>4,947,940</u>	<u>35,508,741</u>
Total assets	<u>106,777,005</u>	<u>42,656,670</u>	<u>54,992,176</u>	<u>32,828,122</u>	<u>29,144,548</u>	<u>266,398,521</u>

45. Maturities of assets & liabilities Contd.

Bank	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Interest bearing liabilities						
Deposits	121,166,468	47,926,836	2,937,108	300,129	14,569	172,345,110
Borrowings	760,404	612,511	683,185	376,930	94,232	2,527,262
Placements and call money borrowings	9,591,891	-	-	-	-	9,591,891
Securities sold under repurchase agreements	15,387,878	1,270,669	-	-	-	16,658,547
Debentures	-	250,000	6,100,000	200,000	250,000	6,800,000
	<u>146,906,641</u>	<u>50,060,016</u>	<u>9,720,293</u>	<u>877,059</u>	<u>358,801</u>	<u>207,922,810</u>
Non interest bearing liabilities						
Deposits	33,838,929	-	-	-	-	33,838,929
Accrued interest and expenditure	2,809,695	-	-	-	-	2,809,695
Tax payable	137,258	-	-	-	-	137,258
Provision for gratuity	42,793	-	-	-	-	42,793
Other liabilities	6,299,311	-	-	-	-	6,299,311
Shareholders' funds	15,347,725	-	-	-	-	15,347,725
	<u>58,475,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,475,711</u>
Total liabilities	<u>205,382,352</u>	<u>50,060,016</u>	<u>9,720,293</u>	<u>877,059</u>	<u>358,801</u>	<u>266,398,521</u>
Net liquidity gap - 2004	(98,605,347)	(7,403,346)	45,271,883	31,951,063	28,785,747	
Net liquidity gap - 2003	(68,470,409)	(12,678,334)	(52,091,991)	13,451,185	15,605,567	

Demand & savings deposits have been categorised as up to 3 months maturity group. However, a major part of these deposits represent a core retail deposit base with longer term maturity.

Bills of exchange, loans and advances and lease rentals receivables are shown net of interest in suspense and provision for bad and doubtful debts.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

45. Maturities of assets & liabilities Contd.

Group	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Interest earning assets						
Treasury bills & other short term bills	11,240,995	14,057,648	-	-	-	25,298,643
GOSL treasury bonds	3,473,786	435,439	7,192,869	5,600,164	2,656,388	19,358,646
Securities purchased under agreement to resell	1,026,040	-	-	-	-	1,026,040
Placement with and loans to other banks	27,361,554	-	-	-	-	27,361,554
Investments	508,843	66,737	3,863,735	-	1,224,483	5,663,798
Bills of exchange	4,513,965	723,738	-	-	-	5,237,703
Loans and advances	33,365,489	23,464,581	33,553,546	27,274,181	8,048,431	125,706,228
Lease rental receivable	686,866	1,105,906	1,537,420	1,368,328	1,691	4,700,211
GOSL - Restructuring bonds	-	-	9,336,300	-	8,547,000	17,883,300
	82,177,538	39,854,049	55,483,870	34,242,673	20,477,993	232,236,123
Non interest earning assets						
Cash and balance with other banks	5,604,802	-	-	-	-	5,604,802
Balances with Central Banks	8,763,277	3,480,300	213,284	21,794	1,058	12,479,713
Accrued interest & others	3,119,128	-	-	-	-	3,119,128
Other assets	8,872,818	-	941,294	-	-	9,814,112
Property, plant and equipment	-	-	-	-	6,504,535	6,504,535
	26,360,025	3,480,300	1,154,578	21,794	6,505,593	37,522,290
Total assets	108,537,563	43,334,349	56,638,448	34,264,467	26,983,586	269,758,413
Interest bearing liabilities						
Deposits	120,146,699	48,958,618	3,492,683	300,129	14,569	172,912,698
Borrowings	794,515	612,511	683,185	376,930	94,232	2,561,373
Placement and call money borrowings	9,850,237	-	-	-	-	9,850,237
Securities sold under repurchased agreement	15,387,878	1,270,669	-	-	-	16,658,547
Debentures	-	315,000	6,170,000	1,493,350	250,000	8,228,350
	146,179,329	51,156,798	10,345,868	2,170,409	358,801	210,211,205
Non interest bearing liabilities						
Deposits	33,838,929	-	-	-	-	33,838,929
Accrued interest and expenditure	2,917,864	-	-	-	-	2,917,864
Tax Payable	242,684	-	-	-	-	242,684
Provision for gratuity	82,100	-	-	-	-	82,100
Other liabilities	6,828,570	-	-	-	-	6,828,570
Shareholder's funds	-	-	-	-	15,637,061	15,637,061
	43,910,147	-	-	-	15,637,061	59,547,208
Total liabilities	190,089,476	51,156,798	10,345,868	2,170,409	15,995,862	269,758,413
Net liquidity gap - 2004	(81,551,913)	(7,822,449)	46,292,580	32,094,058	10,987,724	
Net liquidity gap - 2003	(68,485,190)	(12,677,404)	53,751,882	14,396,539	13,014,173	

46. Interest rate risk analysis of assets and liabilities

The table below analyses assets and liabilities at carrying amounts, categorised by the contractual repricing or maturity dates whichever is earlier.

Bank	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Non interest bearing Rs.'000	Total Rs.'000
Assets							
Cash and balance with other banks		-	-	-	-	5,583,823	5,583,823
Balances with Central Banks		-	-	-	-	12,479,713	12,479,713
Treasury bills & other short term bills	11,240,995	13,394,079	-	-	-	-	24,635,074
GOSL treasury bonds	3,373,786	435,439	7,292,869	5,575,780	2,656,388	-	19,334,262
Securities purchased under agreement to resell	867,000	-	-	-	-	-	867,000
Placements with and loans to other banks	27,361,554	-	-	-	-	-	27,361,554
Investments	506,629	1,040,858	3,644,012	-	4,983,641	-	10,175,140
Bills of exchange	4,148,278	723,337	-	-	-	-	4,871,615
Loans and advances	69,558,435	30,616,897	12,178,240	9,912,265	2,917,228	-	125,183,065
Lease rentals receivable	90,640	225,720	241,662	19,510	1,238	-	578,770
GOSL - Restructuring bonds	-	-	9,336,300	-	8,547,000	-	17,883,300
Accrued interest & others	-	-	-	-	-	2,901,725	2,901,725
Other assets	-	-	-	-	-	9,596,598	9,596,598
Property, plant and equipment	-	-	-	-	-	4,946,882	4,946,882
Total assets	117,147,317	46,436,330	32,693,083	15,507,555	19,105,495	35,508,741	266,398,521
Liabilities							
Deposits	121,166,468	47,926,836	2,937,108	300,129	14,569	33,838,929	206,184,039
Borrowings	760,404	612,511	683,185	376,930	94,232	-	2,527,262
Placements and call money borrowings	9,591,891	-	-	-	-	-	9,591,891
Securities sold under repurchase agreements	15,387,878	1,270,669	-	-	-	-	16,658,547
Debentures	3,500,000	3,300,000	-	-	-	-	6,800,000
Accrued interest and expenditure	-	-	-	-	-	2,809,695	2,809,695
Tax payable	-	-	-	-	-	137,258	137,258
Provision for gratuity	-	-	-	-	-	42,793	42,793
Other liabilities	-	-	-	-	-	6,299,311	6,299,311
Shareholder's funds	-	-	-	-	-	15,347,725	15,347,725
Total liabilities	150,406,641	53,110,016	3,620,293	677,059	108,801	58,475,711	266,398,521
Net interest sensitivity gap - 2004	(33,259,324)	(6,673,686)	29,072,790	14,830,496	18,996,694	(22,966,970)	
Net interest sensitivity gap - 2003	(52,385,021)	(14,400,144)	50,897,152	13,435,674	23,143,180	(20,690,841)	

The matching and controlled mismatching and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

46. Interest rate risk analysis of assets and liabilities Contd.

Group	Up to 3 months Rs.'000	3 - 12 months Rs.'000	1 - 3 years Rs.'000	3 - 5 years Rs.'000	Over 5 years Rs.'000	Non interest bearing Rs.'000	Total Rs.'000
Assets							
Cash and balance with other banks	-	-	-	-	-	5,604,802	5,604,802
Balances with Central Banks	-	-	-	-	-	12,479,713	12,479,713
Treasury bills & other short term bills	11,240,995	14,057,648	-	-	-	-	25,298,643
GOSL treasury bonds	3,473,786	435,439	7,192,869	5,600,164	2,656,388	-	19,358,646
Securities purchased under agreement to resell	1,026,040	-	-	-	-	-	1,026,040
Placement with and loans to other banks	27,361,554	-	-	-	-	-	27,361,554
Investments	508,843	66,737	3,863,735	-	1,224,483	-	5,663,798
Bills of exchange	4,513,965	723,738	-	-	-	-	5,237,703
Loans and advances	70,081,598	30,616,897	12,178,240	9,912,265	2,917,228	-	125,706,228
Lease rental receivable	515,230	1,277,742	1,251,027	1,368,328	287,884	-	4,700,211
GOSL - Restructuring bonds	-	-	9,336,300	-	8,547,000	-	17,883,300
Accrued interest & others	-	-	-	-	-	3,119,128	3,119,128
Other assets	-	-	-	-	-	9,814,112	9,814,112
Property, plant and equipment	-	-	-	-	-	6,504,535	6,504,535
Total assets	118,722,011	47,178,201	33,822,171	16,880,757	15,632,983	37,522,290	269,758,413
Liabilities							
Deposits	153,985,627	48,958,618	3,492,683	300,129	14,569	33,838,928	206,751,626
Borrowings	794,515	612,511	683,185	376,930	94,232	-	2,561,373
Placement and call money borrowings	9,850,237	-	-	-	-	-	9,850,237
Securities sold under repurchased agreement	15,387,879	1,270,669	-	-	-	-	16,658,548
Debentures	4,343,350	3,885,000	-	-	-	-	8,228,350
Accrued interest and expenditure	-	-	-	-	-	2,917,864	2,917,864
Tax payable	-	-	-	-	-	242,684	242,684
Provision for gratuity	-	-	-	-	-	82,100	82,100
Other liabilities	-	-	-	-	-	6,828,570	6,828,570
Shareholder's funds	-	-	-	-	-	15,637,061	15,637,061
Total liabilities	184,361,608	54,726,798	4,175,868	677,059	108,801	59,547,207	269,758,413
Net interest sensitivity gap - 2004	(65,639,597)	(7,548,597)	29,646,303	16,203,698	15,524,182	(22,024,917)	
Net interest sensitivity gap - 2003	(53,260,455)	(14,219,146)	52,557,238	14,296,998	18,974,939	(18,349,574)	

47 Directors' interests in contracts

Name of Related Company	Name of Director/ Relationship	Nature of Transaction	Limit Rs. million	Amount O/S as at 31.12.2004	Security
Merchant Bank of Sri Lanka Ltd	Mr. Cubby Wijetunge Director (appointed w.e.f 25.08.04)	Letter of Guarantee	1.0	Rs. 1 million	Lease Agreement
		Short Term Loan	100.0	Rs. 100 million	Lease Agreement
	Mr. Lalith Withana Director (appointed w.e.f 25.08.04)	Revolving Overdraft (Money Market revolving)	50.0	Utilized Rs. 15.8 million	Lease Agreement
	Mr. Ronald C. Perera Director (resigned w.e.f 14.04.04)	Rent, rates, water charges paid to PDML amounting to Rs.14.69 million			

47 Directors' interests in contracts Contd.

Name of Related Company	Name of Director/ Relationship	Nature of Transaction	Limit Rs. million	Amount O/S as at 31.12.2004	Security
Property Development Ltd	Mr. Manik Nagahawatte Chairman (appointed w.e.f 26.07.04)	Received rent amounting to Rs. 296.2 million under the Tenancy Agreement between the Bank and company. Obtained banking facilities in the normal course of business. Company holds rent and fuel deposit amounting to Rs. 153.5 million as at 31st December 2004 in terms of the Tenancy Agreement. Normal banking transactions Merchant Bank of Sri Lanka Ltd with which the company obtained secretarial services amounting to Rs. 371,305/=			Tenancy Agreement
Hotels Colombo (1963) Ltd	Mr. Manik Nagahawatte Chairman (appointed w.e.f 27.07.04)	Electricity re-imburement receivable to Bank Normal banking transactions		Rs 24.3 million	
Mireka Capital Land (Pvt) Ltd	Mr. Manik Nagahawatte Director (appointed w.e.f 22.07.04)	Rs. 750 million worth of land invested in ordinary shares and preference shares amounting to Rs 408 million and Rs. 342 million, respectively Normal banking transactions			

48. Related party transactions

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs million	Amount O/S as at 31.12.2004	Security
Property Development Ltd.	Mr. S. N. P. Palihena Director	Received rent amounting to Rs. 296.2 million under the Tenancy Agreement between the two parties.			
	Mr. G. M. Peiris Alternative Director	Company holds rent and fuel deposit amounting to Rs. 153.5 million as at 31st December 2004 in terms of the Tenancy Agreement . Merchant Bank of Sri Lanka Ltd with which the company obtained secretarial services amounting to Rs. 371,305/=			Tenancy Agreement
		BOC Property Development & Management (Pvt) Ltd. from whom a sum of Rs.1,958,851 and a sum of Rs. 20,400/= was received as consultancy fee and supply of indoor plants, respectively. Normal banking transactions			

48. Related party transactions Contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs million	Amount O/S as at 31.12.2004	Security
Merchant Bank of Sri Lanka Ltd	Mr. S. N. P. Palihena Chairman	Letter of Guarantee	1.0	Rs. 1 million	Lease Agreement
	Mr. N. Vignesparamoorthy Director	Short Term Loan	100.0	Rs. 100 million	Lease Agreement
	Mr. M. Kiritharan Director	Revolving Overdraft (Money Market Revolving) Rent, rates, water charges paid to PDML amounting to Rs. 14.69 million	50.0	Utilized Rs. 15.8 million	Lease Agreement
	Mr. K. Dharmasiri Alternate Director				
BOC Property Development & Management (Pvt) Ltd	Mr. D. Weerasinghe Chairman	Received rent amounting to Rs 90.5 million			
	Mr. S. N. P. Palihena Director				
	Mr. K Dharmasiri Director				
	Mr. P. J. Ratnayake Managing Director	A sum of Rs 246.9 million is invested in the company by the Bank, which will be converted to a loan.		Rs 246.9 million	
	Mrs. K. Kulatunge Director	Treasury Bond investment Treasury Bill investment		Rs 58.14 million Rs 129.12 million	
Mr. M. T. Perera Alternate Director	(Invested in Repurchase Agreement) Received rent amounting to Rs 14.7 million				
BOC Management and Support Services (Pvt) Ltd	Mr. J. B. V. Fernando Chairman (resigned w.e.f 13.01.05)	The Bank has entered into a management contract with the company.			
	Mr. S. N. P. Palihena Director	A service charge of 7.5% of the salaries of employees hired to Bank of Ceylon is paid to the company.			
	Ms. W. A. Nalani Director	Gratuity payments paid by the company during the year 2004 was funded by the Bank.			
	Mr. M. T. Perera Director (appointed w.e.f 13.01.05)				
BoC Travels (Pvt) Ltd	Mr. D. Weerasinghe Chairman Mr. S. N. P. Palihena Director Mr. K. Dharmasiri Alternate Director Mr. G. M. Peiris Alternate Director	Overdraft Facility		Rs.16.4 million	

48. Related party transactions Contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs million	Amount O/S as at 31.12.2004	Security
Merchant Credit of Sri Lanka Ltd	Mr. S. N. P. Palihena Director	Overdraft Facility Overdraft Interest paid to BOC Rs. 343,505/=	50.0	0.2 million	Lease debtors to the value of Rs. 100 million
	Ms W. A. Nalani Director	Leter of Credit	10.0		
	Mr. N. Vignesparamoorthy Director				
Ceylease Financial Services Ltd	Mr. S N. P. Palihena Chairman	Money Market Loans (Sub Limit)	300.0	Rs. 196 million	Loan Agreement
	Mr. B. A. C. Fernando Director	Revolving Line of Credit for financing leases	750.0	Rs.450.1 million	Assignment over leases
	Mr. N. Vignesparamoorthy Director	Overdraft Facility (Sub Limit)	30.0	Rs.11.6 million	O/D Agreement
		Loans under Indian Line of Credit	50.0	Rs. 24.8 million	Loan Agreement
Ceybank Securities Ltd	Mr. S. N. P. Palihena Director Mr. N. Vignesparamoorthy Director Mr. J. Rajendran Director	Re purchase agreement - the transaction with Bank amounting to Rs 698 million			
Credit Information Bureau	Mr. S. N. P. Palihena Director	Bears out professional services			
DFCC Bank	Mr. S. N. P. Palihena Director	Normal banking transactions			
Ceybank Holiday Homes (Pvt) Ltd	Mr. B. A. C. Fernando Chairman Mr. K. Dharmasiri Director Mr. G. M. Peiris Director Mr. J. B. V. Fernando Director	The Bank has entered into a management contract with the company.			

48. Related party transactions Contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs million	Amount O/S as at 31.12.2004	Security
Ceybank Holiday Homes (Pvt) Ltd Contd.	Mr. S. N. P. Palihena Director Mrs. T. L. S. Jayawardena Director/ Secretary (resigned w e f 13.10.2004) Mrs. J. Siriwardena Director/ Secretary (appointed w e f 13.10.2004) Mr. P. J. Ratnayake Alternate Director Mr. M. A. P. S. K. Perera Director				
Ruhuna Venture Capital Company Ltd	Mr K.K.D. Karunaratne Director	Normal Banking transactions			
Hotels Colombo (1963) Ltd	Mr. S.N. P. Palihena Director Mr. J.B.V. Fernando Director (resigned w.e.f 03.12.04) Mr. K. Dharmasiri Director Mr. M. T. Perera Director (appointed w.e.f 03.12.2004) Mr. Vignesparamoorthy Director (appointed w.e.f 03.12.2004)	Electricity bill reimbursement payable by the hotel Normal banking transactions		Rs 24.3 million	
Unit Trust Management Company (Pvt) Ltd	Mr. S. N. P. Palihena Director	No facilities granted during the year Normal banking transactions			
Transnational Lanka Records Solutions (Pvt) Ltd	Mr. J. B. V. Fernando Chairman Mr. G. M. Peiris Director	Overdraft Facility	5.0		Mortgaged over Properties of Rs 1 million

48. Related party transactions Contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs million	Amount O/S as at 31.12.2004	Security
Mireka Capital Land (Pvt) Ltd	Mr. S.N. P. Palihena Director Mr. K. Dharmasiri Alternate Director Mr. N. Vignesparamoorthy Alternate Director Mr. M. Kiritharan Alternate Director	Rs.750 million worth of land invested in ordinary shares and preference shares amounting to Rs 408 million and Rs. 342 million, respectively Normal banking transactions			
Capital Development and Investment Company Ltd	Mr. K. Dharmasiri Director	Bridging Loan		Rs. 65.6 million	
Lanka Securities (Pvt) Ltd	Mr. M. T. Perera Director	Company received brokerage income of Rs.1.3 million from the Bank.			
Kandurata Development Bank	Mr. W. Somaweera Director	Bank has contributed towards the capital		Rs.12 million	
Rajarata Development Bank	Mr. S. Liyanwala Director	Bank has contributed towards the capital		Rs.12 million	
Ruhuna Development Bank	Mr. H.M. Dhanapala Director	Bank has contributed towards the capital		Rs. 12 million	
Sabaragamuwa Development Bank	Mr. H. W. Gammanpila Director (resigned w.e.f 02.12.04) Mr. R. U. D. S. Dharmawickrama Director (appointed w.e.f 02.12.04)	Bank has contributed towards the capital		Rs. 12 million	
Wayamba Development Bank	Mr. W. D. F. Wimalaratne Director	Bank has contributed towards the capital		Rs. 12 million	
Uva Development Bank	Ms H. D. Gunawardena Director	Bank has contributed towards the capital Overdraft Facility	16.0	Rs.12 million Rs. 6 million	
The Lanka Hospital Corporation	Mr. S. N. P. Palihena Director	Normal banking transactions			
Lanka Cement Ltd	Mr. W. A. S. Wimalaratne (Observer)	Write off TR & OD facilities amounting to Rs.118 million			

48. Related party transactions Contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs million	Amount O/S as at 31.12.2004	Security
Ceylon Papersacks Ltd	Mrs. H.S.R. Nandadasa (Observer)	Total working capital facilities	219.0	Rs 159.7 million	Stock and Guarantee of Directors
Alumex (Pvt) Ltd	Mrs. H.S.R. Nandadasa Observer	Pledge Loan	75.0	Rs.65.8 million	TR Documents, Stocks & Property
Alutex (Pvt) Ltd	Mrs. H.S.R. Nandadasa Observer	Pledge Loan	60.0	Rs.54.1 million	TR Documents, Stocks & Property

49 Financial reporting by segment**(a) Business Segments**

	Banking		Leasing		Treasury		Property/Investments		Unallocated		Total	
	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000
Revenue from external customers:												
Interest	14,764,985	16,544,274	-	-	2,042,914	1,643,511	3,418	4,292	2,451	7,070	16,813,768	18,199,147
Exchange	972,844	543,591	-	-	808,604	163,732	-	-	-	-	1,781,448	707,323
Lease income	-	-	773,435	699,090	-	-	-	-	-	-	773,435	699,090
Commissions	1,780,255	1,672,157	-	-	-	-	-	-	-	-	1,780,255	1,672,157
Other	1,643,129	1,057,254	-	-	643,455	1,120,188	552,749	408,923	317,952	201,857	3,157,285	2,820,020
Total revenue from external customers	19,161,213	19,817,276	773,435	699,090	3,494,973	2,927,431	556,167	413,215	320,403	208,927	24,306,191	24,097,736
Inter-segment revenue	(862,532)	(846,739)	-	-	862,532	846,739	-	-	-	-	-	-
Total revenue	18,298,681	18,970,537	773,435	699,090	4,357,505	3,774,170	556,167	402,900	641,188	208,927	24,306,191	24,097,736
Segment result	218,448	1,127,296	228,156	120,824	1,038,161	729,174	274,884	56,745	641,188	208,927	2,400,837	2,242,966
Unallocated expenses											(324,139)	(241,120)
Profit from operations											2,076,698	2,001,846
Net financing costs											-	-
Income from Associates											559	42,112
Income tax expense											(595,583)	(178,225)
Minority interest											(41,405)	(70,561)
Net profit for the year											1,440,270	1,795,172
Segment assets	162,772,494	154,754,567	4,605,772	3,930,624	63,173,946	54,707,494	18,083,391	13,483,427	19,898,327	17,115,613	268,533,930	243,991,726
Investment in associates											1,224,483	248,628
Unallocated assets											-	-
Total assets	162,772,494	154,754,567	4,605,772	3,930,624	63,173,946	54,707,494	18,083,391	13,483,427	19,898,327	17,115,613	269,758,413	244,240,354

49 Financial reporting by segment Contd.

(a) Business segments

	Banking		Leasing		Treasury		Property/Investments		Unallocated		Total	
	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000	2004 Rs ' 000	2003 Rs ' 000
Segment liabilities	201,856,345	173,047,336	-	-	38,530,179	39,091,496	1,145,783	1,180,211	11,595,183	15,683,665	253,127,491	229,002,707
Unallocated liabilities											-	-
Total liabilities	201,856,345	173,047,336	-	-	38,530,179	39,091,496	1,145,783	1,180,211	11,595,183	15,683,665	253,127,491	229,002,707
Cash flows from												
operating activities	894,371	13,782,079	37,746	552,539	219,367	2,313,750	27,142	555,550	23,361	955,923	1,201,987	18,159,841
Cash flows from												
investing activities	4,783,629	3,082,867	-	-	1,173,304	461,047	145,174	110,701	326,833	300,582	5,467,915	3,955,198
Cash flows from												
financing activities	5,357,822	(6,924,820)	-	-	1,314,139	(1,083,709)	-	-	528,663	(981,678)	7,200,624	(8,990,207)
Capital expenditure	(961,024)	(1,329,188)	-	-	-	-	-	-	-	-	(961,024)	(1,329,188)

(b) Geographical segments

	Bank		Group		Bank		Group	
	2004 Rs.000	%	2003 Rs.000	%	2004 Rs.000	%	2003 Rs.000	%
Assets								
Domestic Banking Unit	165,588,380	63	166,985,212	70	168,948,272	63	170,837,206	70
Off-shore Banking Division	67,840,297	25	43,826,526	18	67,840,297	25	43,826,526	18
Off-shore Banking Units	32,969,844	12	29,576,622	12	32,969,844	12	29,576,622	12
	266,398,521	100	240,388,360	100	269,758,413	100	244,240,354	100
Gross Income								
Domestic Banking Unit	18,788,366	79	18,175,989	79	19,137,970	79	19,468,449	81
Off-shore Banking Division	3,408,114	14	3,101,272	14	3,408,114	14	3,101,272	13
Off-shore Banking Units	1,760,107	7	1,528,015	7	1,760,107	7	1,528,015	6
	23,956,587	100	22,805,276	100	24,306,191	100	24,097,736	100
Profit Before Tax								
Domestic Banking Unit	923,307	36	748,290	42	441,864	21	991,873	49
Off-shore Banking Division	1,450,909	57	906,161	50	1,450,909	70	906,163	44
Off-shore Banking Units	184,484	7	145,922	8	184,484	9	145,922	7
	2,558,700	100	1,800,373	100	2,077,257	100	2,043,958	100
Profits After Tax								
Domestic Banking Unit	780,499	40	685,245	42	292,830	20	918,487	49
Off-shore Banking Division	1,167,336	59	906,161	55	1,167,336	79	906,163	49
Off-shore Banking Units	21,509	1	41,083	3	21,509	1	41,083	2
	1,969,344	100	1,632,489	100	1,481,675	100	1,865,733	100

Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the Central Bank of Sri Lanka (CBSL). These ratios measure capital adequacy (minimum 10% as required by CBSL) by comparing the Bank's eligible capital with its balance sheet assets, off balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0% , 20% , 50% , 100%) are applied ; for example cash & Government instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property plant & equipment carry a 100% risk weighting, meaning that it must be supported by capital equal to 10% of the carrying amount.

Off balance sheet direct credit substitutes, short term self - liquidating trade related contingencies and foreign exchange and interest rate contracts are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amount are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholder's equity. Tier 2 capital includes the bank's eligible subordinated debt instruments, general provision and 50 % of revaluation reserves.

The Bank's capital adequacy was as follows:

As at 31st December	Balance sheet Nominal amount		Risk weighted amount	
	2004 Rs. Mn.	2003 Rs. Mn.	2004 Rs. Mn.	2003 Rs. Mn.
Balance sheet assets (net of provisions)				
Cash & other zero rated securities	78,913	63,090	-	-
Due from other banks	29,232	32,051	5,846	6,411
Loans and advances to customers	131,145	113,196	62,354	52,719
Dealing & investment securities	8,042	8,970	8,042	8,968
Cash items in process of collection	5,423	7,161	1,084	1,432
Property plant & equipment	4,947	4,344	4,947	4,344
Other assets	7,076	10,585	7,076	10,585
Total assets*	264,778	239,397	89,349	84,459
Off-balance sheet positions				
Direct credit substitutes	28,026	12,357	20,294	11,869
Self - liquidating Trade related contingencies	10,698	27,296	2,140	4,936
Foreign exchange and interest rate contracts	15,599	10,435	312	209
	54,323	50,088	22,746	17,014
Total risk - weighted assets			112,095	101,473

Capital ratios	Bank		Bank		CBSL Norm	
	2004 Rs. Mn.	2003 Rs. Mn.	2004 %	2003 %	2004 %	2003 %
Tier 1 capital	13,819	12,285	12.33	12.11	5.00	5.00
Tier 1 + Tier 2 capital	13,950	13,306	12.44	13.11	10.00	10.00

* The investments that have been deducted from the capital base are not included.

The Group's capital adequacy was as follows:

As at 31st December	Balance sheet Nominal amount		Risk weighted amount	
	2004 Rs. Mn.	2003 Rs. Mn.	2004 Rs. Mn.	2003 Rs. Mn.
Balance sheet assets (net of provisions)				
Cash & other zero rated securities	79,789	64,077	-	-
Due from other banks	29,232	32,056	5,846	6,411
Loans and advances to customers	137,768	116,714	68,976	56,103
Dealing & investment securities	3,531	6,508	3,531	6,508
Cash items in process of collection	5,423	7,161	1,085	1,432
Property plant & equipment	6,505	6,692	6,505	6,692
Other assets	7,510	10,919	7,510	10,919
Total assets*	269,758	244,127	93,453	88,065
Off-balance sheet positions				
Direct credit substitutes	28,026	12,357	20,294	11,868
Self - liquidating Trade related contingencies	10,698	27,407	2,140	4,936
Foreign exchange and interest rate contracts	15,599	10,435	312	209
	54,323	50,199	22,746	17,013
Total risk - weighted assets			116,199	105,078

Capital ratios	Group		Group		CBSL Norm	
	2004 Rs. Mn.	2003 Rs. Mn.	2004 %	2003 %	2004 %	2003 %
Tier 1 capital	14,054	13,056	12.09	12.43	5.00	5.00
Tier 1 + Tier 2 capital	15,735	14,958	13.54	14.24	10.00	10.00

* The investments that have been deducted from the capital base are not included.

Income Statement - US \$

For the year ended 31st December	Bank		Group	
	2004 US \$ ' 000	2003 US \$ ' 000	2004 US \$ ' 000	2003 US \$ ' 000
Income	228,790	236,055	232,129	249,433
Interest income	158,623	176,382	167,961	188,600
Interest expenses	(78,847)	(87,340)	(81,867)	(92,994)
Net interest income	79,776	89,042	86,094	95,606
Fee and commission income	16,911	17,237	16,995	17,308
Fee and commission expenses	(2,456)	(2,488)	(2,475)	(2,510)
Net fee and commission income	14,455	14,749	14,520	14,799
Foreign exchange income	17,013	7,321	17,013	7,321
Dividend income	2,259	1,701	2,266	1,726
Net gain from investment & dealing securities	6,505	9,868	6,505	11,905
Other operating income	22,645	18,635	21,383	22,136
Operating income	142,653	141,316	147,781	153,494
Less: Operating expenses				
Personnel costs	49,311	50,114	51,068	51,635
Staff retirement benefits	13,127	12,517	13,226	12,607
Premises, equipment and establishment expenses	13,948	15,262	15,684	17,194
Other operating expenses	19,105	18,516	19,386	18,630
Profit before provision for loan losses and fall in value of investment securities	47,162	44,906	48,416	53,428
Provision for loan losses	27,500	31,182	28,519	32,707
Provision for fall in value of investment securities	60	-	65	-
Profit from operations	19,602	13,725	19,833	20,721
Share of subsidiaries' & associate companies' profit before taxation	4,834	4,911	5	436
Profit before taxation	24,436	18,635	19,838	21,157
Provision for taxation	(5,628)	(1,738)	(5,688)	(1,845)
Profit from ordinary activities after tax	18,808	16,898	14,150	19,312
Minority interest	-	-	(395)	(730)
Net profit for the year	18,808	16,898	13,755	18,582
Earnings per share (US\$)	7.23	6.50	5.29	7.15
Dividends per share (US\$)	3.67	2.68	3.67	2.68

The Income Statement and Balance Sheet in US\$ on pages 88 and 89 are presented solely for the convenience of the readers of the Annual Report

Exchange Rate 1 US \$ was Rs 104.71 as at 31st December 2004 (Rs 96.61 as at 31 st December 2003)

Balance Sheet - US \$

As at 31st December	Bank		Group	
	2004 US \$ ' 000	2003 US \$ ' 000	2004 US \$ ' 000	2003 US \$ ' 000
ASSETS				
Cash and short term funds	53,327	43,258	53,527	43,731
Balances with Central Banks	119,184	82,233	119,184	82,233
Treasury bills and other eligible bills	243,550	143,221	251,406	153,020
Dealing securities	4,838	14,604	4,860	14,624
Placements with and loans to other banks	261,308	273,393	261,308	273,393
Loans & advances to customers				
Bills of exchange	46,525	62,027	50,021	67,093
Loans & advances	1,195,522	1,108,429	1,200,518	1,113,474
Lease rentals receivable - within one year	3,021	2,420	17,121	17,096
Lease rentals receivable - one to five years	2,494	1,777	27,750	24,488
Lease rentals receivable - after five years	12	-	16	8
	1,247,574	1,174,653	1,295,426	1,222,159
Government of Sri Lanka restructuring bonds	170,789	185,108	170,789	185,108
Investment securities	208,463	277,208	210,796	279,977
Investment properties	10,982	11,903	10,982	11,903
Investments in associates	11,694	2,605	11,694	2,605
Investments in subsidiaries	35,901	38,882	-	-
Other assets	119,361	183,689	123,515	187,142
Group balances receivable	9,940	12,517	637	2,944
Property, plant and equipment	47,244	44,960	62,120	69,270
Total assets	2,544,155	2,488,235	2,576,243	2,528,106
FINANCED BY				
LIABILITIES				
Deposits from customers	1,959,357	1,928,383	1,974,517	1,946,667
Debt securities in issue	214,006	178,891	227,647	191,830
Other borrowed funds	115,740	92,903	118,207	95,942
Group balances payable	9,739	9,888	326	1,985
Deferred tax liability	-	-	711	698
Tax payable	1,311	639	1,606	845
Other liabilities	87,401	116,370	91,058	119,478
Subordinated debentures	10,028	12,939	10,028	12,939
Total liabilities	2,397,582	2,340,013	2,424,100	2,370,383
Minority interest	-	-	2,807	961
SHAREHOLDER'S EQUITY				
Share capital	24,830	26,912	24,830	26,912
Permanent reserve fund	14,373	15,164	14,373	15,164
Retained profits	86,276	83,815	86,642	89,757
Reserves	21,094	22,331	23,491	24,929
Total shareholder's equity	146,573	148,222	149,336	156,762
Total equity and liabilities	2,544,155	2,488,235	2,576,243	2,528,106
Commitments and contingencies	561,943	518,448	564,847	519,600

Ten Year Statistical Summary

Rs. million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Operating results										
Gross income	14,820	17,117	20,091	20,123	21,477	22,753	28,410	24,578	22,805	23,957
Interest income	12,134	13,742	15,972	15,710	16,624	18,245	22,887	20,258	17,040	16,609
Interest expense	(6,482)	(8,203)	(9,586)	(8,998)	(9,997)	(12,498)	(17,704)	(12,794)	(8,438)	(8,256)
Foreign exchange income	563	492	789	1,244	1,045	384	1,205	737	707	1,781
Other income	2,123	2,883	3,330	2,472	2,848	3,153	2,996	2,985	4,343	4,804
Operating expenses	(4,339)	(4,886)	(5,425)	(5,275)	(5,507)	(6,061)	(6,892)	(7,406)	(9,314)	(9,999)
Provision for bad and doubtful debts and fall in value of investments & properties	(1,167)	(739)	(1,280)	(4,081)	(2,018)	(2,412)	(1,875)	(2,941)	(3,012)	(2,886)
Operating profit	2,832	3,289	3,800	1,072	2,995	811	617	839	1,326	2,053
Less - Special levy	-	-	(400)	-	-	-	-	-	-	-
Share of profit/loss of related companies	-	-	(406)	196	29	260	274	399	474	506
Profit before income tax	2,832	3,289	2,994	1,268	3,023	1,071	891	1,238	1,800	2,559
Income tax on profit	(99)	(827)	(935)	(1,150)	(969)	(370)	(74)	(219)	(168)	(590)
Profit after taxation	2,733	2,462	2,059	118	2,055	701	817	1,019	1,632	1,969
Assets										
Cash and short term funds	2,295	2,248	3,086	2,999	4,954	3,309	4,122	4,275	4,179	5,584
Balance with Central Bank	7,888	7,938	7,434	9,527	9,462	7,057	8,835	9,198	7,945	12,480
Treasury bills and other securities eligible for rediscounting with Central Bank	3,548	3,036	5,335	4,990	6,472	5,340	4,313	13,134	13,837	25,502
Dealing securities	290	1,196	1,111	1,227	1,041	614	797	503	1,411	507
Placements with and Loans to other banks	12,764	11,152	15,871	21,154	20,063	28,685	10,642	13,494	26,412	27,362
Bills of exchange, loans and advances	57,924	61,318	74,253	82,794	88,314	112,168	142,478	114,609	113,078	130,055
Lease rentals receivables	328	429	420	357	323	341	266	276	406	579
Investment securities	2,514	3,375	4,910	3,689	5,320	26,974	26,635	27,548	26,781	21,828
Investment in subsidiaries and associates	1,541	1,824	1,673	1,602	2,717	2,947	2,822	2,831	4,008	4,984
Government of Sri Lanka restructuring bonds	10,547	19,883	18,883	18,883	17,883	17,883	17,883	17,883	17,883	17,883
Group balances receivable	1,182	2,517	3,017	2,985	1,111	848	810	646	1,209	1,041
Property, plant and equipment	2,881	3,108	3,361	3,510	3,682	3,604	3,451	3,946	5,494	6,097
Other assets	12,335	15,347	11,642	13,733	17,300	23,146	14,619	19,532	17,746	12,499
Total assets	116,037	133,371	150,995	167,450	178,642	232,916	237,673	227,875	240,388	266,399
Liabilities										
Deposits from non bank Customers	81,916	89,177	101,288	113,927	119,754	130,583	146,589	169,978	185,850	204,633
Deposits from banks	1,782	2,045	1,042	1,047	821	544	581	443	451	531
Borrowings	14,953	20,004	25,438	28,675	34,240	73,266	65,835	31,735	26,258	34,528
Group balance payable	192	155	424	165	285	214	219	123	955	1,020
Defferd taxation	-	-	231	294	318	262	-	-	-	-
Other liabilities	8,140	11,622	11,415	12,622	11,140	15,934	12,204	12,757	11,304	9,289
Subordinated debentures	-	-	-	1,000	1,000	1,000	1,000	1,000	1,250	1,050
Total liabilities	106,982	123,003	139,837	157,731	167,558	221,803	226,428	216,036	226,069	251,051

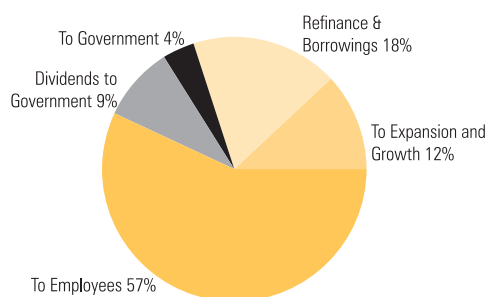
Rs. million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Shareholder's equity										
Share capital	1,000	1,000	1,000	1,000	1,000	1,000	2,600	2,600	2,600	2,600
Capital pending allotments	1,600	1,600	1,600	1,600	1,600	1,600	-	-	-	-
Reserves	6,454	7,768	8,558	7,119	8,484	8,513	8,645	9,238	11,720	12,748
Total shareholder's equity	9,054	10,368	11,158	9,719	11,084	11,113	11,245	11,838	14,320	15,348
Total equity and liabilities	116,037	133,371	150,995	167,450	178,642	232,916	237,673	227,875	240,388	266,399
Commitments and contingencies	44,631	62,833	76,637	84,500	67,510	79,870	73,316	62,996	50,087	58,841
Ratios										
Return on Average Assets (%)	2.58	2.64	2.11	0.80	1.75	0.52	0.38	0.53	0.77	1.01
Return on Average Shareholder's Funds (%)										
- Before tax	35.23	33.86	27.81	12.15	29.07	9.66	7.97	10.73	13.77	17.25
Return on Average Shareholder's Funds (%)										
- After tax	60.36	25.35	19.13	1.13	19.75	6.32	7.31	8.83	12.48	13.28
Capital Adequacy Ratio (%)	12.98	13.61	9.82	9.94	12.06	11.53	13.05	12.44	13.11	12.44
Income Growth (%)	25.18	15.50	17.38	0.16	7.16	5.94	24.86	(13.49)	(7.21)	5.05
Capital Funds to Liabilities including										
Contingent Liabilities (%)	5.97	5.58	5.15	4.01	4.72	3.68	3.75	4.24	5.19	4.95
Liquid Assets to Liabilities (%)	26.67	25.70	30.93	34.82	39.44	27.86	28.50	34.19	25.34	23.82
Other Information										
No of Employees	9,954	10,096	9,987	9,873	9,697	9,473	9,245	9,268	8,927	8,718
No of Branches	297	296	296	296	296	296	296	297	299	300
No of Advances (in 000)	420	470	613	696	694	695	718	796	1,061	1,218
No of Depositors (in 000)	3,412	3,606	3,841	4,386	4,561	4,749	4,896	5,089	5,274	5,491

Value Added Statement

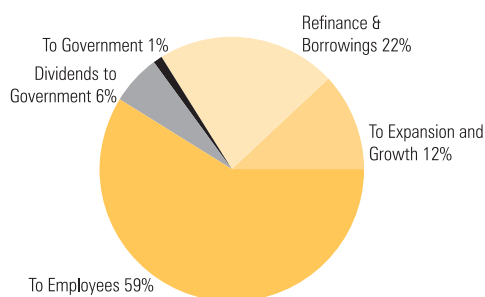
Value added	2004 Rs. 000	2003 Rs. 000
Income earned by providing banking services	22,275,540	20,972,795
Cost of services	(9,345,297)	(9,059,130)
Value added by banking services	12,930,243	11,913,665
Non banking income	1,334,212	1,529,300
Provision for bad debts	(2,879,526)	(3,012,489)
Provision for fall in value of investments	(6,273)	-
	11,378,656	10,430,476

Value allocated	%	2004 Rs. 000	%	2003 Rs. 000
To employees				
Salaries wages & other benefits	57	6,537,933	59	6,050,810
To providers of capital - Government of Sri Lanka				
Dividends to Government	9	1,000,000	6	673,181
To Government				
Income Tax	4	499,693	1	105,077
To providers of funds				
Refinance & borrowings	18	1,994,801	22	2,314,087
To expansion and growth				
Retained income		969,344		959,308
Depreciation		376,885		328,013
	12	1,346,229	12	1,287,321
	100	11,378,656	100	10,430,476

Value Added Statement 2004



Value Added Statement 2003



Corporate Offices & Overseas Branches

Registered Head Office

4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: 2446790-811 (22 lines) 2338741-55
Telegraphic Address: "HEADBANK"
Telex: Colombo 21331 ABLANKA BK CE
22419 BCCEX CE
21868 INTBANK

Website: www.boc.lk

International Division

(7th, 8th & 9th Floors), Head Office Building
4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.
Tel: 2445794, 2445791-2, 2445783, 2445781-2-
3-4-5-, 2447830-1, 2345424, 2345420,
2448207, 2338765, 2544309, 2344845,
2338741-55, 2445793
Fax: 2445788, 2447171

Corporate Branch

1st, 2nd, & 3rd Floors, Head Office Building,
4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka
Tel: 2446814, 2445803, 2345428, 2471613,
2446818-20
Fax: 2446813, 2446814, 2399561
Telex: Colombo 21499
Email: boc660@slt.net.lk

Second Corporate Branch

3rd Floor, Head Office Building,
4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka
Tel: 2325742, 2447812
Fax: 2446816
Email: boc822@slt.net.lk

Metropolitan Branch

Bank of Ceylon Building, York Street,
Colombo 1, Sri Lanka
Tel: 2449063, 2329419, 2449663, 2320223,
2328521-10 lines
Fax: 2325629, 2320838, 2472646, 2328197
Email: boc618@slt.net.lk

Taprobane Branch

Bank of Ceylon Building, York Street,
Colombo 1, Sri Lanka
Tel: 2422267, 2447173, 2328521 - 10 lines
Fax: 2422267
Email: boc747@slt.net.lk

Pettah Branch

Gas Works Street,
Colombo 11, Sri Lanka.
Tel: 2452368, 2393544, 2434478-9, 2435949,
2431555
Fax: 2432629
Email: boc004@slt.net.lk

Offshore Banking Division

2nd Floor, Head Office Building,
4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka
Tel: 2338765, 2346536, 2346553, 2346551
Fax: 2445784, 2448776
Telex: BO-FCBU-23481
Email: agmfcbu@sri.lanka.net

Overseas Branches

London Branch

Bank of Ceylon
No.1 Devonshire Square,
London, EC 2M 4WD
United Kingdom
Tel: 00 44 2078800121, 00 44 2073771888
Telegraphic Address: CEYBANK
Fax: 00 44 2073775430
Telex: 883587
Email: bankofceylon.uk@btclick.com

Male Branch

Bank of Ceylon
"Aage"
12, Boduthakurufaanu, Magu,
Male 20094, Republic of Maldives.
Tel: 00 960 323045, 00960 323046
Telex: 77080 BC MALE' MF
Fax: 00960 320575
Email: bcmale@dhivehinet.net.mv

Chennai Branch

Bank of Ceylon
1090, Poonamalee High Road,
Chennai 600 084, India.
Tel: 009144-26423501, 26420972, 26420973
Fax: 009144 -25325590
Telex: 08141- 24094/ 08141 -24095
Swift: BCEYIN5M
Email: ceeybank@md3.vsnl.net.in

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Western Province North

Tel: 2381366, 2381365, 2328521
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Andiambalama

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E-mail: boc494@mail.ewisl.net

Biyagama

Tel: 2488770, 5558970
Fax: 2489905

Borella

Tel: 4612617, 2694701
Fax: 2696524
E-mail: boc038@slt.lk

Borella 2nd

Tel: 2685140
Fax: 2684232

Central Bus Stand

Tel: 2326761, 5365118
Fax: 2447310

Central Super Market

Tel: 2446475, 5357573
Fax: 2433747

City Office

Tel: 2320441-5, 2438453-5,
2329413
Fax: 2438454
E-mail: boc001@sltnet.lk

Dematagoda

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Fax: 2684234

Divulapitiya

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Fax: 031-2246280

Fifth City

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Fax: 2436180
E-mail: boc060@sltnet.lk

Gampaha

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Fax: 033-2226051
E-mail: boc045@sltnet.lk

Grandpass

Tel: 2448202, 5370684
Fax: 2393545

Hulftsdorp

Tel: 2320374
Fax: 2424843

IPZ Katunayake

Tel: 2225201, 2259583
Fax: 2252021

Ja-Ela

Tel: 5342311, 5372456
Fax: 2236494

Kadawatha

Tel: 2920687, 2925214
Fax: 2925214

Kiribathgoda

Tel: 2906149, 2911304
Fax: 2911304
E-mail: boc543@sltnet.lk

Kirindiwela

Tel: 033-2267280
Fax: 033-2267280

Kolonnawa

Tel: 5557286, 2572265
Fax: 2572265

Kotahena

Tel: 2448632, 2393635
Fax: 5363567

Lake House

Tel: 2448492, 5363723
Fax: 2448492

Lake View

Tel: 5359693, 2314207
Fax: 5362878

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Fax: 2447198
E-mail: boc026@sltnet.lk

Maradana

Tel: 2696550, 2689403
Fax: 2689403

Minuwangoda

Tel: 2295214
Fax: 2295214

Mirigama

Tel: 033-2275975
Fax: 033-2273280

Narahenpita

Tel: 2368514
Fax: 2368515

Negombo

Tel: 031-2224711, 031-2222214
Fax: 031-2224263
E-mail: boc018@sltnet.lk

Negombo Bazarr

Tel: 031-2231297, 031-2222156
Fax: 031-2231297

Nittambuwa

Tel: 033-2287280
Fax: 033-2289700

Peliyagoda

Tel: 2930397, 2930397
Fax: 2945078

Personal Branch

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E-mail: boc681@boc.lanka.net

Prince Street

Tel: 5377730, 2320771
Fax: 2320771

Pugoda

Tel: 2404821-23
Fax: 2404823

Ragama

Tel: 2960291
Fax: 2960290

Regent Street

Tel: 2697035
Fax: 2697035

Seeduwa

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Fax: 5365049

Veyangoda

033-2287279
033-2287279

Wattala

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Fax: 2942505

Welisara

Tel: 5361442
Fax: 2958485

Western Province South

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2854133
Fax: 2825611
E-mail: bocwps@sri.lanka.net

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Fax: 034-2247480
E-mail: boc657@mail.ewisl.net

Aluthgama

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Fax: 034-2275188
E-mail: boc680@sltnet.lk

Athuriugiriya

Tel: 2561378
Fax: 2561378

Bambalapitiya

Tel: 5368439, 2598390
Fax: 2584183
E-mail: boc037@sltnet.lk

Bandaragama

Tel: 038-2290280
Fax: 4290079

Battaramulla

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Fax: 2862575
E-mail: boc671@slt.lk

Beruwala

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Fax: 034-2276006
E-mail: boc058@sltnet.lk

Bulathsinhala

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Fax: 034-2283116

Dehiwala

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Fax: 2714468
E-mail: boc051@sltnet.lk

Dharga Town

Tel: 034-2275411, 034-2275247
Fax: 034-2275411

Dodangoda

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Fax: 034-2281628
E-mail: boc293@mail.ewisl.net

Hanwella

Tel: 036-2255079, 036-2253520
Fax: 036-2255079
E-mail: boc741@mail.ewisl.net

Homagama

Tel: 2855059, 2748824
Fax: 2748824
E-mail: boc568@slnet.lk

Horana

Tel: 034-2261280
Fax: 034-2260152

Hyde Park

Tel: 2687281, 2687483
Fax: 2687483
E-mail: boc521@slnet.lk

Idama

Tel: 2645427
Fax: 2646165
E-mail: boc061@slnet.lk

Ingiriya

Tel: 034-2269280
Fax: 034-2269280

Kaduwela

Tel: 2571253, 2537999
Fax: 2571253

Kalutara

Tel: 034-2222214, 034-2229804
Fax: 034-2222363
E-mail: boc016@slnet.lk

Katubedda

Tel: 2625438, 2605487
Fax: 2605487
E-mail: boc030@slnet.lk

Kollupitiya

Tel: 4795036
Fax: 4795037
E-mail: boc034@slnet.lk

Kollupitiya 2nd

Tel: 2574581, 2565380
Fax: 2574581
E-mail: boc670@slnet.lk

Maharagama

Tel: 2850339, 2746146
Fax: 2851243
E-mail: boc055@slnet.lk

Matugama

Tel: 034-2247280, 034-2243590
Fax: 034-2247280
E-mail: boc556@slnet.lk

Malabe

Tel: 2760753, 2760744
Fax: 2760744

Miligiriya

Tel: 2589395, 2504627
Fax: 2589395
E-mail: boc593@slnet.lk

Nugegoda

Tel: 2852915, 2821288, 2821287
Fax: 2854132
E-mail: boc049@slnet.lk

Padukka

Tel: 2859112
Fax: 2859112

Panadura

Tel: 038-2232214, 038-2243323
Fax: 038-2235651
E-mail: boc007@slnet.lk

Panadura Bazaar

Tel: 038-2232038, 038-2243324
Fax: 038-2232038

Parliament Complex

Tel: 2777310
Fax: 2777309
E-mail: boc644@slnet.lk

Pelawatte

Tel: 2785512, 2785550
Fax: 2785875

Piliyandala

Tel: 2614165
Fax: 2619970

Rajagiriya

Tel: 5368641, 2867189
Fax: 2867189

Ratmalana

Tel: 2719735, 2738030
Fax: 2719735
E-mail: boc689@slnet.lk

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Fax: 2692506
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Fax: 2314756
E-mail: boc043@slnet.lk

Wadduwa

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Fax: 034-2232538
E-mail: boc584@slnet.lk

Wellawatte

Tel: 2584232, 2588941
Fax: 2587604
E-mail: boc023@slnet.lk

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091-2232236, 091-2234299
Fax: 091-2234880
E-mail: bocsp@sri.lanka.net

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Fax: 091-2264107

Akuressa

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Fax: 041-2283280

Ambalangoda

Tel: 091-2256307
Fax: 091-2258390

Ambalantota

Tel: 047-2223280
Fax: 047-2223280

Baddegama

Tel: 091-2292280
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Ceylon Shipping Line

CWE – Welisara
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DFCC
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**Department of Immigration &
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Development Lottery Centre

Eravur Extension Office

**Foreign Employment Assistant
Centre**

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Geuda Trading Centre
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**Laksiriseva (Pvt) Ltd. Sri Lanka
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Pelawatta
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Srawasthi Mandiraya
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Leasing Department
Tel: 011 2445812

Ceybank Gold Shop
Tel: 011 2345420

Glossary of Financial/Banking Terms

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Associate Company

A Company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

BIS Surplus

The total Capital Adequacy in excess of the minimum stipulated by Basle International Standards and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital Employed

Sum total of liabilities and shareholders' funds

Capital Reserve

Capital Reserves consists of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Capital Adequacy Ratio

The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka .

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Commitment to Extend Credit

Credit facilities available to clients either in the form of loans, bankers' acceptances' and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Contingent Liabilities

Conditions or situations at the balance sheet date, the financial effect of which are to be determined by the future events which may or may not occur.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and

direction of entity, the supervision of executive actions and accountability to owners and others.

Cost Income Ratio

Operating expenses as a percentage of net income.

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term.

Deferred Taxation

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Documentary Letters of Credit (L/C's)

Written undertakings by a bank on behalf of its customers (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Earnings Per Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Effectiveness

Doing the right thing. Refers to the quality of output.

Efficiency

Doing the things right. Refers to the ratio of output to input. Mostly measured in Cost to Income Ratio.

Effective Tax Rate

Provision for taxation divided by the profit before taxation

Equity Method

A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The Income Statement reflects the investor's share of the results of operations of the investee.

Finance Lease

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Foreclosed Properties

Properties acquired in full or partial settlement of debts, which will be held with the intention of

resale at the earliest opportunity.

Foreign Exchange Income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rupees on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date. Foreign exchange income also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Free Capital

Excess of equity capital over net book value of Property, Plant & Equipment and Investments.

Gross Domestic Product

The value of all goods and services produced domestically by an economy during a specified period, usually an year. GDP, adjusted for inflation, gives GDP in real terms.

General Provisions

Are established for leasing transactions, housing loans and for pawning advances for anticipated losses on aggregate exposures where credit losses cannot be determined on an individual facility basis.

Guarantees

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

Historical Cost Convention

Recording transactions at the actual value received or paid.

Interest in Suspense

Interest suspended on non performing loans and advances.

Interest Margin

Net interest income as a percentage of average interest earning assets.

Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment Properties

Land and buildings that are not occupied substantially for use by or in the operations of the Bank.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Leverage

Total Liabilities as number of times of Equity

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquid Assets Ratio

Liquid Assets as a percentage of total liabilities other than shareholders funds.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

Net Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Non Performing Loans

A Loan placed on cash basis (i.e. interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest. Loans are automatically placed on cash basis when a payment is 90 days past due. All loans are classified as non-performing when a payment is 90 days in arrears.

Off-Balance sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Provision for Loan Losses

A charge to income which is added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realisable values.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty. Such that assets or income are not overstated and liabilities or expenses are not understated.

REPOs

Repurchase Agreements. The Securities sold to creditors (who lend money for funding purposes), with the intention of buying them back at a set price.

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets. Used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Average Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve

Reserves set aside for future distribution and investment

Reverse Repo

A purchase of government securities with an agreement to resell them at a given price on specific future date.

Risk-adjusted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

Risk Weighted Assets

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such

as banking operations, Leasing operations, stock broking & securities dealings, property and insurance.

Shareholders' Funds

Shareholders' funds consist of issued and fully paid ordinary share capital plus capital and revenue reserves.

Subsidiary Company

A company is a subsidiary of another company if the parent company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

Substance Over Form

The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

Swaps (Currency)

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

Tier 1 Capital

Consists of the sum total of paid up ordinary shares, non cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves less goodwill.

Tier 2 Capital

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments, and approved subordinated debentures.

Total Capital

Is the sum of Tier 1 and Tier 2 capital.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Value Added

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Corporate Information

Name of the Institution

Bank of Ceylon

Legal Form

A Banking corporation domiciled in Sri Lanka on 01st August 1939 duly incorporated under the Bank of Ceylon Ordinance No. 53 of 1938.

A licensed commercial bank established under the Banking Act No 30 of 1988.

Registered Office

No. 4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Head Office

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Colombo 1, Sri Lanka

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22419 BCCEX CE

21868 INTBANK

Website: www.boc.lk

Tax Payer Identification Number - (TIN)

409000070

Board of Directors

Mr. P. M. Nagahawatte (Chairman)

Mr. Cubby Wijetunge

Mrs. Lakmali C. Gunawardena Nanayakkara

Mr. Lalith Withana

Mr. S. Abeyasinghe

Board Secretary

Mrs. Sunethra Jayawardena ACIS

Audit Committee

Mr. Lalith Withana (Chairman)

Mrs. Lakmali C. Gunawardena Nanayakkara

Mr. Cubby Wijetunge

Auditor

The Auditor General

(In terms of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka)

Credit Ratings

The Bank has received AA (sri) credit rating from Fitch Ratings Lanka Ltd.

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