

# Banking Industry

June 2022

Muhammad Hassan | Team Lead | muhammad.hassan@pacra.com  
Aqeela Albar | Research Analyst | aqeela@lra.com.lk

## Sector Overview

Banking Sector	June 2022
Commercial Banks	24
Public Banks	2
Private Banks	11
Foreign Banks	11
Specialized Banks	6
<b>Total</b>	<b>30</b>

## Key figures of the banking industry

### Total Assets

CY21 - LKR 14.8 tn  
CY20 - LKR 12.8 tn  
Growth - 15.5%

### Total Investments

CY21 - LKR 3.9 tn  
CY20 - LKR 3.4 tn  
Growth - 16.6%

### Net Advances

CY21 - LKR 9.2 tn  
CY20 - LKR 8.0 tn  
Growth - 14.8%

### Total Deposits

CY21 - LKR 10.9 tn  
CY20 - LKR 9.6 tn  
Growth - 13.8%

### Gross NPLs

CY21 - LKR 408.3 bn  
CY20 - LKR 392.8 bn  
Growth - 3.94%

### Total Provisions

CY21 - LKR 328.4 bn  
CY20 - LKR 254.2 bn  
Growth - 29.2%

### Net Interest Income

CY21 - LKR 466.7 bn  
CY20 - LKR 369.5 bn  
Growth - 26.3%

### PBT

CY21 - LKR 273.3 bn  
CY20 - LKR 203.6 bn  
Growth - 34.3%

### PAT

CY21 - LKR 172.2 bn  
CY20 - LKR 120.5 bn  
Growth - 42.9%

## Overview of the Sri Lankan Economy

The Covid-19 pandemic and the Ukraine war have affected economies all over the world, with developing economies taking the largest hit. Sri Lanka was no exception and went into 2020 with a large debt burden and large debt servicing commitments. Policy changes to reduce tax rates and increase money printing in the hope that the excess liquidity would fuel the economy did not materialize. And the pandemic added to the woes by significantly reducing tourism arrivals and foreign remittances, effectively drying up the forex reserves.

Fast forward two years, the Central Bank of Sri Lanka (CBSL) made several policy decisions that would significantly affect the outlook of the country's economy.

- The Sri Lankan Rupee - LKR was allowed to float (it was previously on a soft peg to the USD). The LKR had since depreciated by over 75% within two months.
- Policy rates were increased by 700 bps to 13.5% (SDFR) and 14.5% (SLFR) respectively.
- Treasury bill rates in the Primary auction were increased sharply, rising by ~1200 bps over a month.
- Sri Lanka announced a suspension of external debt repayment resulting in downgrades by all three international rating agencies. (Sri Lanka Development Bonds were excluded from this suspension)
- Sri Lanka sought to receive assistance from the IMF, and technical and legal advisors were appointed to restructure external debt.
- The government revised Value Added Tax (VAT) and other tax rates upwards, in a bid to increase government revenue.
- Import restrictions on 369 items of which imports have been regulated have been relaxed.

Snapshot of the Sri Lankan Economy									
	CY18	CY19	CY20	1QCY21	2QCY21	3QCY21	4QCY21	CY21	Latest value
GDP growth rate (YoY)	3.3%	2.3%	-3.6%	4.3%	12.3%	-1.5%	1.8%	3.6%	
Exchange rate (USD/LKR)	182.75	181.63	186.41	199.0	201.1	200.0	200.4	200.4	31-May-2022 360.8
Inflation (CCPI)	4.3%	4.3%	4.6%	4.1%	5.2%	5.7%	12.1%	(average) 5.9%	31-May-2022 39.1%
SDFR	8.00%	7.00%	4.50%	4.50%	4.50%	5.00%	5.00%	5.00%	08-Apr-2022 13.50
SLFR	9.00%	8.00%	5.50%	5.50%	5.50%	6.00%	6.00%	6.00%	14.50
USD bn	CY18	CY19	CY20	1QCY21	2QCY21	3QCY21	4QCY21	CY21	Latest value
Current Account balance	(2.80)	(1.80)	(1.10)	(0.48)	(1.0)	(0.74)	(1.14)	(3.36)	
Exports	11.89	11.94	10.05	2.98	2.72	3.24	3.57	12.50	1QCY22 3.25
Imports	22.23	19.94	16.06	5.04	4.97	4.92	5.70	20.64	5.65
Trade balance	(10.34)	(8.00)	(6.01)	(2.06)	(2.26)	(1.69)	(2.13)	(8.14)	(2.40)
Workers' remittances	7.0	6.7	7.1	1.9	1.5	1.3	0.9	5.5	Jan-Apr CY22 1.03
Foreign exchange reserve	6.92	7.64	5.66	4.06	4.06	2.70	3.14	3.14	30-Apr-2022 1.81

## Assets in the Financial Sector

	CY17	CY18	CY19	CY20		CY21	
	LKR bn	LKR bn	LKR bn	LKR bn	%	LKR bn	%
<b>Banking Sector</b>	<b>11,897.40</b>	<b>13,708.30</b>	<b>14,442.10</b>	<b>17,087.90</b>	<b>72.9</b>	<b>19,969.90</b>	<b>74.7</b>
<i>Central Bank</i>	<i>1,604.80</i>	<i>1,914.30</i>	<i>1,919.40</i>	<i>2,421.60</i>	<i>10.3</i>	<i>3,046.30</i>	<i>11.4</i>
<i>Licensed Commercial Banks (LCBs)</i>	<i>8,926.40</i>	<i>10,372.40</i>	<i>10,944.00</i>	<i>12,828.80</i>	<i>54.7</i>	<i>14,820.50</i>	<i>55.4</i>
<i>Licensed Specialised Banks (LSBs)</i>	<i>1,366.20</i>	<i>1,421.60</i>	<i>1,578.70</i>	<i>1,837.50</i>	<i>7.8</i>	<i>2,103.00</i>	<i>7.9</i>
<b>Other Deposit Taking Financial Institutions</b>	<b>1,370.40</b>	<b>1,542.70</b>	<b>1,553.20</b>	<b>1,536.50</b>	<b>6.6</b>	<b>1,636.70</b>	<b>6.1</b>
<i>Licensed Finance Companies (LFCs)</i>	<i>1,227.50</i>	<i>1,383.70</i>	<i>1,390.80</i>	<i>1,367.90</i>	<i>5.8</i>	<i>1,452.00</i>	<i>5.4</i>
<b>Specialised Financial Institutions</b>	<b>388.9</b>	<b>240</b>	<b>286.7</b>	<b>386.5</b>	<b>1.6</b>	<b>387.7</b>	<b>1.4</b>
<b>Contractual Savings Institutions</b>	<b>3,402.90</b>	<b>3,414.30</b>	<b>3,787.50</b>	<b>4,425.60</b>	<b>18.9</b>	<b>4,756.10</b>	<b>17.8</b>
<i>Insurance Companies</i>	<i>564.9</i>	<i>606.6</i>	<i>689.6</i>	<i>789.7</i>	<i>3.4</i>	<i>879.8</i>	<i>3.3</i>
<i>Employees' Provident Fund</i>	<i>2,066.30</i>	<i>2,289.40</i>	<i>2,540.40</i>	<i>2,824.30</i>	<i>12.1</i>	<i>3,166.10</i>	<i>11.8</i>
<b>Total</b>	<b>17,059.70</b>	<b>18,905.30</b>	<b>20,068.20</b>	<b>23,436.50</b>	<b>100</b>	<b>26,750.40</b>	<b>100</b>

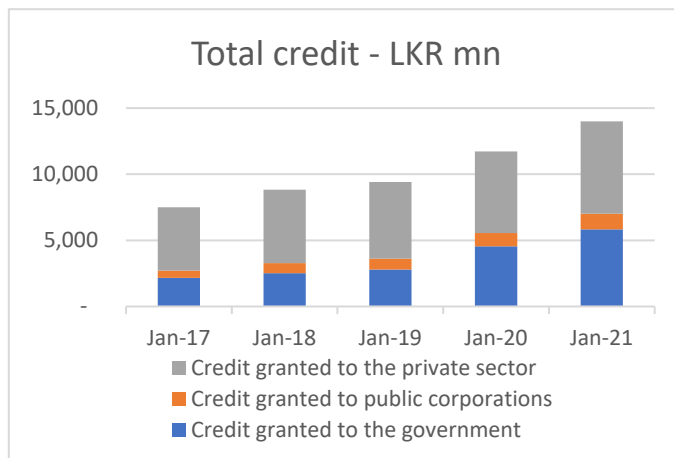
## The Banking Sector

In an economy of LKR 16.8 tn, the banking sector deposits are LKR 10.9 tn amounting to 64.8% of the GDP. This, while quite significant is low compared to other countries in the region.

	Deposits to GDP % CY19
Sri Lanka	59.69
Pakistan	36.91
Bangladesh	48.64
India	74.97
Nepal	103
Malaysia	126
Singapore	141

Source - <https://tradingeconomics.com/country-list/bank-deposits-to-gdp-wb-data.html>

Despite the low interest rate regime, deposits rose by 21.6% in CY20 and 13.8% in CY19 due to the limit in spending by individuals and businesses alike caused by the pandemic. In CY21, ~58% of the total deposits were in time deposits, while the CASA ratio was 38.9%. This was an increase from the 36.6% CASA ratio recorded in CY20, resulting in a decline in the banking system's funding costs.



Total credit has been increasing over the years, with credit to the public sector (government and corporations) increasing at a CAGR of 27% while credit to the private sector increased at a CAGR of 10%. Private and public sector credit is distributed almost equally with total public credit being LKR 7.02 bn and private credit being LKR 6.98bn.

In the near future, public sector credit could be expected to decline with the government increasing its tax revenue.

Total advances of the banking sector grew from LKR 8.0 tn in CY20 to LKR 9.2 tn in CY21 (14.8%). The largest sector to which advances had been granted in CY21 was for consumption. Construction, wholesale and retail trade, and manufacturing were the next largest advance receivers in CY21. It should be noted that the manufacturing sector recorded the largest NPL of 8.1% with wholesale and retail trade and manufacturing following closely behind.

ADR increased from 86.5% in CY20 to 87.6% in CY21, this is also reflected in the increase in advances during the year by 14.8% while deposits only grew by 13.8%.

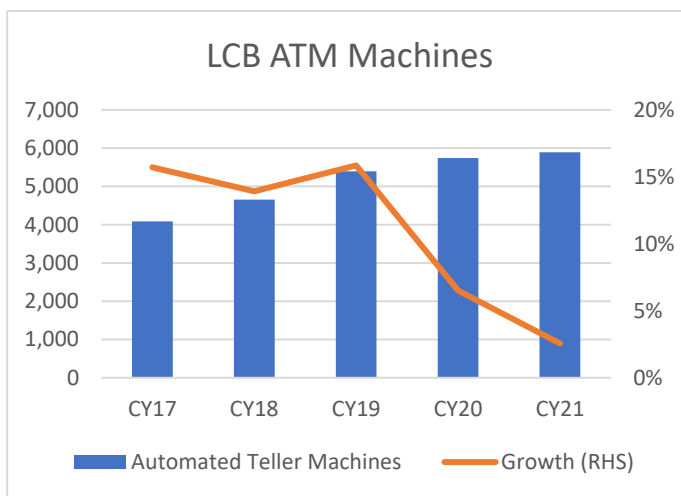
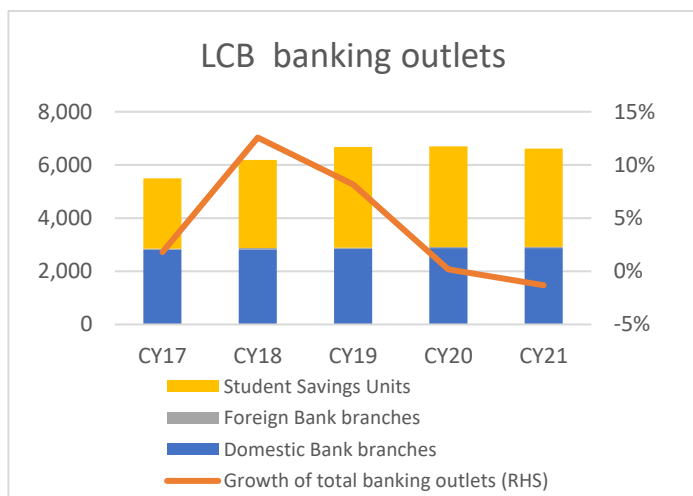
The high interest rates could result in an increase in the deposits of the banking system, while the significantly high rate offered by risk-free government securities might be a deterrent to depositing in the banking system with investors preferring the government securities instead.

Investments of the banking sector increased by 16.6% from LKR 3.4 tn in CY20 to LKR 3.9 tn in CY21. Investments in government securities amounted to LKR 2.7 tn in CY21, Amounting to 79% of the total investments.

Interest income for the year CY21 was LKR 1 tn, a ~3% increase from the LKR 986 bn recorded in CY20. Interest expenses declined from LKR 617 bn in CY20 to LKR 548 bn in CY21. Accordingly, net interest income was LKR 466.7 bn, a 26.3% increase from CY20.

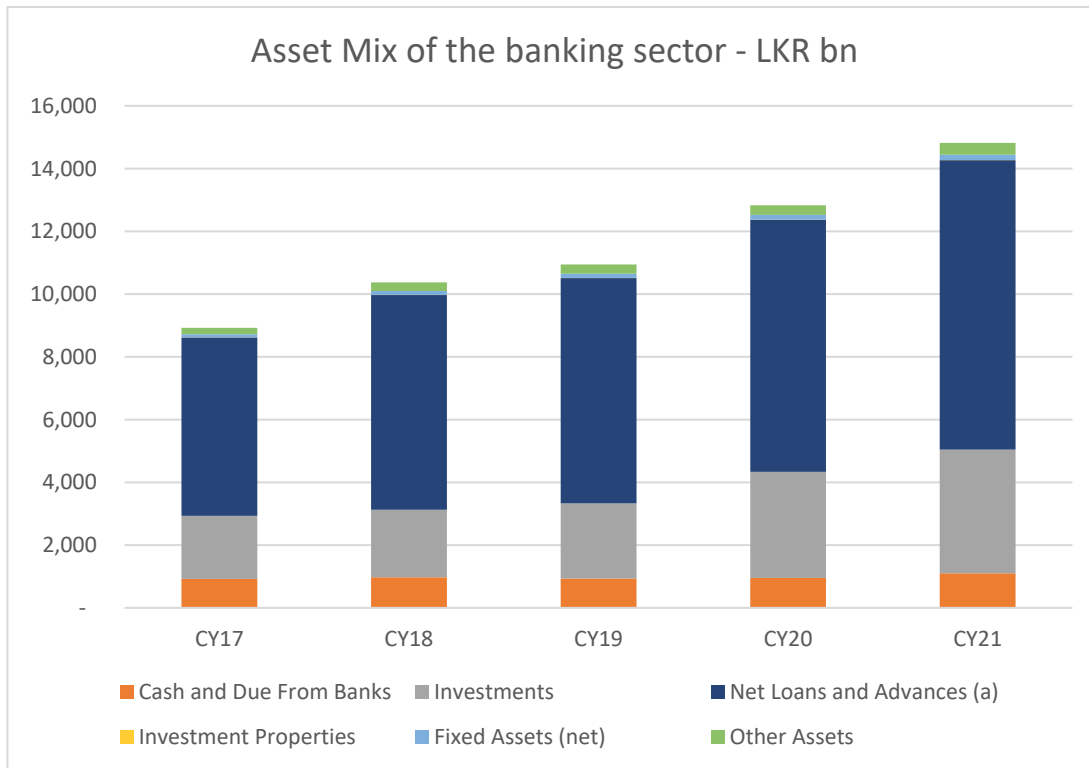
Profitability increased rapidly in the year CY21, with PBT increasing by 34.3% from LKR 204 bn in CY20 to LKR 273 bn in CY21. PAT too increased by 42.9% from LKR 121 bn in CY20 to LKR 172 bn in CY21.

The Banking sector continues to be highly concentrated with 65.8% of the total assets in the sector concentrated among the top 4 (extra-large) banks. The two state banks hold 43.5% of the total assets.



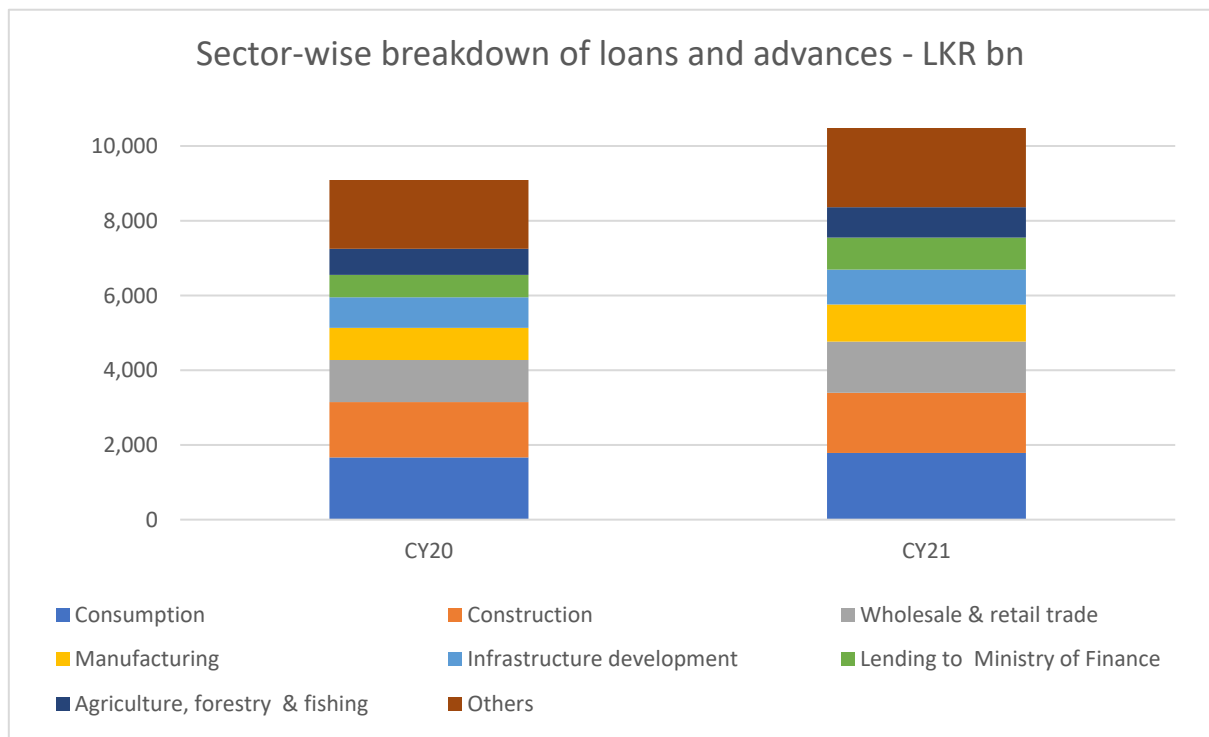
## Licensed Commercial Banks – 5 years at a glance

Assets and Liabilities					
LKR bn	CY17	CY18	CY19	CY20	CY21
<b>Assets</b>					
Cash and Due from Banks	924	974	934	955	1,100
Investments	2,008	2,154	2,396	3,383	3,944
Net Loans and Advances	5,687	6,841	7,179	8,035	9,226
Investment Properties	3	4	4	4	3
Fixed Assets	100	127	136	148	167
Other Assets	204	272	294	304	381
<b>Total Assets</b>	<b>8,926</b>	<b>10,372</b>	<b>10,944</b>	<b>12,829</b>	<b>14,821</b>
<b>Liabilities</b>					
Deposits	6,424	7,408	7,885	9,587	10,909
Time Deposits	3,986	4,751	5,115	5,846	6,346
Savings Deposits	1,779	1,909	2,055	2,789	3,324
Current Deposits	496	544	529	694	889
Other Deposits	163	203	186	259	349
LKR Deposits	5,265	5,984	6,386	7,761	8,790
FCY Deposits	1,159	1,424	1,498	1,826	2,119
Borrowings	1,342	1,571	1,537	1,587	2,054
LKR Borrowings	491	617	567	704	1,383
FCY Borrowings	852	955	970	883	671
Other Liabilities	366	453	480	504	528
<b>Total Liabilities</b>	<b>8,133</b>	<b>9,432</b>	<b>9,902</b>	<b>11,678</b>	<b>13,492</b>
<b>Equity Capital &amp; Reserves</b>	<b>793</b>	<b>941</b>	<b>1,042</b>	<b>1,150</b>	<b>1,329</b>
<b>Total Liabilities and Equity</b>	<b>8,926</b>	<b>10,372</b>	<b>10,944</b>	<b>12,829</b>	<b>14,821</b>



<b>Loans and advances of the banking system</b>					
<b>LKR bn</b>	CY17	CY18	CY19	CY20	CY21
<b>Gross Loans and Advances</b>	<b>5,791</b>	<b>6,981</b>	<b>7,362</b>	<b>8,290</b>	<b>9,554</b>
Growth	15.7%	20.5%	5.5%	12.6%	15.3%
<b>Net Loans and Advances</b>	<b>5,687</b>	<b>6,841</b>	<b>7,179</b>	<b>8,035</b>	<b>9,226</b>
Growth	15.8%	20.3%	4.9%	11.9%	14.8%
Gross Non-performing Advances	118.3	133.3	229.2	339.5	392.8
Total Loan Loss Provisions	95.0	103.7	140.0	183.3	254.2
Net Non-performing Advances	23.3	29.6	89.2	156.2	138.7
<b>Infection</b>	<b>2.3%</b>	<b>3.3%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>4.3%</b>
<b>Coverage ratio</b>	<b>77.8%</b>	<b>61.1%</b>	<b>54.0%</b>	<b>64.7%</b>	<b>80.4%</b>
<b>CAR</b>	<b>16.4%</b>	<b>16.2%</b>	<b>17.2%</b>	<b>17.1%</b>	<b>16.7%</b>
<b>ADR</b>	<b>90.1%</b>	<b>94.2%</b>	<b>93.4%</b>	<b>86.5%</b>	<b>87.6%</b>

	Segment-wise analysis of advances					
	CY20			CY21		
	Amount - LKR bn	%	NPL %	Amount - LKR bn	%	NPL %
Consumption	1,664.2	18.3	4.3	1,785.1	17	3.1
Construction	1,481.9	16.3	6.4	1,608.4	15.3	6.2
Wholesale & retail trade	1,126.8	12.4	7.4	1,373.2	13.1	6.5
Manufacturing	860.9	9.5	8.7	992.9	9.5	8.1
Infrastructure development	815.6	9	1.8	930.7	8.9	1.8
Lending to the Ministry of Finance	603.4	6.6	-	857.5	8.2	-
Agriculture, forestry & fishing	697.9	7.7	6.9	813.5	7.8	6.3
Financial services	338.2	3.7	1.2	460.7	4.4	1.6
Lending to overseas entities	365.5	4	2	419.2	4	3.2
Health care, social services & support services	376.7	4.1	2.8	391.9	3.7	2.7
Tourism	331.2	3.6	6.8	358.2	3.4	5.6
Transportation & storage	200.6	2.2	3.9	206	2	6.1
Professional, scientific & technical activities	115.2	1.3	3.1	142.9	1.4	3
Information technology and communication services	53	0.6	5	73.2	0.7	5.9
Education	48.1	0.5	3.3	54.6	0.5	2.9
Arts, entertainment & recreation	12.3	0.1	6.4	11.8	0.1	4.5
<b>Total Loans</b>	<b>#9,091.5</b>	<b>100.00</b>	<b>4.9</b>	<b>*10,479.7</b>	<b>100</b>	<b>4.5</b>
	#includes LKR 781.3 bn assets of the licensed specialised banks			*includes LKR 898.9 bn assets of the licensed specialised banks		



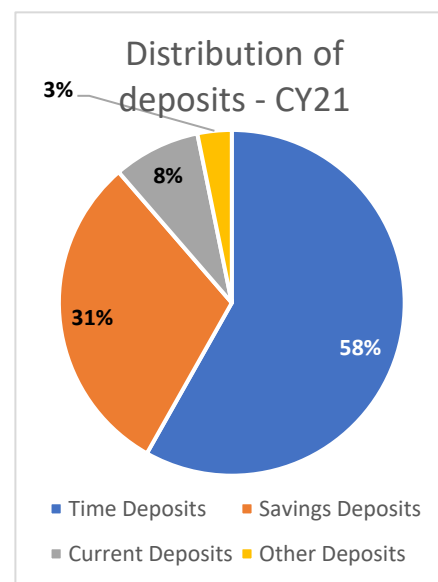
	LKR bn	Total Advances				NPL ratio			ADR ratio					
		Bank	CY19	CY20	CY21	1QCY22	CY19	CY20	CY21	CY19	CY20	CY21	1Q CY22	
State banks	Bank of Ceylon	1,649	2,115	2,577	2,431	4.8	4.8	4.9	82.2	85.5	89.9	84.2		
		1,384	1,723	1,937	1,967	3.3	3.3	3.2	92.8	93.9	93.5	89.3		
Private banks	Extra large banks	Commercial Bank	920	949	1,079	1,208	5.0	5.1	4.6	87.4	74.9	74.8	70.8	
		Hatton National Bank	772	815	929	1,011	5.9	4.3	3.4	95.3	84.2	86.4	83.1	
		Total/Average	4,725	5,602	6,521	6,617	4.6	4.3	4.1	88.2	85.6	87.5	82.6	
		Large banks	Sampath Bank	720	759	813	883	6.4	6.3	5.1	100.3	85.7	83.1	84.1
			NDB	409	444	526	580	4.8	5.4	4.7	101.0	90.5	95.3	96.7
	Total/Average		1,129	1,202	1,339	1,463	5.8	6.0	4.9	100.6	87.4	87.5	88.7	
	Medium banks	Seylan Bank	390	409	466	488	5.8	6.4	5.9	97.3	93.0	95.3	94.7	
		DFCC Bank	285	317	385	415	4.9	5.6	5.6	115.1	102.3	120.4	119.0	
		Nations Trust Bank	234	219	259	289	4.9	7.2	4.9	103.3	91.2	96.7	98.1	
		Total/Average	910	946	1,110	1,192	5.2	6.3	5.6	103.9	95.5	103.1	102.9	
	Small banks	Pan Asia	118	131	151	160	6.3	6.7	6.5	95.9	92.7	102.9	102.4	
		Union Bank	79	70	71	78	5.0	6.1	5.7	103.6	85.0	84.6	86.0	
Amana Bank*		59	64	78	89	3.7	4.0	3.1	82.4	76.9	81.3	84.2		
Cargills Bank		29	32	44	47	12.8	14.4	9.3	115.3	99.2	108.7	113.8		
Total/Average		285	297	343	374	6.1	6.8	5.9	96.3	87.5	93.7	94.9		
	*Islamic banking													

Extra-large banks	Market share (on deposits) >10%
Large banks	Market share (on deposits) >5%, <10%
Medium banks	Market share (on deposits) >2%, <5%
Small banks	Market share (on deposits) <2%

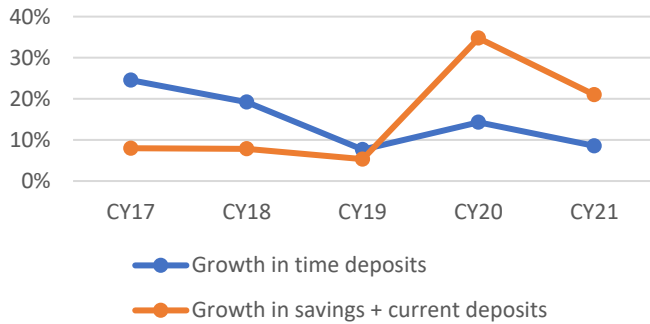


		Bank	Total CAR %				
			CY19	CY20	CY21	1QCY22	
State banks	Extra large banks	Bank of Ceylon	15.60	14.90	16.80	14.9	
		People's Bank	14.66	15.47	17.83	15.72	
Private banks	Extra large banks	Commercial Bank	16.15	16.81	15.65	13.01	
		Hatton National Bank	18.28	17.98	18.16	15.59	
		Large banks	Sampath Bank	18.12	16.41	17.02	14.20
			NDB	13.43	14.30	15.40	13.36
	Medium banks	Seylan Bank	14.84	14.30	14.11	12.78	
		DFCC Bank	15.78	15.75	13.00	12.25	
		Nations Trust Bank	17.64	17.98	17.46	14.08	
	Small banks	Pan Asia	14.31	15.74	15.97	15.06	
		Union Bank	16.75	16.95	16.47	14.45	
		Amana Bank	16.90	17.40	15.70	14.40	
		Cargills Bank	26.87	21.28	23.47	22.11	

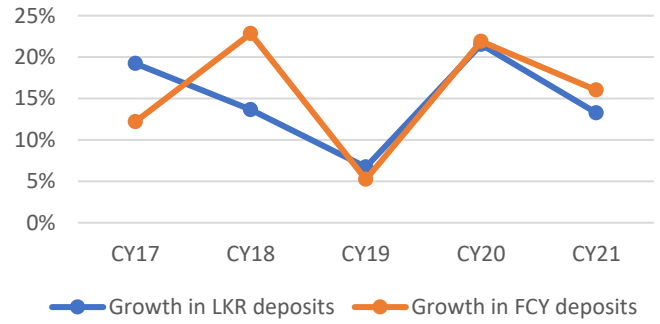
Deposits of the banking sector					
	CY17	CY18	CY19	CY20	CY21
<b>Deposits - LKR bn</b>	<b>6,424</b>	<b>7,408</b>	<b>7,885</b>	<b>9,587</b>	<b>10,909</b>
growth	17.9%	15.3%	6.4%	21.6%	13.8%
LKR depreciation	2.3%	19.2%	-0.8%	2.1%	8.1%
GDP	<b>13,328</b>	<b>14,291</b>	<b>14,997</b>	<b>15,027</b>	<b>16,809</b>
Deposits to GDP ratio	48.2%	51.8%	52.6%	63.8%	64.9%
<b>LKR Deposits</b>	<b>5,265</b>	<b>5,984</b>	<b>6,386</b>	<b>7,761</b>	<b>8,790</b>
<i>Time Deposits</i>	3,261	3,864	4,137	4,657	4,985
<i>Savings Deposits</i>	1,480	1,572	1,715	2,387	2,856
<i>Current Deposits</i>	389	387	390	525	692
<i>Other Deposits</i>	136	161	144	192	257
<b>FCY Deposits</b>	<b>1,159</b>	<b>1,424</b>	<b>1,498</b>	<b>1,826</b>	<b>2,119</b>
<i>Time Deposits</i>	725	888	977	1,189	1,361
<i>Savings Deposits</i>	299	337	340	402	469
<i>Current Deposits</i>	107	157	139	169	198
<i>Other Deposits</i>	28	42	42	67	92
CASA ratio	35.4%	33.1%	32.8%	36.3%	38.6%



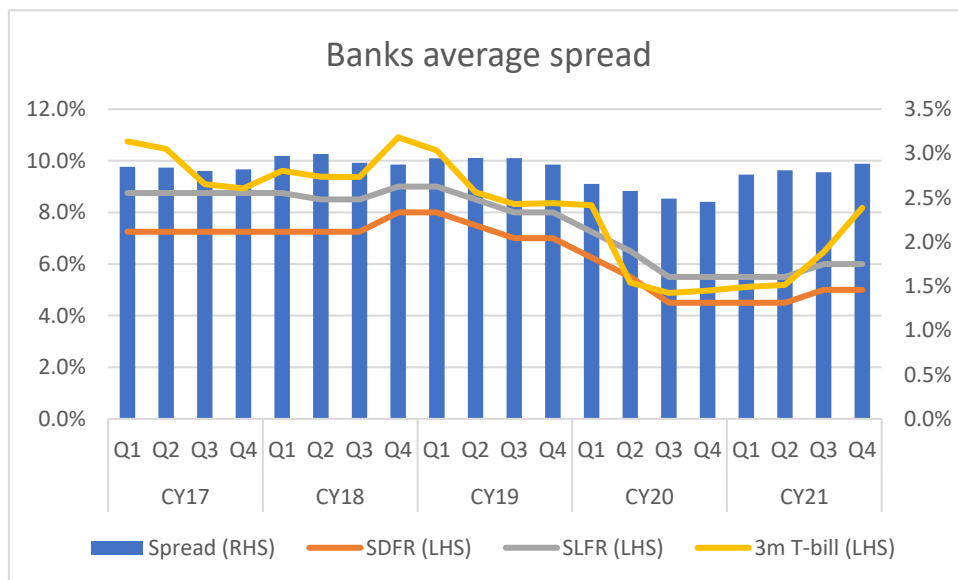
Growth in deposits by type



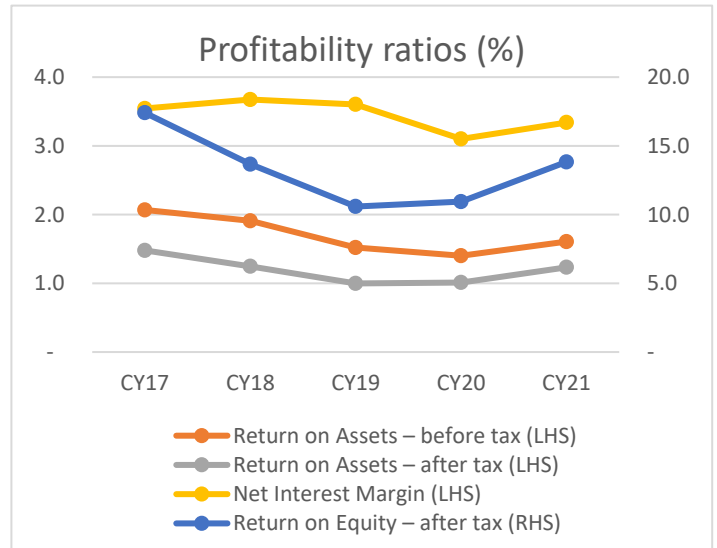
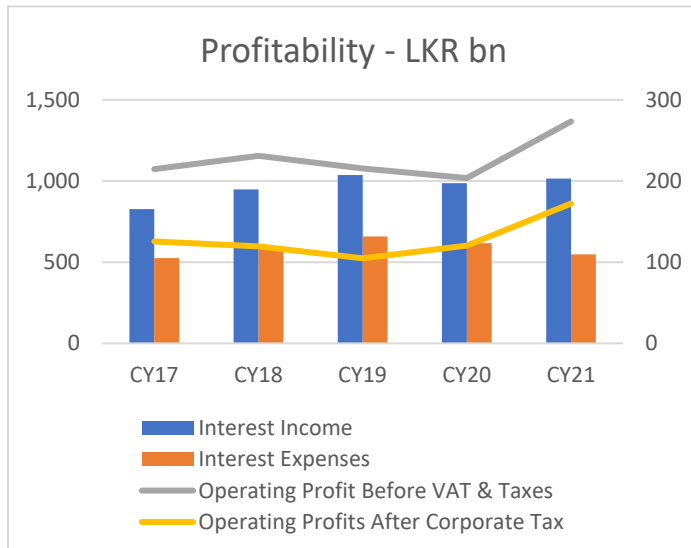
Growth in deposits by currency



	LKR bn	Total deposits				Growth in deposits CY21	Market share CY21	CASA ratio CY21	CASA ratio 1QCY22		
		Bank	CY19	CY20	CY21					1QCY22	
Private banks	State banks	Extra large banks	Bank of Ceylon	2,005.21	2,474.76	2,866.89	3,127.71	15.8%	27.5%	35.7%	33.9%
			People's Bank	1,491.39	1,835.10	2,071.53	2,201.19	12.9%	19.9%	40.9%	39.7%
			Commercial Bank	1,053.31	1,265.97	1,443.09	1,660.68	14.0%	13.8%	47.8%	48.4%
			Hatton National Bank	810.04	967.82	1,075.71	1,216.53	11.1%	10.3%	41.0%	40.4%
			<b>Total</b>	<b>5,359.94</b>	<b>6,543.64</b>	<b>7,457.23</b>	<b>8,251.91</b>	<b>14.0%</b>	<b>71.5%</b>	<b>40.2%</b>	<b>39.4%</b>
	Large banks	Sampath Bank	717.25	885.72	977.95	1,049.35	10.4%	9.4%	45.7%	46.0%	
		NDB	409.22	443.54	526.14	580.02	12.6%	5.3%	26.8%	28.0%	
		<b>Total</b>	<b>1,122.30</b>	<b>1,376.00</b>	<b>1,529.99</b>	<b>1,649.43</b>	<b>11.2%</b>	<b>14.7%</b>	<b>38.9%</b>	<b>39.5%</b>	
	Medium banks	Seylan Bank	400.73	440.30	488.65	515.64	11.0%	4.7%	35.4%	34.2%	
		DFCC Bank	247.79	310.03	319.86	348.55	3.2%	3.1%	30.8%	32.9%	
		Nations Trust Bank	226.88	240.58	267.99	294.75	11.4%	2.6%	39.9%	40.9%	
		<b>Total</b>	<b>875.40</b>	<b>990.91</b>	<b>1,076.51</b>	<b>1,158.93</b>	<b>8.6%</b>	<b>10.3%</b>	<b>35.2%</b>	<b>35.5%</b>	
	Small banks	Pan Asia	122.54	141.08	146.43	155.93	3.8%	1.4%	28.9%	28.2%	
		Union Bank	76.53	82.38	83.42	91.23	1.3%	0.8%	30.1%	30.4%	
		Amana Bank	71.61	83.55	96.16	105.98	15.1%	0.9%	45.7%	46.6%	
Cargills Bank		25.04	32.00	40.18	41.71	25.6%	0.4%	28.2%	25.3%		
<b>Total</b>		<b>295.73</b>	<b>339.02</b>	<b>366.19</b>	<b>394.85</b>	<b>8.0%</b>	<b>3.5%</b>	<b>33.5%</b>	<b>33.4%</b>		

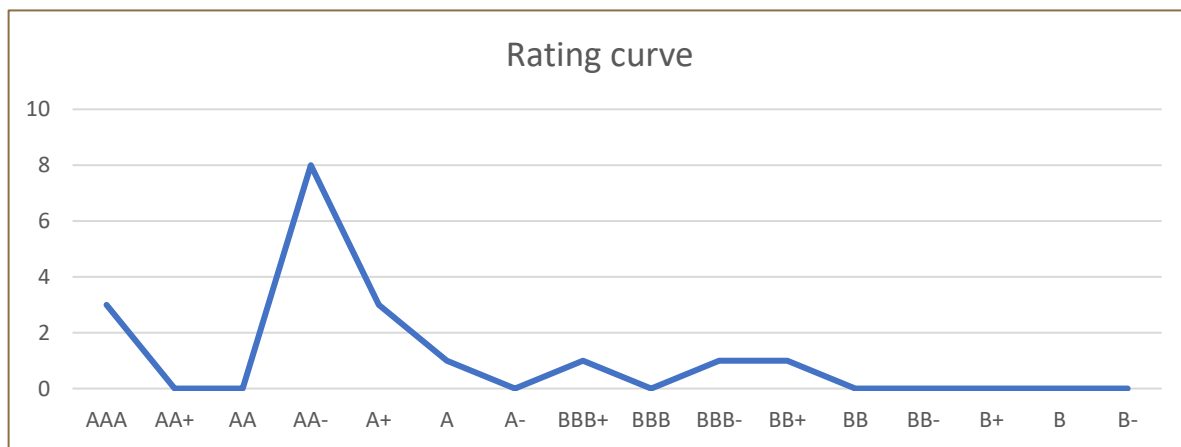
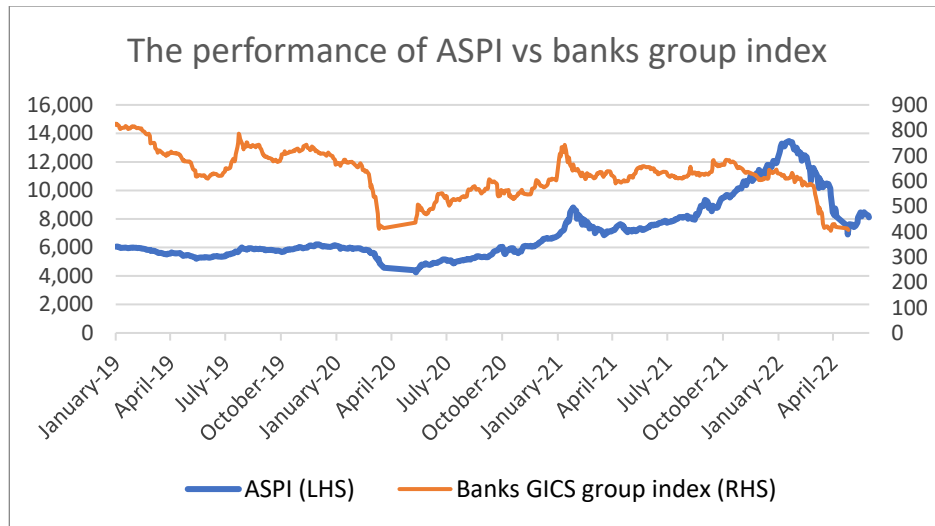


<b>Profitability</b>					
LKR bn	CY17	CY18	CY19	CY20	CY21
<b>Total Income</b>	<b>939</b>	<b>1,089</b>	<b>1,163</b>	<b>1,121</b>	<b>1,177</b>
Interest Income	826	948	1,036	986	1,015
Growth	29.6%	14.7%	9.3%	-4.9%	2.9%
Interest Expenses	526	596	658	617	548
Growth	40.6%	13.4%	10.5%	-6.3%	-11.1%
<b>Net Interest Income</b>	<b>301</b>	<b>352</b>	<b>378</b>	<b>370</b>	<b>467</b>
Growth	14.0%	17.1%	7.3%	-2.3%	26.3%
<b>Provision for Bad and Doubtful Debts and Loan Write-offs (net)</b>	<b>19</b>	<b>39</b>	<b>56</b>	<b>79</b>	<b>86</b>
<b>Operating Profit Before VAT &amp; Taxes</b>	<b>215</b>	<b>231</b>	<b>216</b>	<b>204</b>	<b>273</b>
Growth	20.6%	7.6%	-6.7%	-5.5%	34.3%
<b>Operating Profits After Tax</b>	<b>126</b>	<b>119</b>	<b>105</b>	<b>121</b>	<b>172</b>
Growth	19.7%	-4.8%	-12.3%	15.0%	42.9%



	Bank	PBT – LKR bn				PAT – LKR bn				ROE (%)		
		CY19	CY20	CY21	1QCY22	CY19	CY20	CY21	1QCY22	CY19	CY20	CY21
State banks	Bank of Ceylon	29.69	23.55	43.19	8.88	23.10	17.77	37.59	5.46	16.23	11.34	18.72
	People's Bank	19.67	21.23	30.39	8.09	12.93	14.17	23.72	5.51	13.61	13.90	17.43
	Commercial Bank	22.34	23.51	32.00	16.41	17.03	16.37	23.61	11.77	12.79	10.42	14.32
	Hatton National Bank	26.37	18.95	34.32	5.94	14.03	11.46	17.30	4.81	11.01	8.55	11.38
	<b>Total</b>	<b>100.08</b>	<b>87.24</b>	<b>139.90</b>	<b>39.31</b>	<b>67.08</b>	<b>59.78</b>	<b>102.22</b>	<b>27.57</b>			
Private banks	Large banks											
	Sampath Bank	15.50	11.17	16.83	6.45	11.15	8.03	12.46	4.71	10.62	7.46	10.49
	NDB	10.05	9.21	10.31	0.67	5.11	5.53	6.36	0.61	12.95	12.35	10.80
	<b>Total</b>	<b>25.55</b>	<b>20.38</b>	<b>27.14</b>	<b>7.12</b>	<b>16.26</b>	<b>13.56</b>	<b>18.82</b>	<b>5.32</b>			
	Medium banks											
	Seylan Bank	5.10	4.11	6.03	1.47	3.68	3.01	4.58	1.05	8.25	6.15	8.80
	DFCC Bank	3.31	3.94	4.86	0.14	2.21	2.75	3.55	0.37	4.66	5.56	7.24
	Nations Trust Bank	8.11	7.23	10.08	1.94	3.45	3.80	6.41	1.50	1.06	11.23	16.62
	<b>Total</b>	<b>16.52</b>	<b>15.28</b>	<b>20.96</b>	<b>3.55</b>	<b>9.35</b>	<b>9.55</b>	<b>14.54</b>	<b>2.93</b>			
	Small banks											
Pan Asia	2.31	2.84	4.03	0.31	1.75	2.05	3.08	0.22	13.13	13.30	16.59	
Union Bank	1.19	0.94	0.98	0.32	0.71	0.58	0.76	0.20	4.06	3.19	4.27	
Amana Bank	0.84	0.76	1.08	0.39	0.46	0.46	0.82	0.25	3.89	3.72	6.05	
Cargills Bank	(0.89)	(0.89)	(0.26)	(0.07)	(0.67)	(0.74)	(0.28)	(0.06)	(6.39)	(7.64)	(2.97)	
<b>Total</b>	<b>3.46</b>	<b>3.65</b>	<b>5.83</b>	<b>0.95</b>	<b>2.26</b>	<b>2.34</b>	<b>4.39</b>	<b>0.61</b>				

<b>Financial Ratios %</b>	<b>CY17</b>	<b>CY18</b>	<b>CY19</b>	<b>CY20</b>	<b>CY21</b>
<b>Capital Adequacy</b>					
Core Capital (Tier 1 Capital) Adequacy Ratio	13.4	13.0	13.0	13.1	13.2
Total Capital Adequacy Ratio	16.4	16.2	16.6	16.7	16.7
Net Non-performing Advances to Capital Ratio	7.5	13.2	18.3	15.5	9.9
<b>Assets Quality</b>					
Gross Non-performing Advances Ratio	2.3	3.3	4.6	4.7	4.3
Net Non-performing Advances Ratio	1.0	1.8	2.6	2.2	1.4
Specific Provisions to Net Non-performing Loans Ratio	55.4	45.9	43.8	54.6	67.9
<b>Profitability</b>					
Return on Assets (ROA) Before Tax	2.1	1.9	1.5	1.4	1.6
Return on Assets (ROA) After Tax	1.5	1.2	1.0	1.0	1.2
Return on Equity (ROE)	17.4	13.7	10.6	10.9	13.8
Efficiency Ratio	45.2	48.5	51.8	51.7	48.2
Staff Cost to Operating Expenses	45.4	42.7	43.1	45.2	43.6
Interest Margin	3.5	3.7	3.6	3.1	3.3
<b>Liquidity Indicators</b>					
Liquid Assets Ratio	27.2	25.0	27.8	33.8	30.9
Credit to Deposit Ratio	90.1	94.2	93.4	87.5	87.6

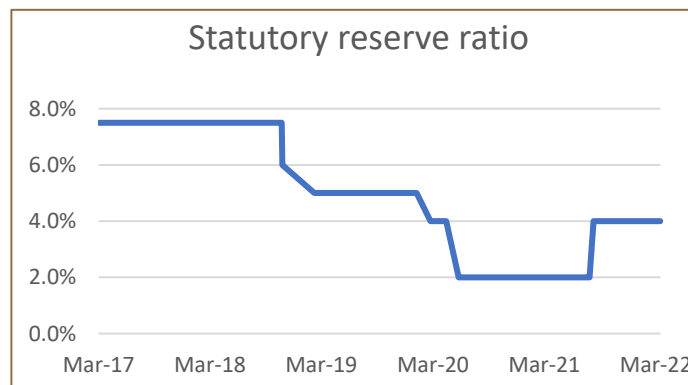


	Bank	Credit Rating	Outlook	Agency
<b>State banks</b>	Bank of Ceylon	AAA/AA-	RW - Negative/RW - Negative	ICRA/Fitch
	People's Bank	AAA/AA-	RW - Negative/RW - Negative	ICRA/Fitch
	<b>Private banks</b>	Commercial Bank	AA-	RWN - Negative
	Hatton National Bank	AA-	RWN - Negative	Fitch
	Sampath Bank	AA-	RWN - Negative	Fitch
	NDB	A+	RWN - Negative	Fitch
	Seylan Bank	A	RWN - Negative	Fitch
	DFCC Bank	AA-	RWN - Negative	ICRA
	Nations Trust Bank	A	RWN - Negative	Fitch
	Pan Asia	BBB-	RWN - Negative	Fitch
	Union Bank	BBB/BBB-	RW - Negative/RW - Negative	ICRA/Fitch
	Amana Bank	BB+	RWN - Negative	Fitch
	Cargills Bank	AA-	Stable	Fitch
<b>Foreign banks</b>	MCB Bank	A+	Stable	ICRA
	Habib Bank	A+	Stable	ICRA
	Citi Bank	AAA	Stable	Fitch
	Standard Chartered Bank	AAA	Stable	Fitch

## Regulatory framework

The Banking Sector is regulated by the CBSL and governed under the act of parliament The Banking Act No. 30 of 1988 as amended.

Regulatory requirements of the banking sector		
<u>Minimum Capital Requirement</u>	LKR bn	
Tier 1 Capital - LCBs	20.0	
Tier 1 Capital - LSBs	7.5	
The deadline has been extended to 31 <sup>st</sup> December 2023		
<u>Regulatory capital ratios (CAR)**</u>	%	%
		<u>DSIBs</u>
Common equity Tier 1 capital	7.0	7.0+HLA
Tier 1 capital	8.5	8.5+HLA
Total capital ratio	12.5	12.5+HLA
Leverage ratio	3.0	
<u>Regulatory liquidity ratios</u>	%	
Statutory liquid assets ratio	20.0	
Liquidity coverage ratio - LKR	90.0	
Liquidity coverage ratio - all currencies	90.0	
Net stable funding ratio	90.0	
Statutory reserves ratio	4.00	
DSIB – Domestically systemically important banks		



\*\*All banks in Sri Lanka need to maintain a minimum Common Equity Tier 1 ratio of 7.0%, Tier 1 ratio of 8.5%, and a total capital ratio of 12.5%.

In addition, the licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) shall maintain additional Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1.

Minimum Capital Surcharge on D-SIBs		
Bucket	Licensed Bank	HLA Requirement (CET1 as a % of risk-weighted assets) <sup>[1]</sup>
3	-	2.0
2	Bank of Ceylon Commercial Bank of Ceylon PLC	1.5
1	People's Bank Hatton National Bank PLC	1.0

[1] - [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/laws/cdg/Banking\\_Act\\_Directions\\_No\\_12\\_of\\_2019.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Directions_No_12_of_2019.pdf)

However, subsequent to the extraordinary regulatory measures approved by the Monetary Board to assist affected parties due to the COVID-19 outbreak, Domestic Systemically Important Banks (D-SIBs) were allowed to draw down Capital Conservation Buffers by 100 bps, effective until 31<sup>st</sup> December 2021.

**Covid-19 related relief measures**

To alleviate the pressure due to the repercussions of Covid-19 and ensure that banks could continue to support customers, CBSL relaxed capital and liquidity requirements, extended reporting deadlines and reprioritised supervisory programs, in some cases cancelling or postponing non-critical activities.

Relief measures provided by the CBSL via the Banking system included, granting of debt moratoria and working capital loans, interest rate caps etc. Relief measures CBSL provided to the Banking system included ability to draw down on the capital conservation buffer, relaxations on classifying NPLs, extension of timelines to meet minimum capital requirement, extension of deadlines to submit statutory returns and financial statements etc.

**Relief measures related to the current economic crisis**

- Licensed banks may draw down on their Capital Conservation Buffer (CCB) up to 2.5% as follows:

CCB maintenance ratio	Applicable minimum earnings retention ratio
2.50%	0%
>1.875% - 2.5%	40%
>1.25% - 1.875%	60%
>0.625% - 1.25%	80%
0% - 0.625%	100%

- Licensed banks may move to The Standardised Approach (TSA) or The Alternative Standardised Approach (ASA) to compute risk weighted assets for Operational Risk until 31-12-2023.
- Licensed banks may stagger the overnight mark to market losses on Government securities denominated in LKR and held at fair value arising from the recent changes in the policy rates, as given below:

Cumulative % absorption		
By Q2 CY22	By Q2 CY23	By Q2 CY24
33.33%	66.66%	100%

- Licensed banks may include 100% of accumulated OCI gains which are reflected in the statement of changes in equity as per the latest available annual or interim audited financial statements.
- The deadline for the enhancement of minimum capital requirement has been extended up to 31-December-2023.