



Leasing & Finance Companies (LFCs)



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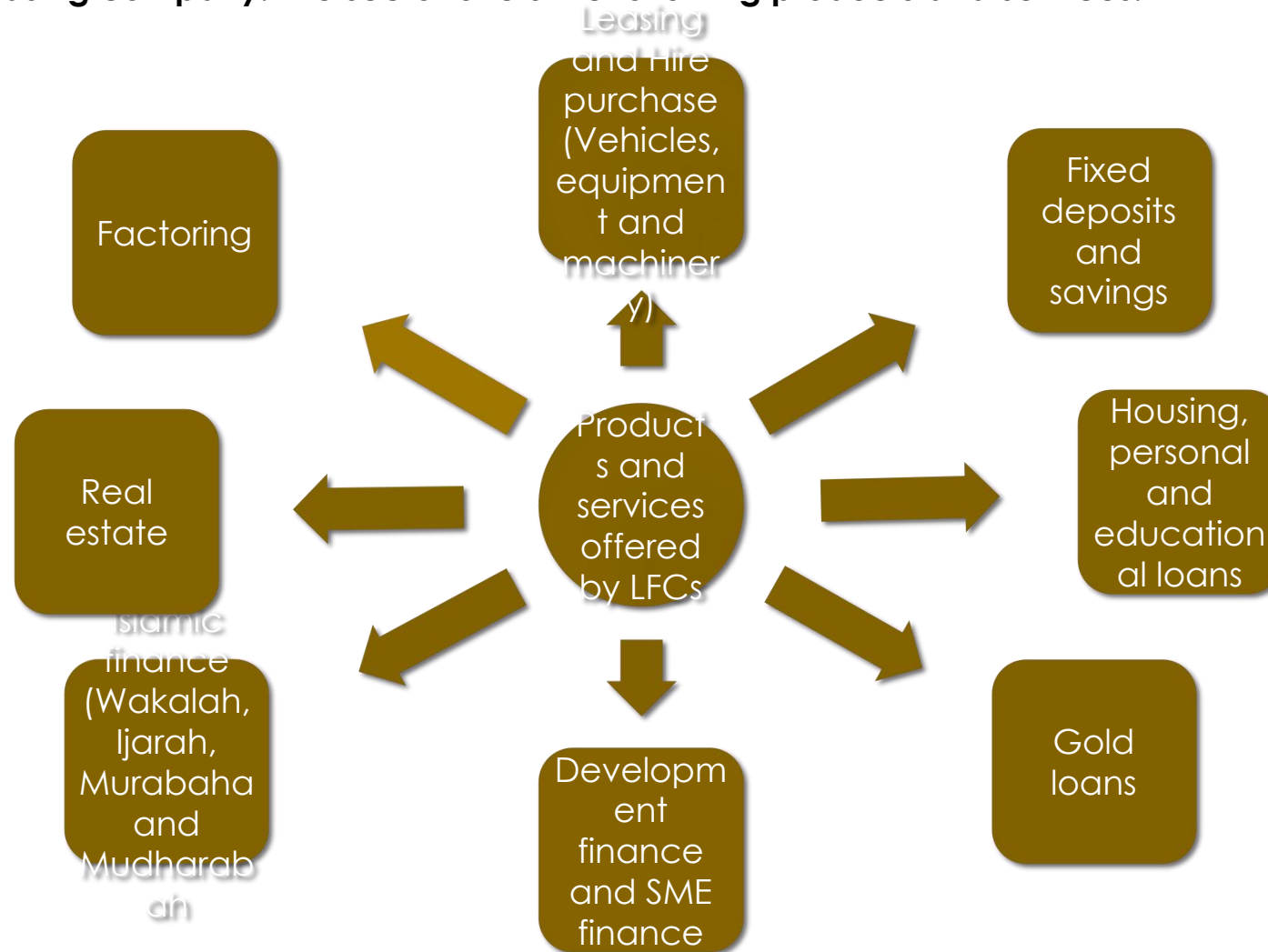
Snapshot of the Sri Lankan Economy

Particulars	CY20	CY21	CY22	CY23	CY24	1Q CY25	2Q CY25
Real Sector							
GDP (USD bn) [current market price]	84.4	88.6	76.8	83.8	99.0	87.0	
GDP (LKR bn) [current market price]	15,646	17,612	24,063	27,420	29,899		
GDP growth rate (YoY)	-4.60%	4.20%	-7.30%	-2.30%	5.10%	4.80%	4.90%
Inflation (CCPI)	4.60%	5.90%	57.20%	4.00%	-1.70%	-2.60%	-0.60%
External Sector							
Exchange rate (USD/LKR) – Period end	186.41	200.43	363.11	323.92	292.58	296.35	299.97
Exports - USD bn	10.05	12.5	13.11	11.91	12.77	3.35	6.49
Imports - USD bn	16.06	20.64	18.29	16.81	18.84	4.89	9.76
Workers' remittances- USD bn	7.1	5.49	3.79	5.97	6.58	1.81	3.74
International Investment Position (USD mn)							
Total Assets / Liabilities (Net)	(44,384)	(49,831)	(51,713)	(50,079)	(51,998)	(51,469)	
Current Account Balance - USD bn	-1.10	-3.34	-1.45	1.44	1.21	0.94	
Foreign exchange reserve- USD bn	5.66	3.14	1.9	4.39	6.12	6.53	6.08
Monetary Sector							
SDFR	4.50%	5.00%	14.50%	9.00%	7.75%*	7.75%*	7.75%*
SLFR	5.50%	6.00%	15.50%	10.00%			
91-day-T-bill rate	4.67%	8.16%	32.64%	14.51%	8.62%	7.50%	7.55%

* Overnight policy rate

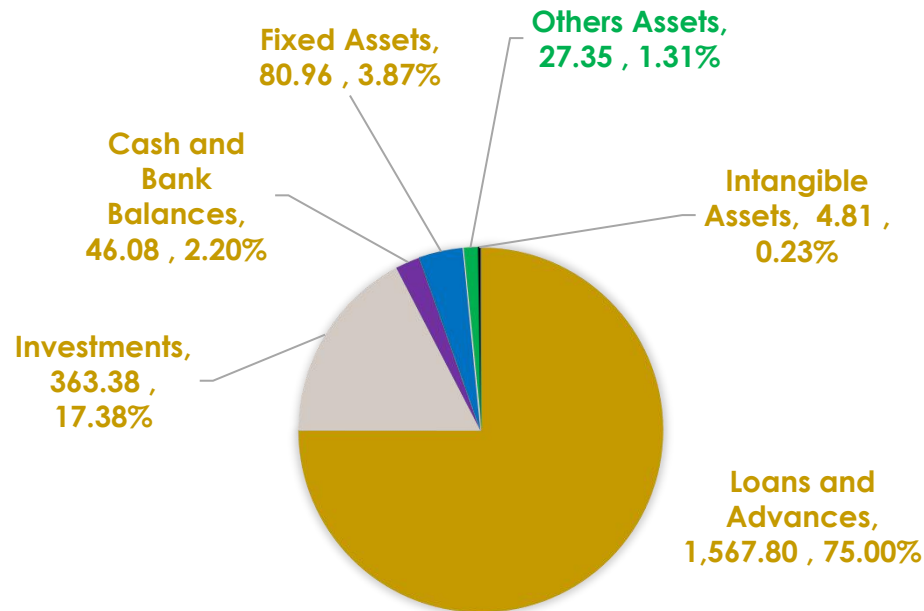
Leasing & Finance Companies (LFCs)

- Leasing and finance companies in Sri Lanka comprise ~33 licensed finance companies (of which ~27 are listed on the CSE) and ~1 specialized leasing company. The sector offers the following products and services.

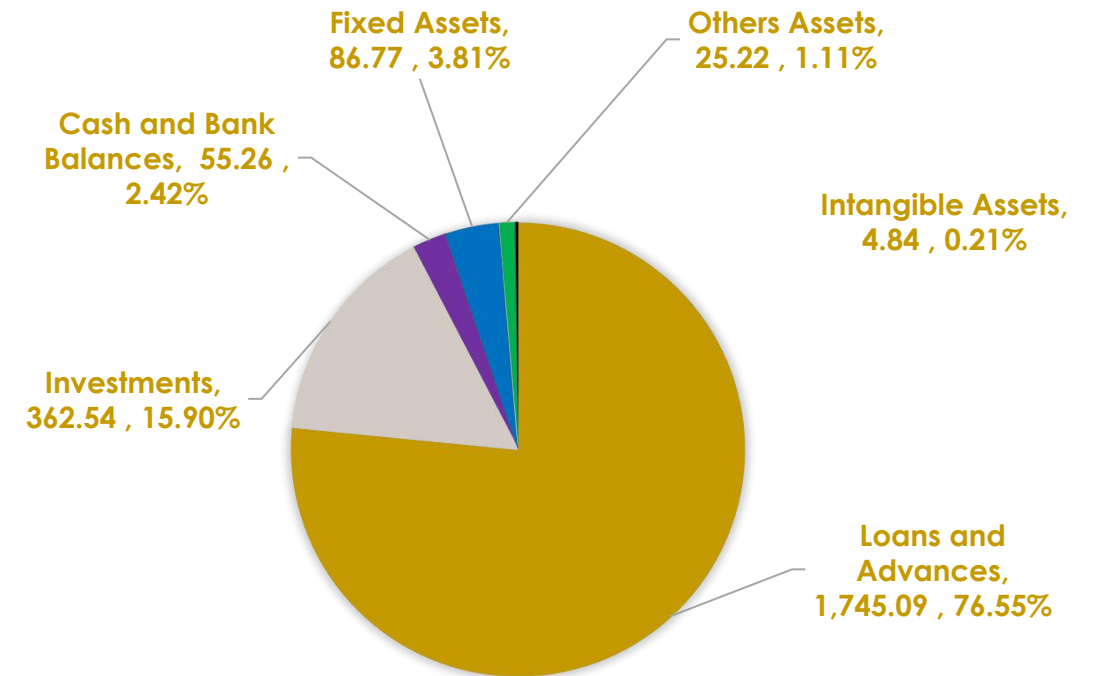


Assets

DISTRIBUTION OF TOTAL ASSETS IN THE LFC SECTOR
FY25 (LKR BN)



DISTRIBUTION OF TOTAL ASSETS IN THE LFC SECTOR
1QFY26 (LKR BN)



Total assets (FY25)

LKR~ 2,090bn

CAGR (FY20-FY25)

~7.8%

Total assets (1QFY26)

LKR~ 2,280bn

Assets

- Total assets of the LFC sector stood at LKR~2,090bn as of FY25, with loans and advances accounting for LKR~1,568bn (~75%). Total assets grew by 18.7%, while loans and advances increased by 29.1% in FY25 compared to FY24.
- The sector's total assets have grown at a CAGR of ~7.8% from FY20 to FY25.
- At the end of FY25, the industry was skewed towards larger companies, with the 12 largest entities accounting for around 80% (LKR~1.7tn) of the sector's total assets.
- By 1QFY26, the LFC sector achieved significant asset growth, primarily driven by an increase in loans and advances, which amounted to LKR ~1,745.09bn, reflecting a growth of ~11.3% from FY25 to 1QFY26. Additionally, cash and cash equivalents increased by ~19.9% over the same period.
- Loans and advances remain the largest contributor, accounting for ~76.6% of total assets, while investments represent the second-largest share at ~15.9% as of 1QFY26.
- Investments remained largely stable at LKR~363bn in both FY25 and 1QFY26.
- Meanwhile, cash and bank balances, as well as fixed assets, contributed less than ~7%, whereas intangible assets and other assets accounted for less than ~2% of the total assets, making their contribution negligible.

Loan Portfolio | Category Wise

Periods	FY24				FY25			
Categories	Amount (LKR bn)	% Share	Growth (%)	% Share of Top 2 LRA Rated LFCs	Amount (LKR bn)	% Share	Growth (%)	% Share of Top 2 LRA Rated LFCs
Leasing	534.5	44.0%	1.5%	14.4%	686.4	43.8%	28.4%	12.5%
Loans	400.9	33.0%	-14.2%	43.1%	514.8	32.8%	28.4%	41.7%
Pawning & Gold Loans	230.8	19.0%	0.2%	19.2%	301	19.2%	30.4%	19.9%
Hire Purchase	36.4	3.0%	14.4%	0.3%	46.8	3.0%	28.6%	0.2%
Real Estate	12.1	1.0%	-44.2%	15.6%	18.8	1.2%	55.4%	11.4%
Others								
Total	1,214.7			27.2%	1,567.8			25.6%

Note:- Others' includes margin trading, factoring receivables, and credit cards (Rs. 6 bn) for LOLC Finance, and auto drafts (Rs. 23 bn) and other services for Vallibel Finance in FY25.

The breakdown for 1QFY26 is not yet available, and the details of loans and advances within leasing and loans have not been disclosed. Total loans and advances at 1QFY26 - LKR ~1,745.09bn and LKR ~1,277.60bn for FY23.

Loan Portfolio

- When reviewing the latest loan portfolio, it is evident that loans and advances are primarily directed towards vehicle loans and gold loans, largely for domestic consumption purposes. Leasing remains the core business activity, mainly vehicle leasing, and is not focused on external revenue generation or capital formation.
- While this trend continues, a significant risk emerges from the nature of the gold loan portfolio, which amounted to LKR 301 billion as of FY2025. The sector's gold portfolio grew by ~30.4% from FY2023/24 to FY2024/25, driven primarily by price increases. Compared to FY2023/24, gold prices appreciated by ~34.4% over the same period.
- Since most gold loans are used for working capital needs, the sector is exposed to market risk stemming from gold price volatility. Consequently, the sector remains exposed to commodity price risk, particularly fluctuations in gold prices, which could impact overall portfolio performance..
- A high proportion of deposits and borrowings mature within 12 months, presenting potential liquidity and rollover risk.
- Many long-term assets are funded by short-term deposits. According to analysis, ~50% of long-term assets rely on short-term deposits, which creates an inherent interest rate risk that needs to be prudently managed by the sector going forward.

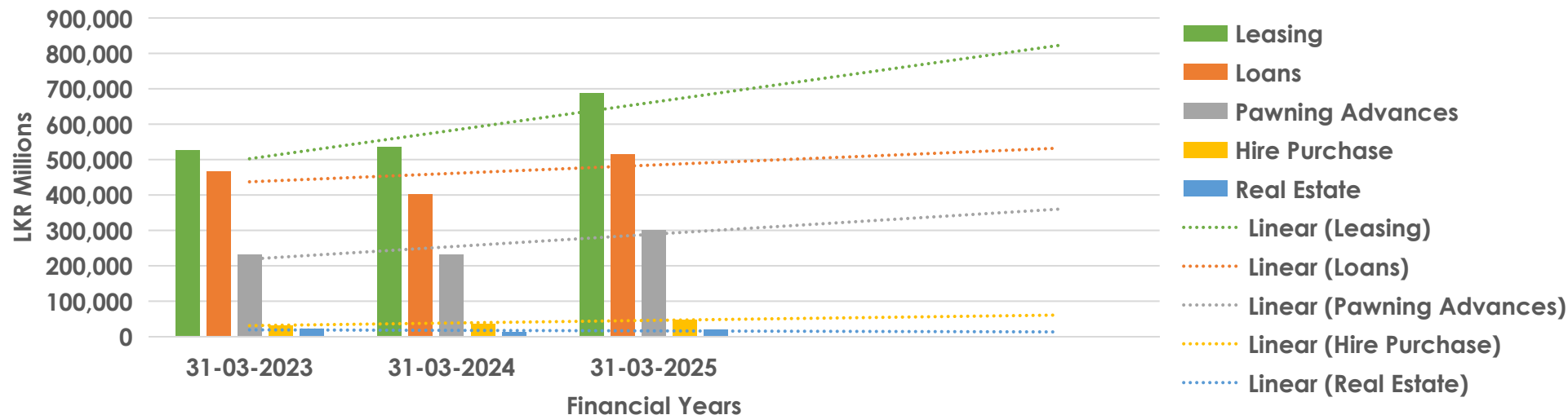
Loan Product	% as of 1QFY26
Leasing, Hire Purchase and Vehicle Loans	63.2%
Pawning and Gold Loans	19.4%
Working Capital and Business Loans	6.7%
Personal Loans	4.7%
Loans against Cash/Deposits	1.6%
Housing Loans	1.2%
Other	3.2%

Loan Portfolio | Forecast

Loans and Advances - LKR MN	FY23	FY24	FY25	FY26*	FY27*
Leasing	526,335	534,468	686,383	742,443	822,467
Loans	467,270	400,851	514,787	508,487	532,245
Pawning & Gold Loans	230,443	230,793	301,018	324,659	359,946
Hire Purchase	31,842	36,441	46,799	53,317	60,796
Real Estate	21,759	12,147	18,814	14,628	13,155
	1,277,649	1,214,700	1,567,800	1,643,534	1,788,610

*with 95% confidence based on historical trend

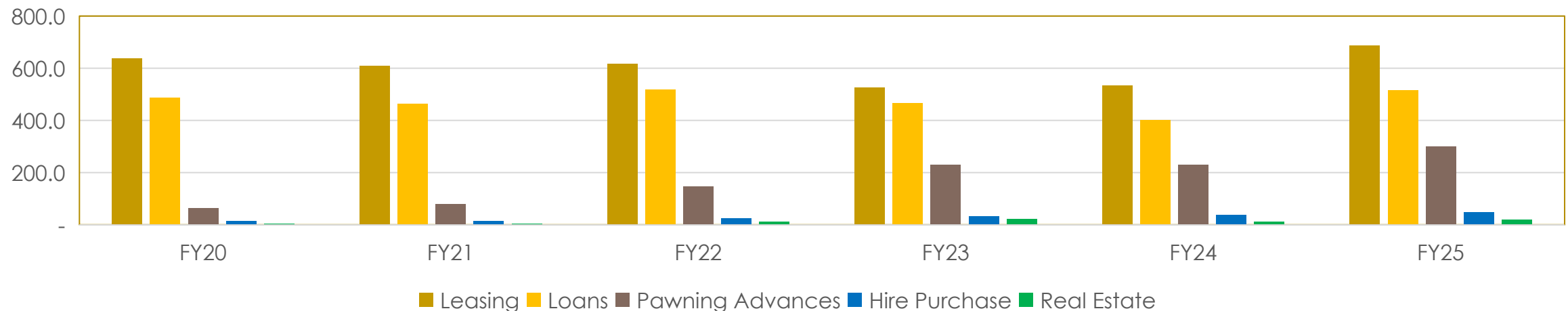
Loan Portfolio - Trendline



Credit

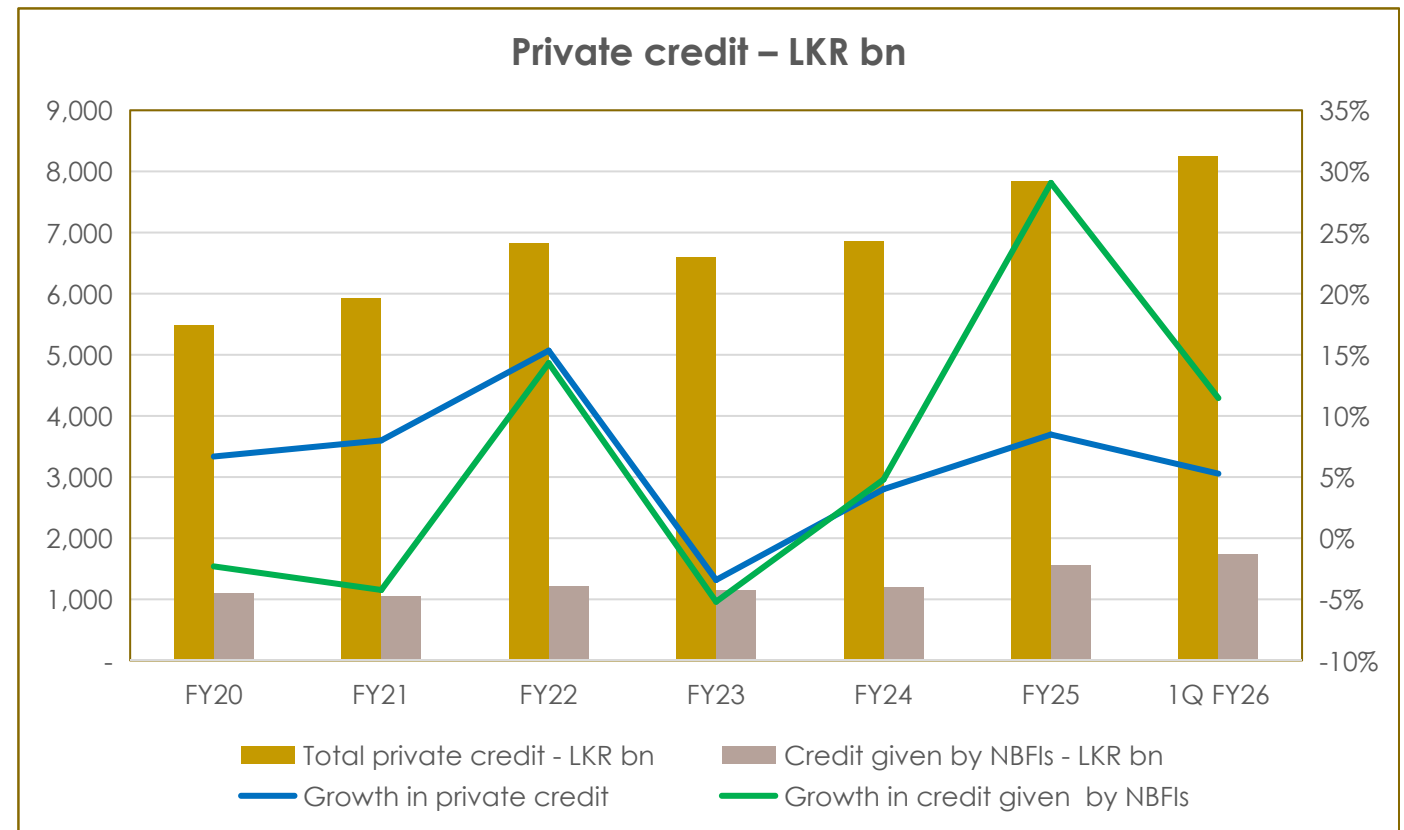
- Leasing continues to dominate the loans and advances portfolio of LFCs in FY25, accounting for approximately ~43.8%. Leasing has recorded a positive CAGR of ~1.5% from FY20 to FY25.
- The loans segment makes up ~32.8% of total loans and advances. Loans have recorded a positive CAGR of ~1.1% from FY20 to FY25.
- Pawning and gold loans have increased significantly over the past few years, reaching LKR ~301bn in FY25 compared to that of LKR ~63bn in FY20. (CAGR ~ 36.7% from FY20 to FY25)
- Loans against real estate and hire purchase remain a very small portion (~4% in FY25) of the LFC sector's loans and advances portfolio. However, both segments have recorded growth from FY20 to FY25.

Breakdown of loans and advances held by LFCs



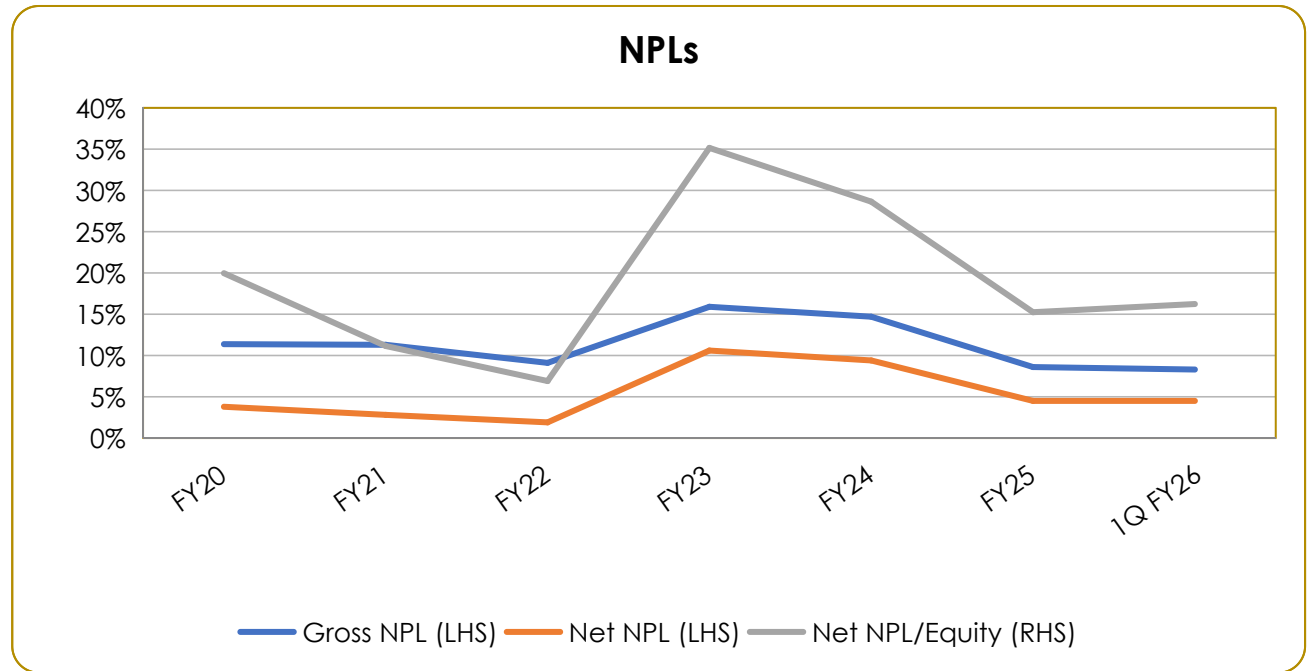
LFC's share of total private sector credit

- Private sector credit of financial industry amounted to LKR~7.8tn in FY25 compared to LKR~6.9tn in FY24. This has been growing at a CAGR of ~7.4% from FY20 to FY25.
- By 1QFY26, total private sector credit stood at LKR~8,255bn, of which LKR~1,745bn (~21.14%) was held by LFCs.
- It was observed that the LFC sector's share of private sector credit gradually declined until the end of FY23 with larger portions shifting to the banking sector. The share bounced back in FY25, recording a Y-o-Y growth of ~28.97%.
- The credit extended by LFCs to the sector, as a percentage of total private sector credit, has shown a considerable recovery by the end of 1QFY26, increasing to ~21.00% from ~17.70% in FY24. It was reported as 19.98% in FY25.



Asset Quality

- The sector's asset quality showed significant improvement, primarily due to a decrease in NPLs, which lowered the overall credit risk perception during the reviewed period.
- Accordingly, the gross and net NPL ratios improved to ~8.6% and ~4.5%, respectively, at the end of FY25, compared to ~14.7% and ~9.4% at the end of FY24. In 1QFY26, the gross NPL ratio was reported at 8.3%, while the net NPLs stood at 4.5%.
- The provision coverage ratio (PCR) for NPLs also significantly improved during the period, primarily due to a decline in NPLs. The PCR was recorded at ~47.4% in FY25 in comparison to ~35.7% in FY24. The PCR for 1QFY26 was reported as 46.1%.
- Loans and advances in the sector gained momentum during FY25 and 1QFY26, driven by improved macroeconomic conditions.
- Loans and advances grew to LKR~1.57tn in FY25 from LKR~1.21tn in FY24, reflecting a growth of ~29.1%. Loans and advances in 1QFY26 stood at LKR~1.75tn.
- The loans and advances-to-deposit ratio of the sector stood at ~139.9% in FY25, as compared to ~123.1% in FY24. The ratio was recorded at ~149.7% in 1QFY26.
- Overall, all asset quality indicators showed considerable improvement during FY25 and 1QFY26.

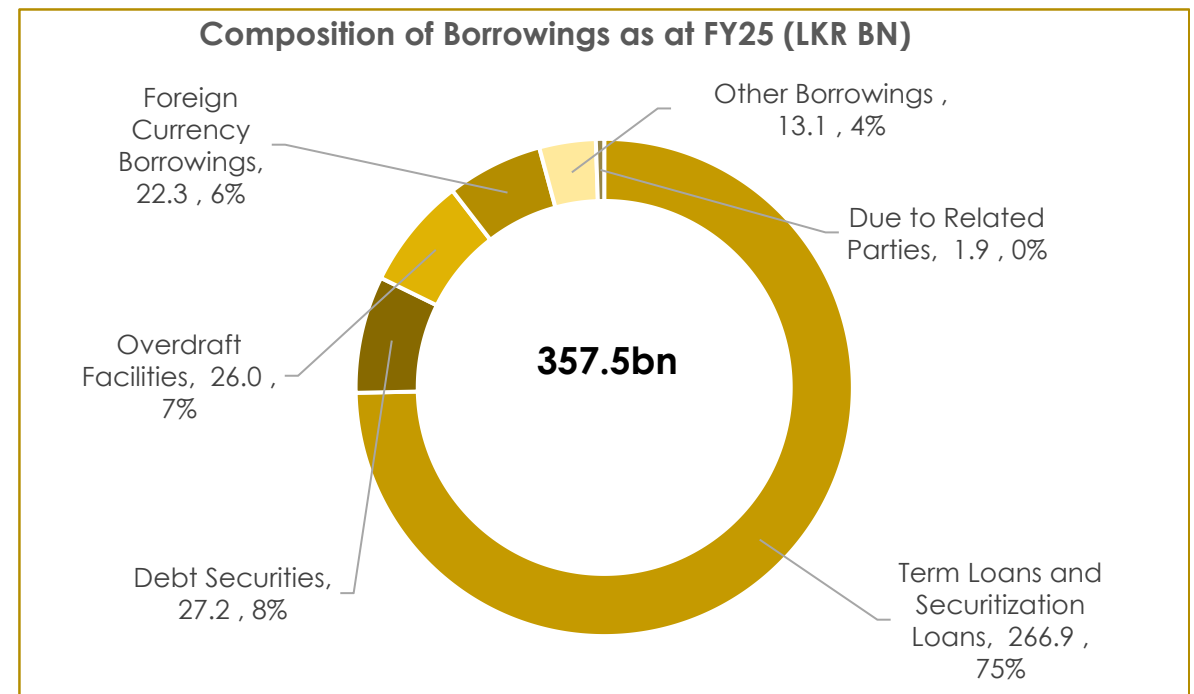
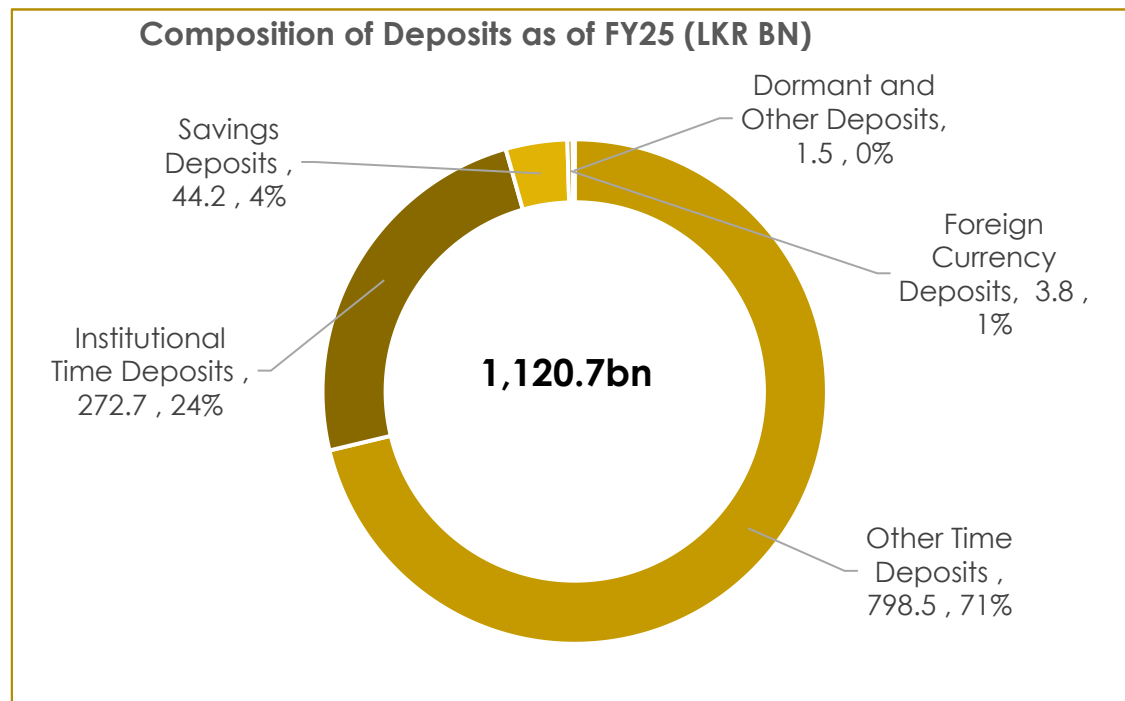


Liabilities

Liabilities – LKR Bn	FY25	1QFY26
Deposits/ Due to Customers	1,120.67	1,165.91
Due to Financial Institutions	310.76	410.56
Other Liabilities	66.64	78.65
Debt Securities and Other Borrowings from Non-Financial Institutions	44.80	52.48
Current Tax Liabilities	20.21	22.45
Lease Liabilities	16.53	15.76
Defined Benefit Obligation	7.52	8.59
Deferred Tax Liabilities	7.28	8.26
Due to Related Parties	1.93	-
Securities Sold under Repurchase Agreements	-	7.06
	1,596.35	1,762.65

Liabilities

- The total liabilities of the sector increased by ~20.0% YoY at the end of FY25, primarily due to growth in deposits. By the end of FY25, deposits grew by ~13.5% YoY, while borrowings increased by ~43.8%.
- In 1QFY26, total deposits stood at LKR~1,165.9bn, while the total borrowings amounted to LKR~472.1bn.
- In the sector's funding mix, deposits and borrowings accounted for ~53.6% and ~17.1% of total assets, respectively, as of FY25. The composition of deposits and borrowings can be represented as follows:



Capital

- The total capital base of the industry by FY25 stood at LKR~372.20bn, of which LKR~356.28bn (~95.7%) was Tier I (core) capital. In 1QFY26, the total capital base stood at LKR~433.01bn.
- Capital adequacy ratios are monitored and regulated by the CBSL. Depending on the size of the financial institution, it should maintain ~8.5% to ~10% of core capital to risk-weighted assets (RWA) and ~12.5% to ~14% of total capital to RWA (post-July 2022).
- From FY20 to FY25, the total regulatory capital base grew at a CAGR of ~16.8%. However, the Tier II - supplementary capital declined at a CAGR of -0.8% during the same period. Both core and total regulatory capital increased during this period (FY20 to FY25). The sector's CAR for FY25 and 1QFY26 stood at ~20.9% and ~22.0%, respectively.
- For LFCs that do not meet the minimum capital requirements, the Central Bank continued to encourage the consolidation of companies to make the sector more resilient.

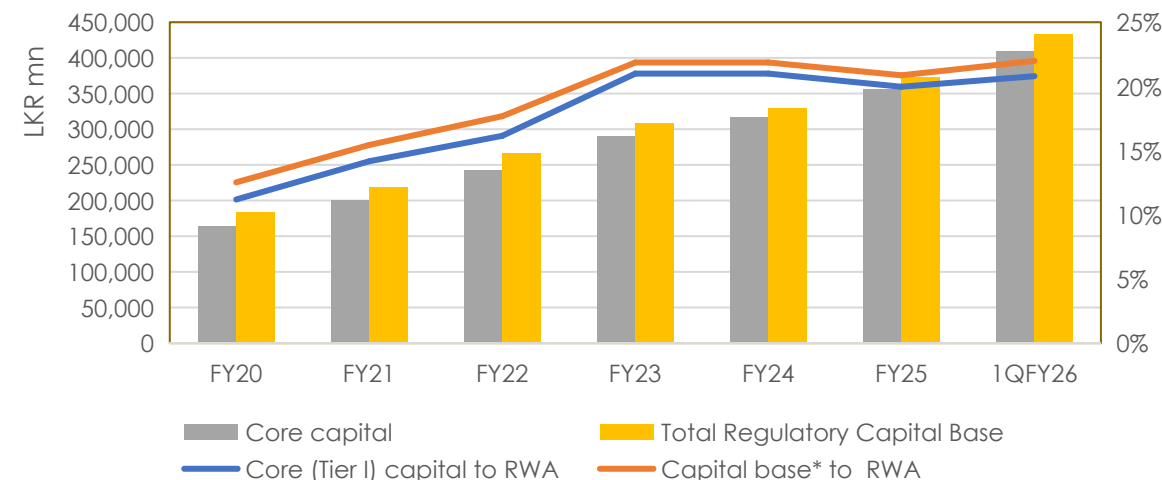
Total Capital (FY25)

LKR~372.20bn

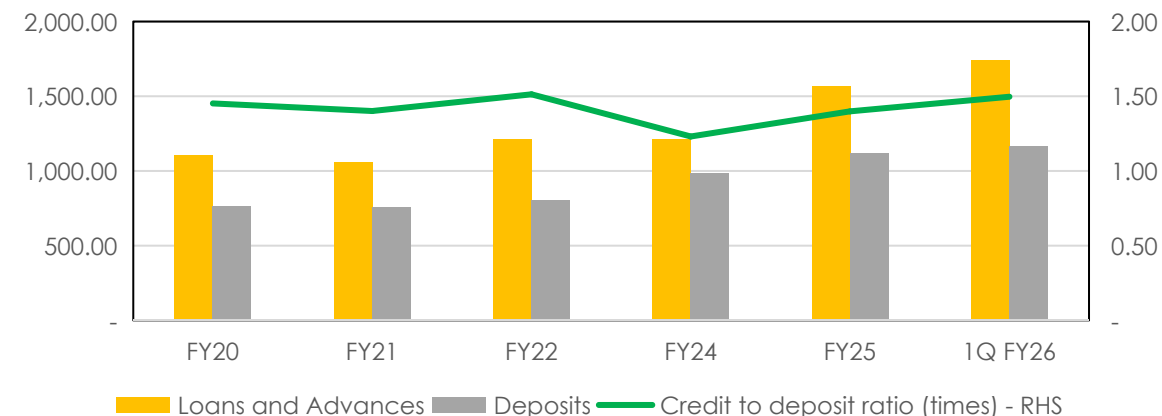
CAGR (FY20 - FY25)

~15.2%

Capital and Capital adequacy ratios

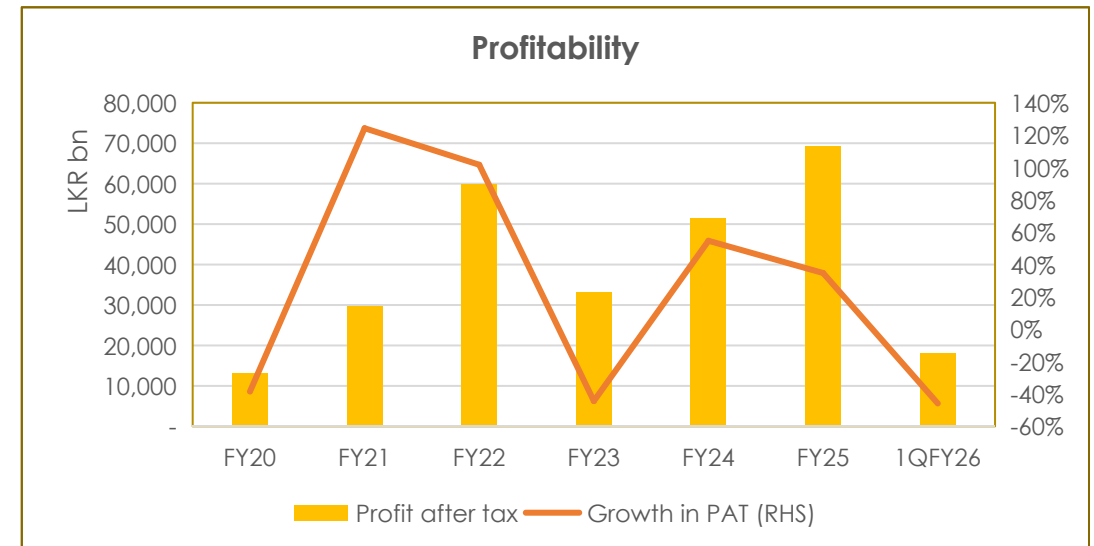
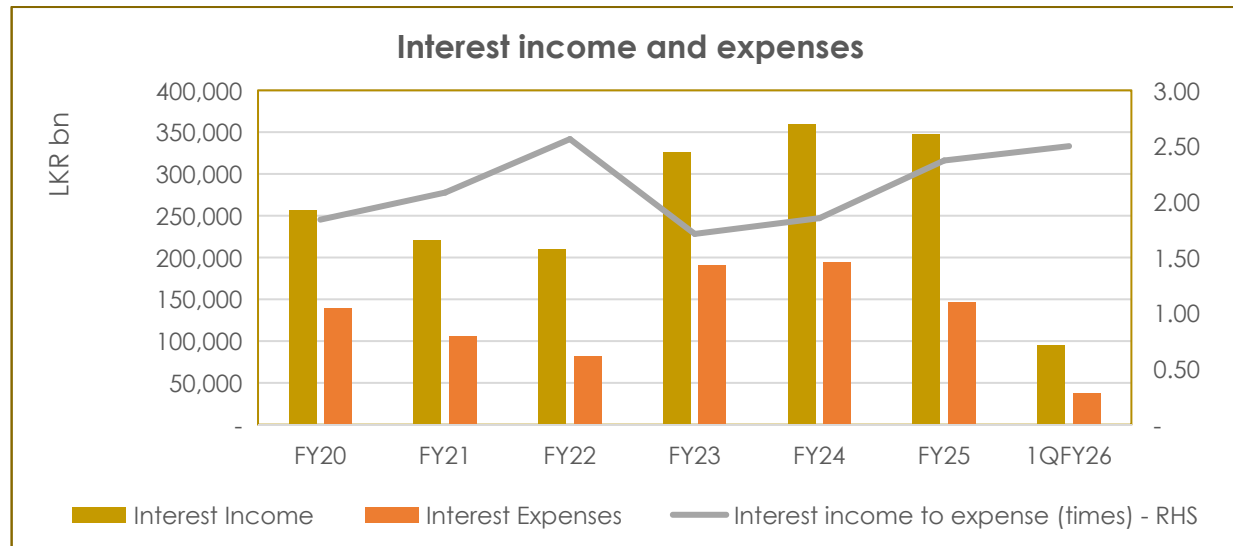


Credit to deposit ratio of LFCs



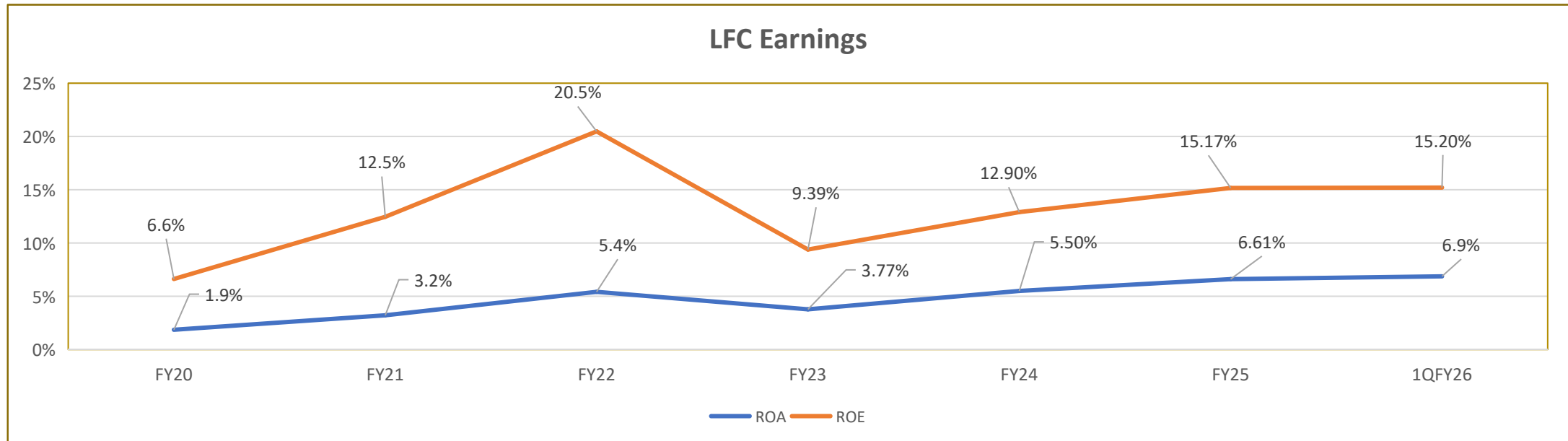
Profitability

- Profitability in the LFC sector saw significant growth in FY25, following a ~44.4% decline in FY23. In FY25, profit after tax (PAT) increased by ~34.8% compared to FY24, reaching LKR ~69.4 billion, up from LKR ~51.5 billion.
- The increase in profitability in FY25 is primarily due to an increase in net interest income (by ~21.5%) and a decrease in loan loss provisions. Even though the total income decreased by ~3.3%, total expenses decreased by ~14.8% during the year with the primary contributor being loan loss provisions (~170.1% decrease).
- Interest expense reported a considerable decrease at the end of FY25 by ~-24.4%, resulting in the net interest margin (NIM) rising to ~10.7% in FY25, compared to ~10.0% in FY24. NII of the LFC sector increased to ~LKR 201.0bn at the end of FY25, compared to ~LKR 165.5bn reported at the end of FY24.
- The LFC sector recorded a PAT of LKR~18.0bn during 1QFY26, compared to LKR~11.3bn reported in the corresponding period of 1QFY25.



Earnings

- Key profitability indicators of the NBFIs sector improved in FY25 compared to FY24, highlighting the sector's high earning potential.
- ROA and ROE of the sector increased to ~6.6% and ~15.2%, respectively, at the end of FY25, up from ~5.2% and ~12.9%, respectively, at the end of FY24.
- In Q1 FY26, the ROA was 6.9% and the ROE was 15.2%.



LRA Forecast: Navigating the Road Ahead

LFC Sector KPIs/ Statistical indicator	FY23	FY24	FY25	FY26*	FY27*
Assets – LKR MN	1,630,309	1,760,729	2,089,275	2,285,738	2,515,221
Net Interest Income - LKR MN	135,575.4	165,457.8	201,041.6	232,824	265,558
Profit/(Loss) Before Income Tax - LKR MN	45,801.0	71,281.7	95,898.2	121,091	146,140
Profit/(Loss) for the Year - LKR MN	33,282.5	51,486.0	69,388.6	87,492	105,545
Return on Assets (ROA) (Annualized)	3.8%	5.5%	6.6%	8.1%	9.6%
Return on Equity (ROE) (Annualized)	9.4%	12.9%	15.2%	18.3%	21.1%
Gross Non Performing Advances (Stage 03 Loans) to Total Advances	15.9%	14.7%	8.6%	5.7%	5.7%
Total Capital to Risk Weighted Assets (Total Capital Ratio)	22.0%	21.9%	20.9%	20.4%	19.9%

*with 95% confidence based on historical trend

LRA Forecast: Loan to Deposit Ratio

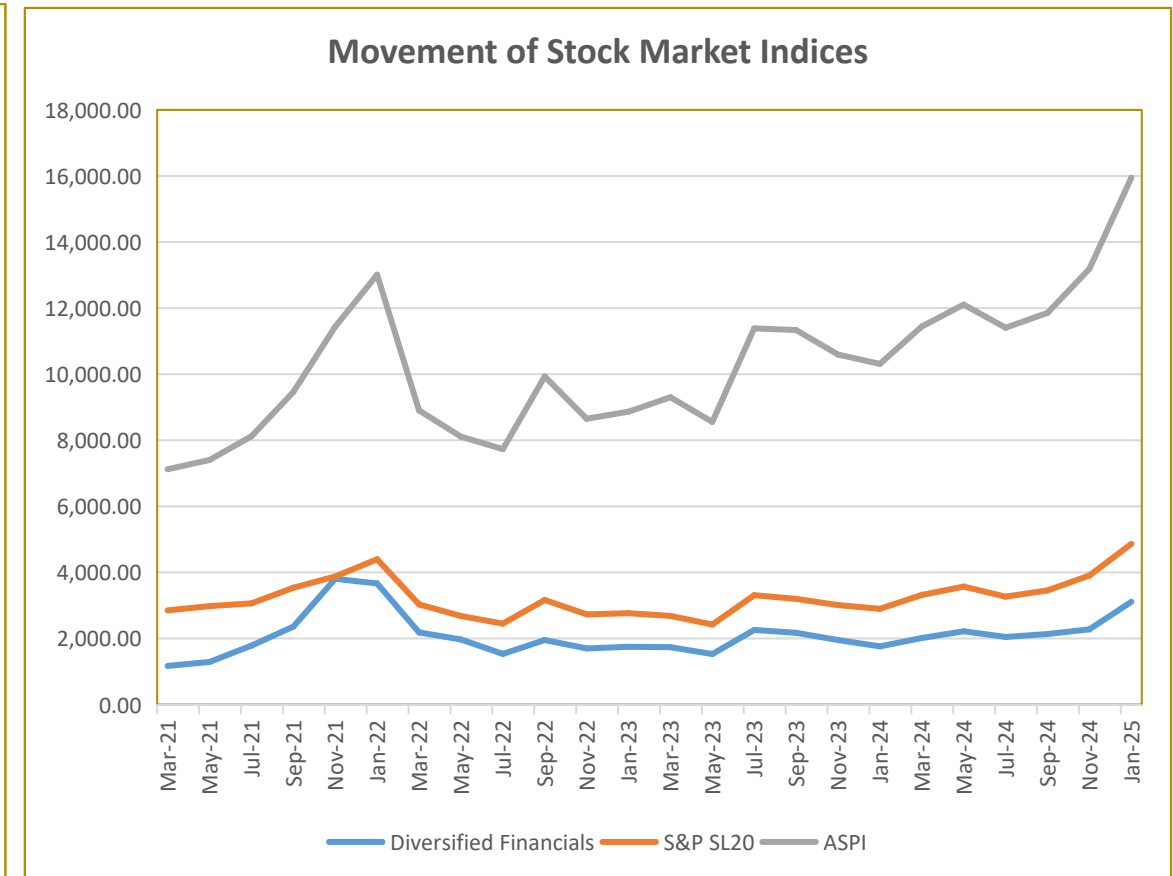
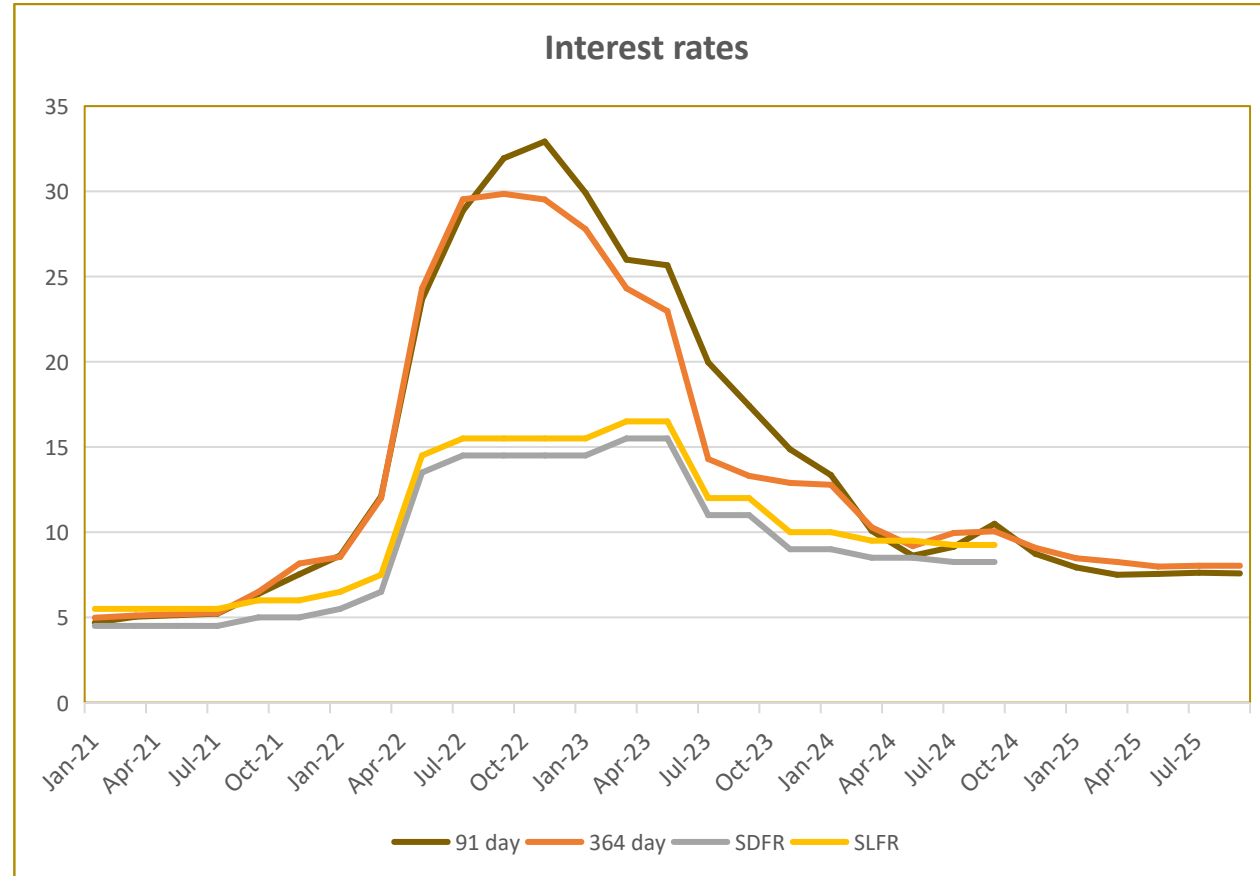
LKR MN	FY23	FY24	FY25	FY26*	FY27*
Loans and advances					
Leasing	526,335.0	534,468.0	686,383.0	742,443.3	822,467.3
Loans	467,270.0	400,851.0	514,787.0	508,486.3	532,244.8
Pawning Advances	230,443.0	230,793.0	301,018.0	324,659.7	359,947.2
Hire Purchase	31,842.0	36,441.0	46,799.0	53,317.7	60,796.2
Real Estate	21,759.0	12,147.0	18,814.0	14,628.3	13,155.8
Total loans and advances	1,277,649.0	1,214,700.0	1,567,801.0	1,643,535.3	1,788,611.3
Deposits					
Savings Deposits (LKR)	25,553.6	32,312.5	44,226.2	52,703.4	62,039.7
Institutional Time Deposits (LKR)	76,977.2	86,463.3	272,723.9	341,134.8	439,008.1
Other Time Deposits (LKR)	794,107.1	861,887.2	798,482.3	822,534.1	824,721.7
Foreign Currency Deposits	8,251.6	4,676.7	3,790.0	1,111.1	-
Dormant and Other Deposits	2,391.8	1,621.4	1,450.7	880.2	409.7
Total deposits	907,281.3	986,961.1	1,120,673.1	1,218,363.6	1,326,179.2
Loans to deposits ratio	140.82%	123.07%	139.90%	133.67%	134.87%

Leasing & Finance Companies (LFCs)

- As of the end of FY25, the 12 largest LFCs, based on asset size, accounted for about 80% (LKR 1.7 trillion) of industry assets. Their earning potential is as follows:

S.NO	Entity Name	Market Share – (% of total assets)	Market Share – (% of total deposits)	Return on Assets Ratio	Advances to Deposits Ratio	Liquid Assets to Total Assets Ratio
1	LOLC Finance PLC	20.6%	20.1%	7.6%	131.8%	7.9%
2	LB Finance PLC	11.5%	12.4%	9.3%	142.8%	11.8%
3	People's Leasing and Finance PLC	9.3%	11.1%	4.4%	126.1%	13.0%
4	Citizens Development Business Finance PLC	7.5%	7.7%	5.5%	131.9%	12.9%
5	Vallibel Finance PLC	5.3%	6.0%	5.4%	116.2%	9.6%
6	Commercial Credit and Finance PLC	5.3%	5.0%	7.3%	39.8%	21.8%
7	Central Finance Co. PLC	5.0%	3.8%	10.7%	22.7%	10.6%
8	Alliance Finance Co. PLC	3.9%	3.3%	5.6%	105.0%	8.2%
9	Mercantile Investments and Finance PLC	3.4%	3.8%	3.8%	65.3%	11.9%
10	HNB Finance PLC	2.8%	3.8%	3.8%	45.3%	14.6%
11	Singer Finance (Lanka) PLC	2.7%	2.5%	4.2%	107.4%	12.8%
12	Assetline Finance Ltd	2.5%	0.6%	12.4%	206.5%	15.8%

- LFC interest rates and movement in stock market indices;



**With effect from 27 November 2024, the OPR is defined as the policy interest rate of the Central Bank and the use of the SDFR and the SLFR as policy interest rates were discontinued.*

The Master plan for Consolidation of NBFIs

- The Master plan for Consolidation of NBFIs was introduced in November 2020 as two-phase plan.

Phase 1 (Two Year Plan from mid 2021 to mid 2023):-

Phase 1 of the master plan aimed at consolidation of Finance Companies with capital shortfalls, FCs operating within the same group, and stand-alone Specialized Leasing Companies (SLCs).

Phase 2 (A three-year plan from 31.03.2025 to 31.03.2028) :-

The governing board of the CBSL has approved the revised framework for Phase II of the Master plan since the FCs sector was unable to meet the stipulated targets of the Phase 2 master plan introduced in 2020 due to the continued macroeconomic disruptions and the contraction of the economy and its implications on the financial institutions.

- **New framework aims to develop more resilient NBFi sector. In order to evaluate performances of FCs in the medium to long term, a scoring system is proposed to be introduced focusing on following two broad areas.**
 1. Strengthening resilience of the FCs sector
 2. Improving disclosures and transparency of FCs

Score requirement by 31.12.2027 for FCs:-

Scores a minimum of 60 and maintains the same -	Permitted to continue as a stand-alone FC
Fail to maintain minimum 60 score -	Directed to consolidate with another FC or a Licensed Commercial/ Specialized bank or gradually exit the market after settlement of the deposit liabilities

Leasing & Finance Companies (LFCs)

	Indicators	Categorization Criteria	Score allocated for each Category	Benchmarks
1	Capital related measures (Total sub score of 25)			
1.1	Total Capital Adequacy Ratio - (%) (CAR)	1) Low risk:- CAR $\geq$ Well capitalized under the Prompt Corrective Actions (PCA) capital category. 2) Moderate risk:- Minimum regulatory requirement $\leq$ CAR < Well capitalized PCA capital category 3) High risk:- CAR < Minimum regulatory requirement	25 15 0 25 15 0	FCs with Assets less than Rs.100bn: 12.5+1.5=14 1) CAR $\geq$ 14 2) 12.5 $\leq$ CAR < 14 3) CAR < 12.5 FCs with Assets more than Rs. 100bn: 14.0+2.0=16 1) CAR $\geq$ 16 2) 14 $\leq$ CAR < 16 3) CAR < 14
2	Performance related measures (Total sub score of 15)			
2.1	Return on Assets - (%) (ROA)	1) Low risk:- ROA $\geq$ Sector average 2) Moderate risk:- 50% less than sector average $\leq$ ROA < Sector average 3) High risk:- ROA < 50% less than sector average	15 10 0 15 10 0	At least 6.0 1) ROA $\geq$ 6 2) 3 $\leq$ ROA < 6 3) ROA < 3

Scoring System for assessing FCs under Phase II of Master plan

3	Credit quality related measures (Total sub score of 30)			
3.1	Stage 3 advances against total advances - (%) (S3 to TA)	1) Low risk:- S3 to TA $\leq$ 25% less than sector average 2) Moderate risk:- 25% less than sector average < S3 to TA $\leq$ Sector average 3) High risk:- S3 to TA > Sector average	15 10 0	Not more than 13.0 1) S3 to TA $\leq$ 9.8 2) 9.8 < S3 to TA $\leq$ 13 3) S3 to TA > 13
3.2	Stage 3 impairment coverage (%) (IC to S3)	1) Low risk:- IC to S3 $\geq$ Sector average 2) Moderate risk:- 25% less than the sector average $\leq$ IC to S3 < Sector average 3) High risk:- IC to S3 < 25% less than the sector average	15 10 0	At least 40.0 1) IC to S3 $\geq$ 40 2) 30 $\leq$ IC to S3 < 40 3) IC to S3 < 30

4	Liquidity related measures (Total sub score of 20)			
4.1	Liquid Assets to Short Term Liabilities (%) (LA to STL)	1) Low risk :- LA to STL $\geq$ Sector average 2) Moderate risk:- 25% less than the sector average $\leq$ LA to STL < Sector average 3) High risk :- LA to STL < 25% less than the sector average	10 5 0	<u>At least 56.0</u> 1) LA to STL $\geq$ 56 2) $42 \leq$ LA to STL < 56 3) LA to STL < 42
4.2	Liquid Assets to External Funds - (%) (LA to EF)	1) Low risk:- LA to EF $\geq$ Sector average 2) Moderate risk:- 25% less than the sector average $\leq$ LA to EF < Sector average 3) High risk:- LA to EF < less than 25% of the sector average	10 5 0	<u>At least 20</u> 1) LA to EF $\geq$ 20 2) $15 \leq$ LA to EF < 20 3) LA to EF < 15

5	Other measures (Total Sub Score of 10)			
5.1	External Credit Rating (ER)	1) Low risk:- ER $\geq$ Investment grade 2) High risk:- ER < below the investment grade	5 0	<u>Investment Grade BBB-</u> 1) ER $\geq$ BBB- 2) ER < BBB-
5.2	Listing in CSE	1) Low risk:- Listed 2) high risk:- Not Listed	5 0	1) Listed in CSE* 2) Not listed in CSE
	Total		100	

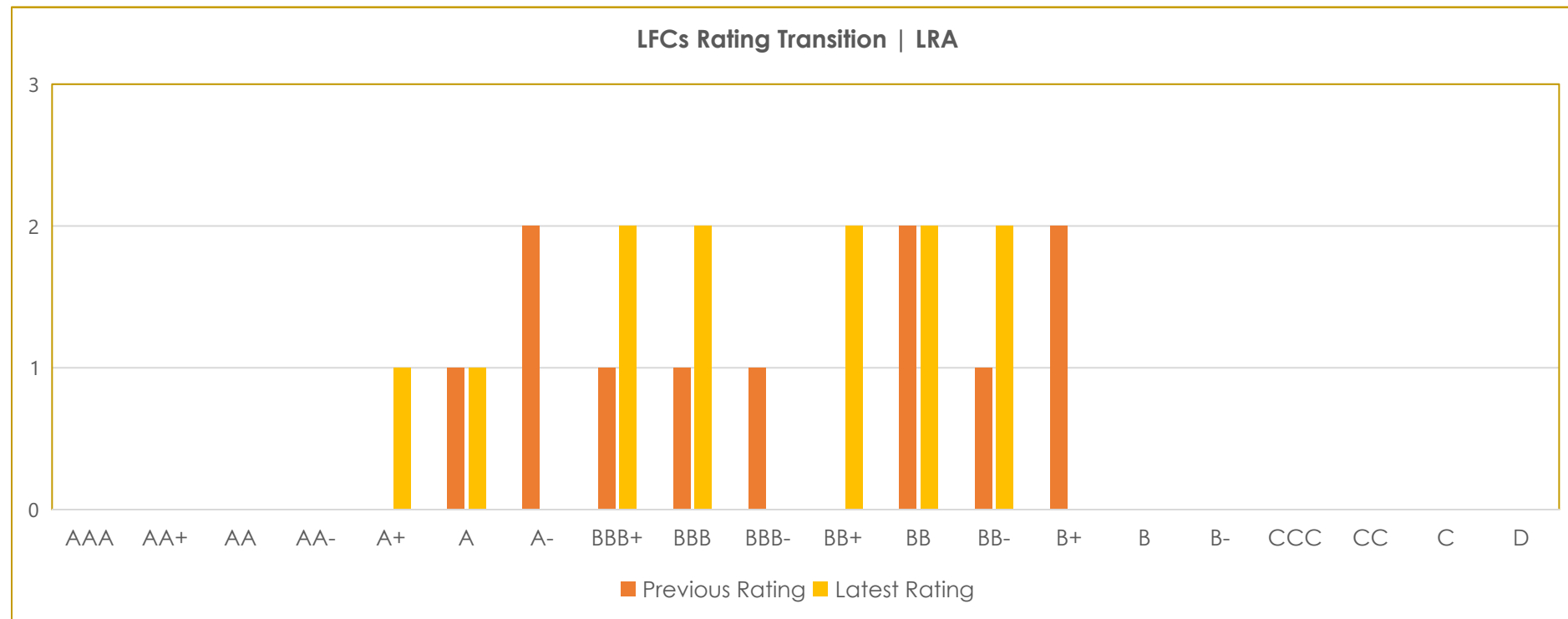
* The listing all FCs in the CSE was one of the targets set to be achieved by mid-2026.

CBSL requirements for LFCs

	Requirement	
Core capital	LKR~2.5bn	
Capital adequacy for LFCs with total assets more than100bn		
Tier 1 toRWA	10.00 by01/07/2022	
Total capital toRWA	14.00 by01/07/2022	
Capital adequacy for LFCs with total assets less than100bn		
Tier 1 toRWA	8.50 by01/07/2022	
Total capital toRWA	12.50 by01/07/2022	
Total assetbase	LKR 20bn by mid2023	
Liquid assets	10% of time deposits + 15% of savings deposits + 5% of unsecuredborrowings The above should include government treasury bills, government securities and CBSL securities equivalent to 7.5% of the averageofitsmonthendtotaldepositliabilitiesandborrowingsofthe12monthsoftheproceedingfinancialyear.	
Single borrowerlimit	Individual – 15% of capital funds	Group – 20% of capital funds

Rating Transition Curve - LRA

Rating Action Latest	No.
Initial	1
Maintained	2
Upgrades	8
Outlook	No.
Positive Outlooks	1
Positive Outlooks with upgrades	1



Outlook | Economy

Economy:

Real Sector

- ✓ In August, the Central Bank of Sri Lanka forecast growth at 4.5% in 2025, higher than the IMF's 3.5% projection. Treasury forecasts 3.1% GDP growth in 2025, lower than CBSL, IMF projections. GDP growth was recorded at ~4.8% in 3MCY25. In 6MCY25, GDP expanded by 4.9% year-on-year. Longer-term projections show GDP growth trending around 3.1% in 2026.

Inflation, Interest Rates & Exchange Rate

- ✓ After 11 consecutive months of deflation, the CCPI returned to a positive trajectory in August'25, recording at ~1.2% YoY compared to a deflation of ~0.3% in July'25.
- ✓ A projected inflation target of ~5% by the CBSL is subject to uncertainty of external risks anchored by the USA Tariff Regime and a highly volatile geopolitical scenario.
- ✓ Policy stance remains data-dependent amid external risks. However, a status quo is expected to continue in the absence of any negative movement in the inflation trajectory and an adjustment of the exchange rate.
- ✓ LKR/USD at ~300; FX stability supported by reserve buffers.

Debt & Ratings Update

- ✓ Bilateral debt restructuring largely completed and IMF program on track with continued disbursements.
- ✓ Fitch rating upgraded to 'CCC+' from 'CCC-' post external bond exchange on December 20, 2024.

Fiscal & External Sector

- ✓ Foreign Exchange Reserves stood around USD~6bln as of June'25, reflecting a coverage of 4 months Merchandise Imports of the country.
- ✓ Government debt as a % of GDP reduced from ~104.7% in CY23 to ~96.1% in CY24 (96.7% in 1QCY25).
- ✓ Budget deficit as a % of GDP also reduced from ~8.3% in CY23 to ~6.8% in CY24.

Outlook | LFC Sector

- By 1QFY26, the LFC sector's total assets grew to LKR~2,280bn, driven by loans and advances (accounting for ~75% of total assets).
- The sector's share of private sector credit increased to ~21.0%, liabilities rose (~20.0% Y-o-Y from FY24).
- The total capital base reached LKR~372bn with a strong CAR of ~20.9%.
- The gross and net NPL ratios improved to ~8.6% and ~4.5%, respectively, at the end of FY25 (~14.7% and ~9.4% as of FY24).
- The LFC sector recorded a PAT of LKR~ 69.4bn during FY25, compared to LKR~51.5bn reported in the corresponding period of FY24.
- Lanka Rating Agency (LRA) is closely monitoring the financial and operational performance of Licensed Finance and Leasing companies (LFCs) in Sri Lanka. LRA uses a strong and ongoing assessment framework to analyze the performance of these institutions. Based on this evaluation, the agency expects to upgrade the credit ratings of certain Leasing and Finance institutions (LFCs) soon, provided that they meet the necessary rating criteria. In other words, if specific LFCs demonstrate improved financial stability, risk management, and overall creditworthiness, LRA may raise their ratings, signaling stronger financial health and reduced credit risk.

Client Name	LRA	
	Rating	Outlook
LOLC Finance PLC	A+	Stable
Assetline Finance Limited	A	Positive
Vallibel Finance PLC	A-	Stable
Merchant Bank of Sri Lanka & Finance PLC	BBB+	Stable
Alliance Finance Company PLC	BBB	Stable
Commercial Credit and Finance PLC	BBB	Stable
Janashakthi Finance PLC	BB+	Positive
Sarvodaya Development Finance PLC	BB+	Stable
Associated Motor Finance Company PLC	BB	Stable
SMB Finance PLC	BB	Stable
Lanka Credit and Business Finance PLC	BB-	Stable
PMF Finance PLC	BB-	Stable

Outlook | Strategic Imperatives:

- While the sector's outlook remains positive, its continued relevance and impact hinge on moving beyond the confines of traditional, consumption-focused lending. LFCs should prioritize supporting the balance sheet expansion of Sri Lanka's industrial and export-driven enterprises, fostering much-needed capital formation and driving sustainable growth. Many industries urgently require new capital investment to improve productivity, enable value addition, and compete on a global stage.
- With their robust capital base and established risk management capabilities, LFCs are ideally positioned to catalyze the next wave of industrial growth. By developing solutions for project finance, industrial modernization, supply-chain financing, and working capital targeting export production, LFCs can diversify their balance sheets and actively contribute to national objectives.
- Crucially, by moving beyond local boundaries, LFCs can support the strengthening of industrial balance sheets, enabling Sri Lankan firms to scale internationally-and also expand the sector's national drive for generating foreign currency earnings that help fortify the Sri Lankan national balance sheet. In an increasingly interconnected global landscape, such strategic moves will reinforce both the sector's and the nation's resilience, competitiveness, and economic stability.
- Institutions that embrace this transformation-not just supporting local demand but also propelling sector-based capital formation and outward-oriented growth-will lead Sri Lanka's journey toward more inclusive, balanced, and sustainable economic advancement.