



FINANCIAL SOUNDNESS INDICATORS

Q2 of 2023



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இலங்கை மத்திய வாங்கி
CENTRAL BANK OF SRI LANKA

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The Financial Soundness Indicators - Q2 of 2023 has been compiled based on the provisional data ending June 2023. Data may include computations made specifically for this publication.

Banking Sector Assets*

Asset growth of the banking sector continued to decline and recorded a contraction of 0.8 per cent Y-o-Y at end Q2 of 2023, mainly due to the contraction of Gross Loans and Receivables.

Table 1 Banking Sector Assets (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Total Assets	19,372.4	19,219.3	(0.8)
Gross Loans & Receivables	11,760.1	10,572.4	(10.1)
Investments	5,831.2	6,609.6	13.3

Chart 1 Total Assets

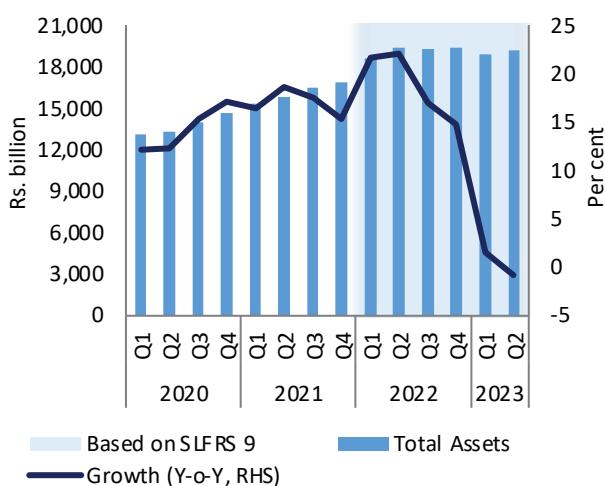


Chart 2 Gross Loans & Receivables

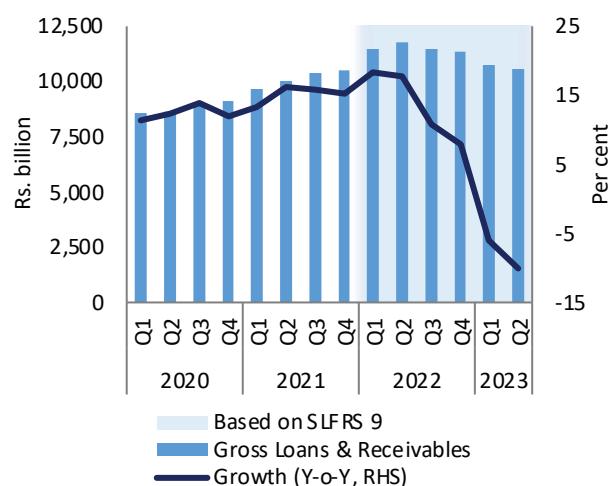


Chart 3 Investments

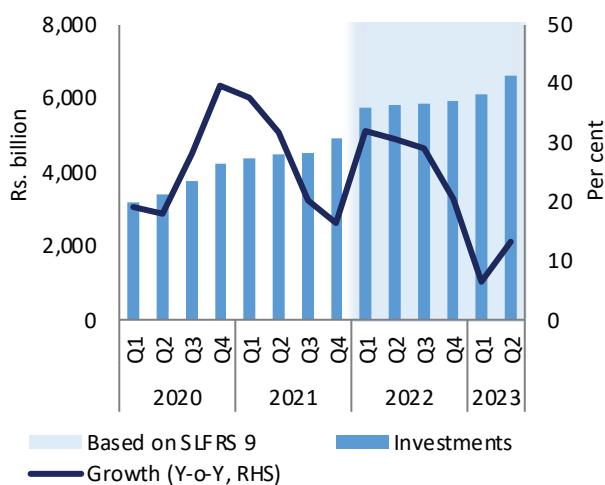
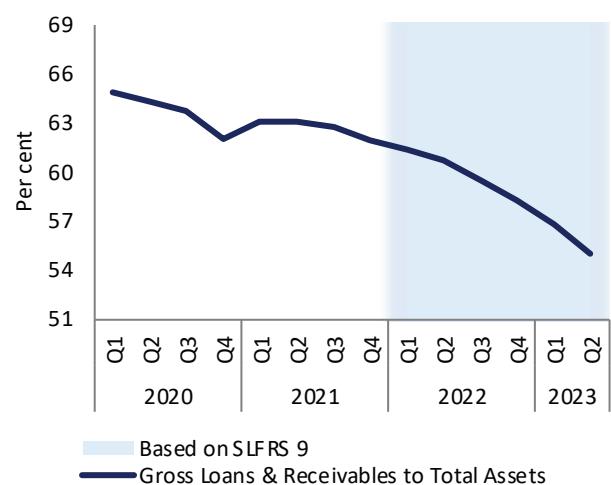


Chart 4 Gross Loans to Total Assets



* Banking sector indicators to be interpreted by factoring that Financial Statements have been prepared based on SLFRS-9 from 01.01.2022 onwards.

Banking Sector Liabilities & Equity*

Total Liabilities of the banking sector contracted by 1.9 per cent Y-o-Y at end Q2 of 2023, mainly due to contraction in Borrowings and slowdown in Deposit growth.

Table 2 Liabilities & Equity (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Total Liabilities	17,901.0	17,566.3	(1.9)
Deposits	14,638.1	15,453.4	5.6
Borrowings	2,528.4	1,506.3	(40.4)
Equity Capital & Reserves	1,471.4	1,653.1	12.3

Chart 5 Total Liabilities

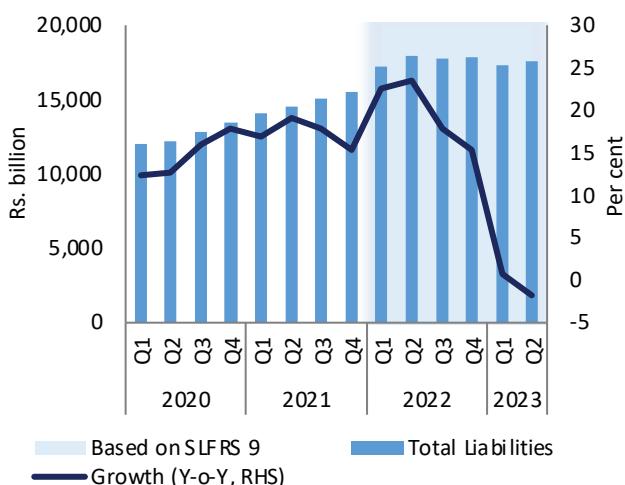


Chart 6 Deposits

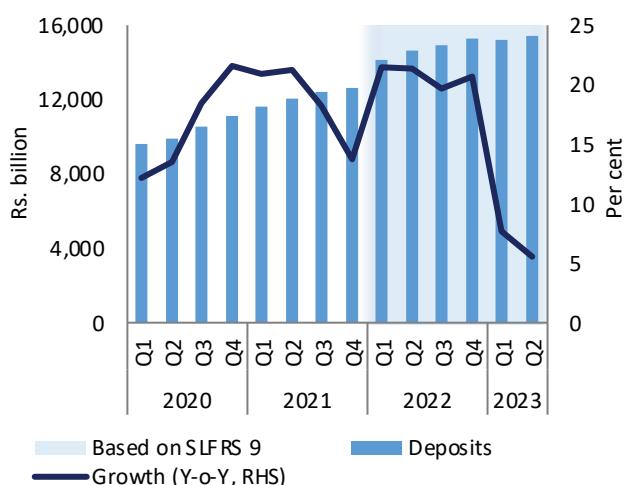


Chart 7 Borrowings

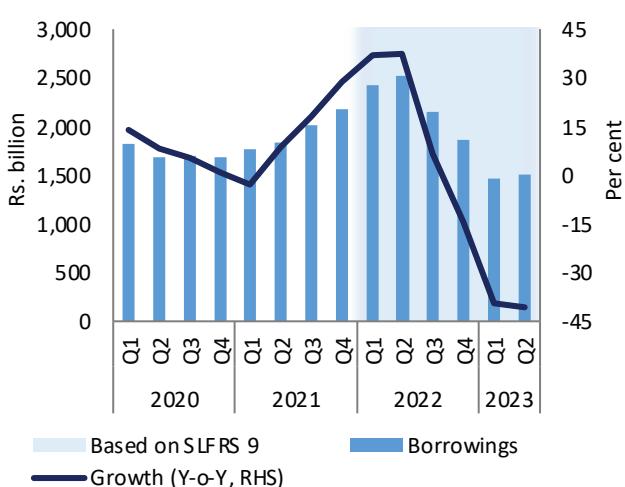
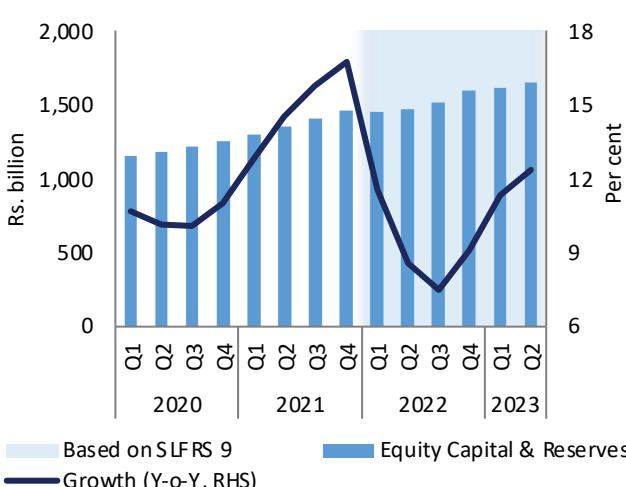


Chart 8 Equity Capital & Reserves



* Banking sector indicators to be interpreted by factoring that Financial Statements have been prepared based on SLFRS-9 from 01.01.2022 onwards.

Banking Sector Capital Adequacy

Regulatory Capital to Risk Weighted Assets (RWA) of the banking sector further improved to 16.7 per cent at end Q2 of 2023, mainly due to contraction in RWA induced by the decline in Credit growth and appreciation of the Sri Lankan Rupee.

Table 3 Regulatory Capital (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Total Regulatory Capital	1,487.2	1,487.0	(0.0)
Tier-1 Capital	1,197.5	1,220.8	1.9
Risk Weighted Assets (RWA)	9,783.3	8,908.3	(8.9)
Leverage Exposure	18,716.5	18,351.8	(1.9)

Chart 9 Regulatory Capital to RWA

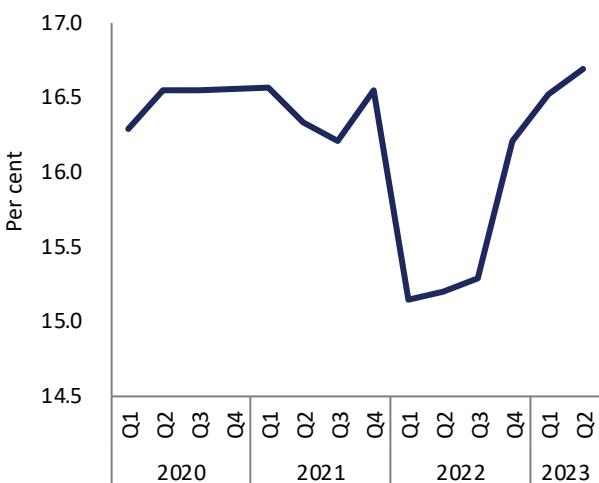


Chart 10 Tier-1 Capital to RWA

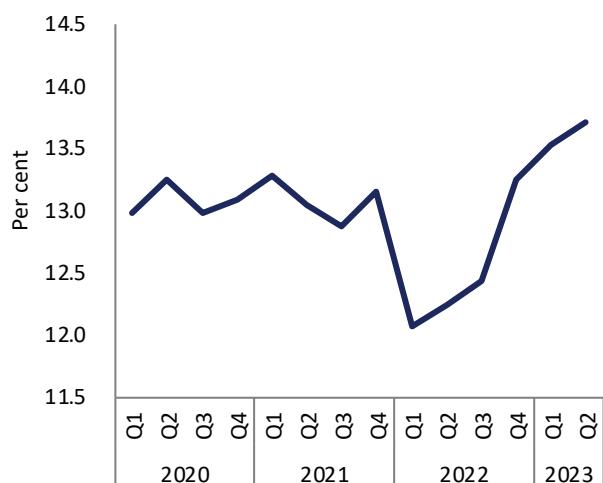


Chart 11 CET-1 Capital to RWA

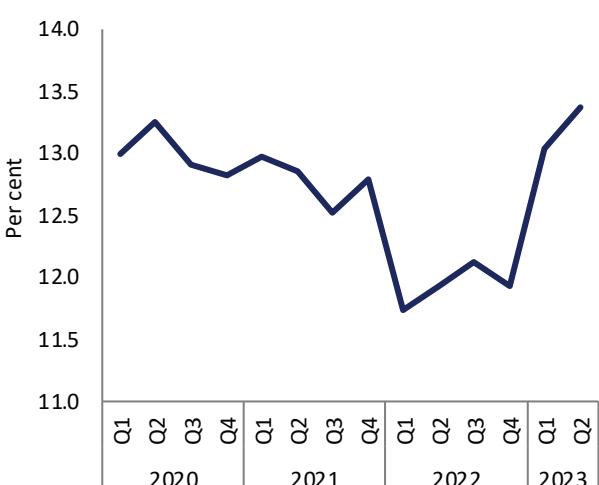
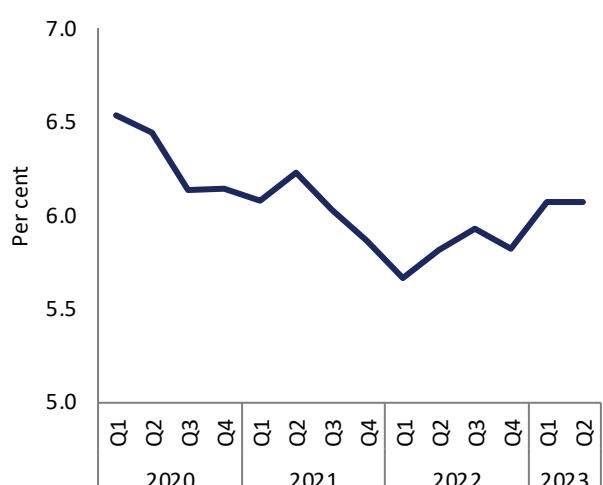


Chart 12 Leverage Ratio



Banking Sector Asset Quality*

Stage 3 Loans to Total Loans of the banking sector increased to 13.3 per cent at end Q2 of 2023 due to expansion in Gross Stage 3 Loans and contraction in Credit.

Table 4

Asset Quality (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Gross Stage 3 Loans ^(a)	1,048.1	1,406.4	34.2
Impairment for Stage 3 loans ^(b)	519.1	653.2	25.8
Net Stage 3 Loans ^(c)	998.3	1,333.6	33.6

Chart 13

Stage 3 Loans to Total Loans

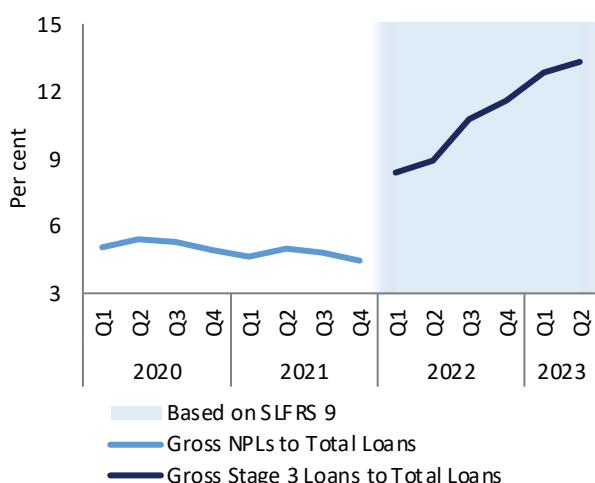


Chart 14

Stage 3 Impairment Coverage

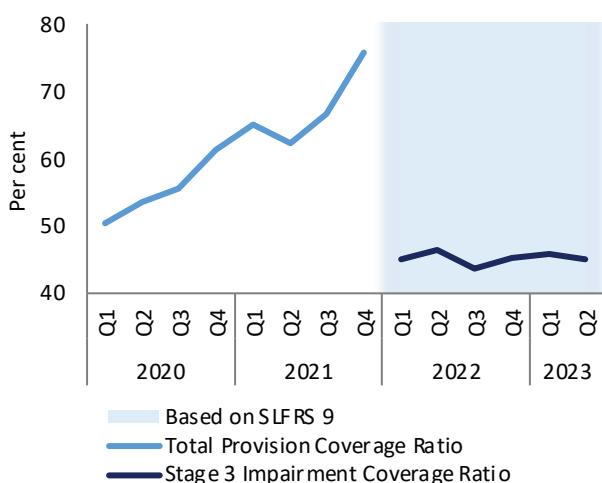


Chart 15

Net Stage 3 Loans to Regulatory Capital

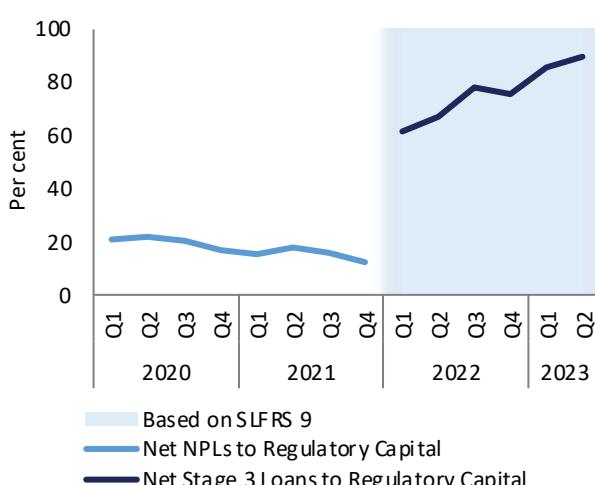
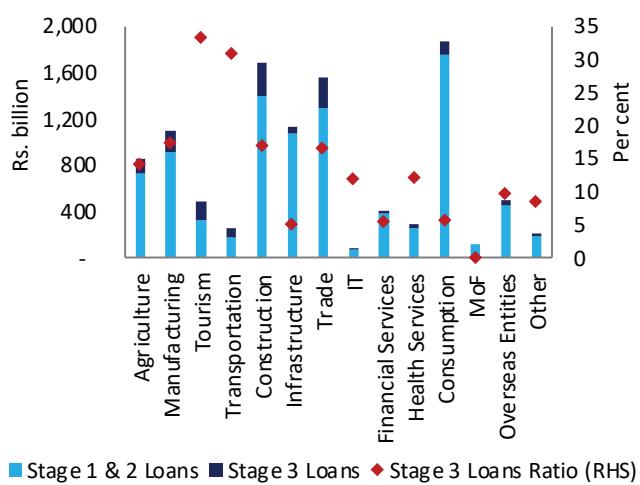


Chart 16

Loan Concentration by Economic Activity



(a) Excluding undrawn portion.

(b) Including undrawn portion.

(c) Net of stage 3 impairment and including undrawn portion.

* Banking sector indicators to be interpreted by factoring that Financial Statements have been prepared based on SLFRS-9 from 01.01.2022 onwards.

Banking Sector Earnings & Profitability*

The banking sector reported a cumulative Profit after Tax of Rs. 90 billion for the first half of 2023, recording an increase of 47.9 per cent Y-o-Y. Accordingly, Return on Assets and Return on Equity improved to 1.4 per cent and 11.4 per cent, respectively, in Q2 of 2023.

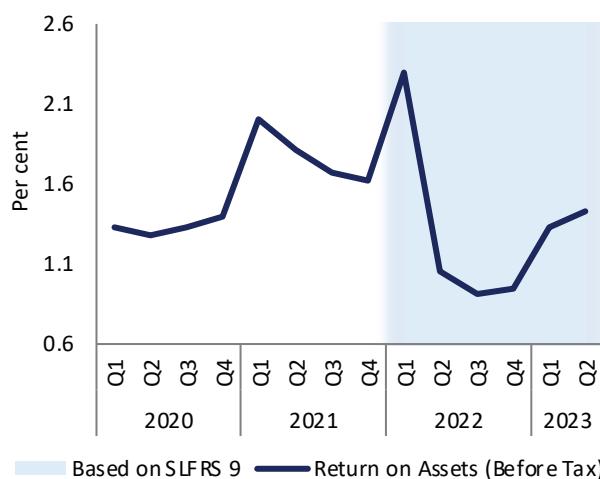
Table 5

Earnings and Profitability (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Net Interest Income	376.8	328.6	(12.8)
Gross Income ^(d)	565.0	409.8	(27.5)
Profit Before Corporate Tax	92.3	136.9	48.3
Profit After Corporate Tax	60.8	90.0	47.9

Chart 17

Return on Assets (before tax)

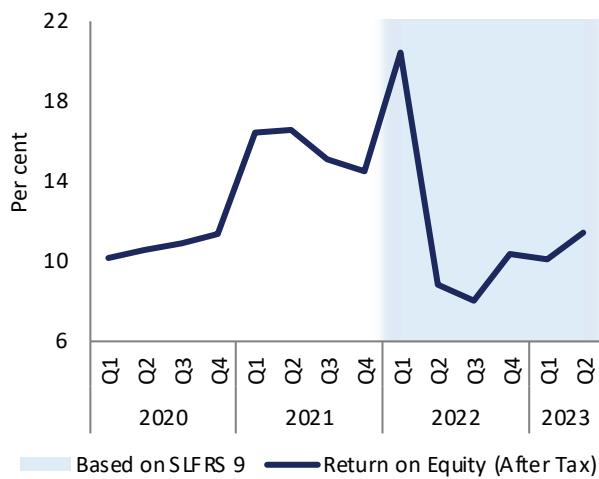


Based on SLFRS 9

— Return on Assets (Before Tax)

Chart 18

Return on Equity (after tax)

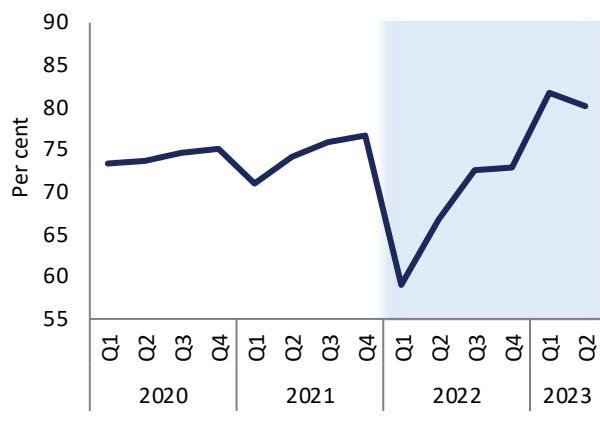


Based on SLFRS 9

— Return on Equity (After Tax)

Chart 19

Net Interest Income to Gross Income

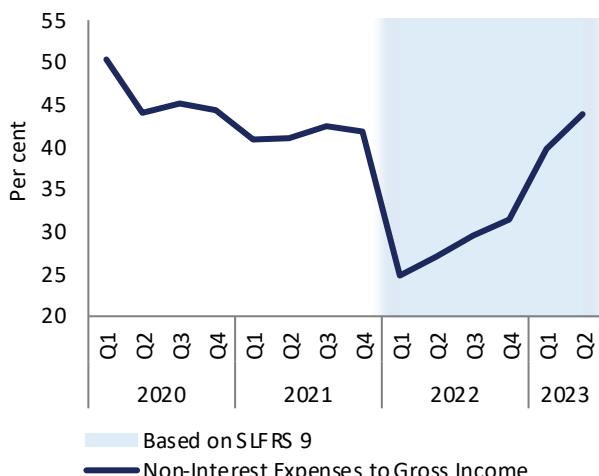


Based on SLFRS 9

— Net Interest Income to Gross Income

Chart 20

Non-Interest Expense to Gross Income



Based on SLFRS 9

— Non-Interest Expenses to Gross Income

(d) Gross income includes net interest income and non-interest income.

* Banking sector indicators to be interpreted by factoring that Financial Statements have been prepared based on SLFRS-9 from 01.01.2022 onwards.

Banking Sector Liquidity

Liquidity of the banking sector in terms of Statutory Liquid Assets Ratio, Liquidity Coverage Ratios, and Net Stable Funding Ratio significantly improved in Q2 of 2023 compared to Q2 of 2022 as investments in government securities have increased.

Table 6 | Liquidity (Per cent)

Indicators	2022 Q2	2023 Q2
Statutory Liquid Assets Ratio (DBUs) ^(e)	27.6	36.6
Liquidity Coverage Ratio - Rupee	202.5	274.7
Liquidity Coverage Ratio - All Currency	137.0	224.2
Net Stable Funding Ratio	130.6	149.7

Chart 21 | Statutory Liquid Assets Ratio (DBUs)

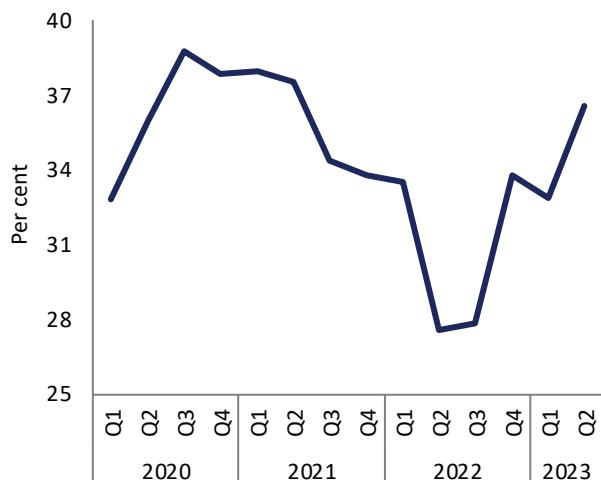


Chart 22 | Liquidity Coverage Ratio - Rupee

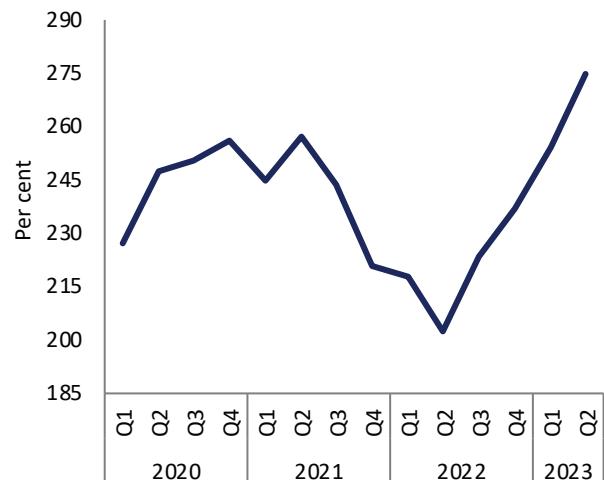


Chart 23 | Liquidity Coverage Ratio - All Currency

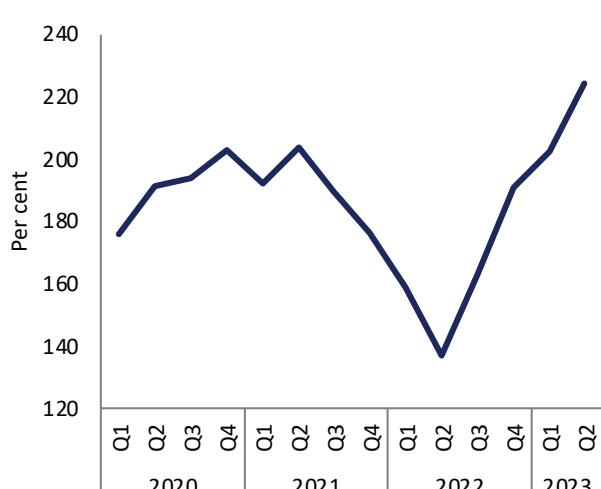
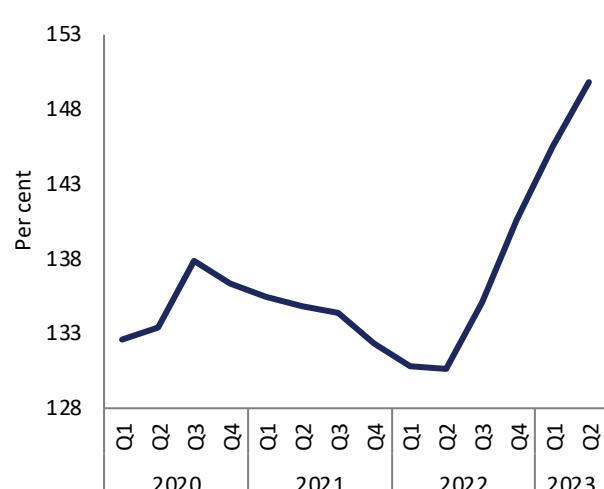


Chart 24 | Net Stable Funding Ratio



(e) Domestic Banking Units.

Banking Sector Foreign Currency Operations*

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FC operations (Credit, Investments, Borrowings, and Deposits) of the banking sector (in Rupee terms) contracted on a Y-o-Y basis, mainly due to appreciation of the Sri Lankan Rupee.

Table 7 Foreign Currency (FC) Operations (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
FC Loans & Receivables	3,208.6	2,286.8	(28.7)
FC Investments	1,153.3	693.9	(39.8)
FC Borrowings	723.0	362.8	(49.8)
FC Deposits	3,698.0	3,210.9	(13.2)

Chart 25 FC Loans to Total Loans

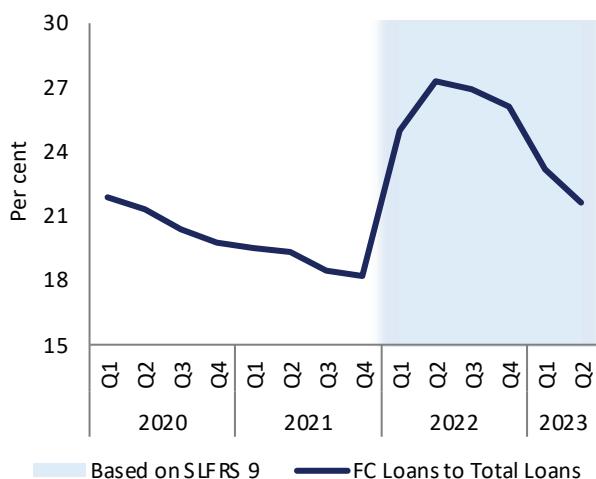


Chart 26 FC Investments to Total Investments

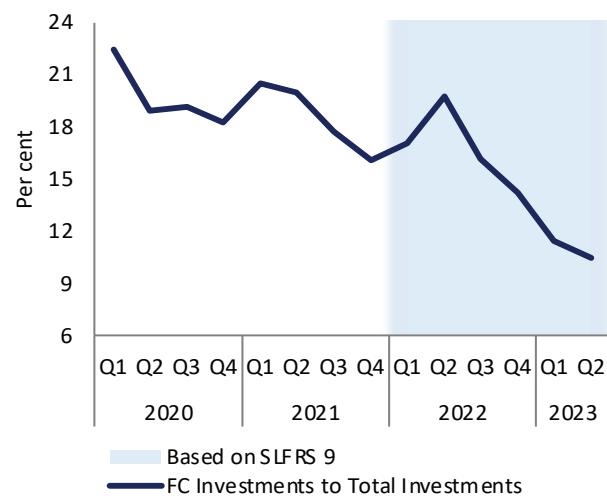


Chart 27 FC Borrowings to Total Borrowings

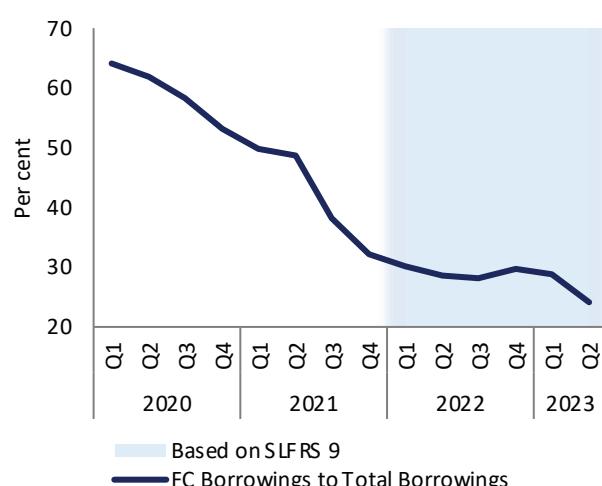
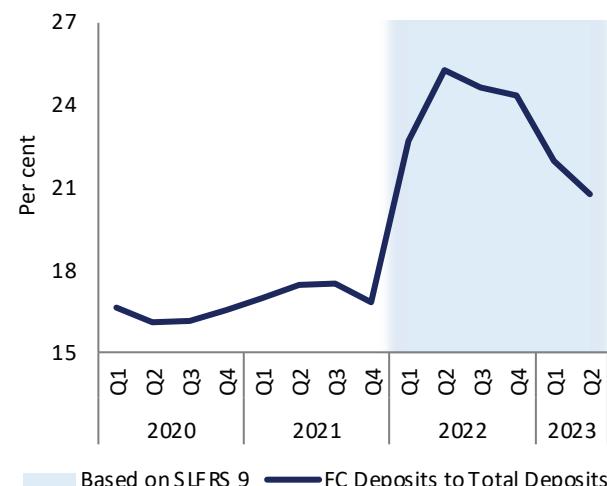


Chart 28 FC Deposits to Total Deposits



* Banking sector indicators to be interpreted by factoring that Financial Statements have been prepared based on SLFRS-9 from 01.01.2022 onwards.

LFCs Sector Assets

Asset growth of the sector has been decelerating mainly due to shrinking loan portfolio. Total Assets of LFCs sector grew marginally by 0.2 per cent, Y-o-Y, at end Q2 of 2023.

Table 8 Assets (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Total Assets	1,599.5	1,603.1	0.2
Loans & Advances (Net)	1,153.0	1,122.3	(2.7)
Investments	200.8	227.4	13.2

Chart 29 Total Assets

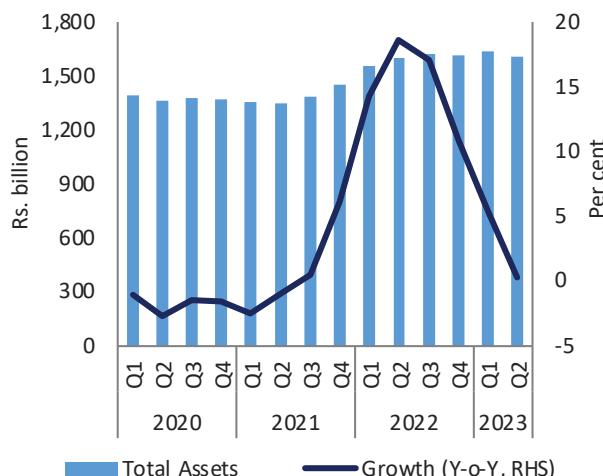


Chart 30 Loans & Advances

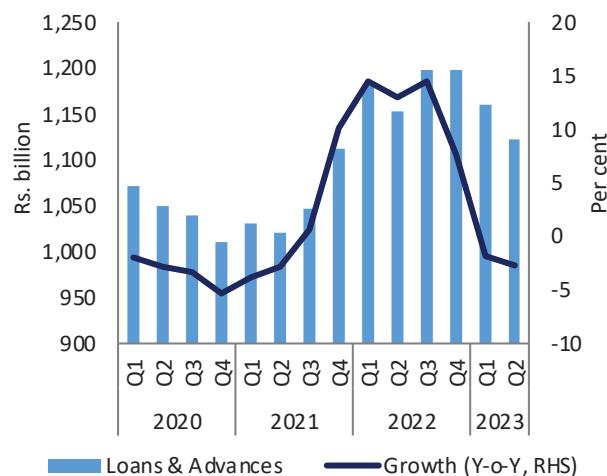


Chart 31 Investments

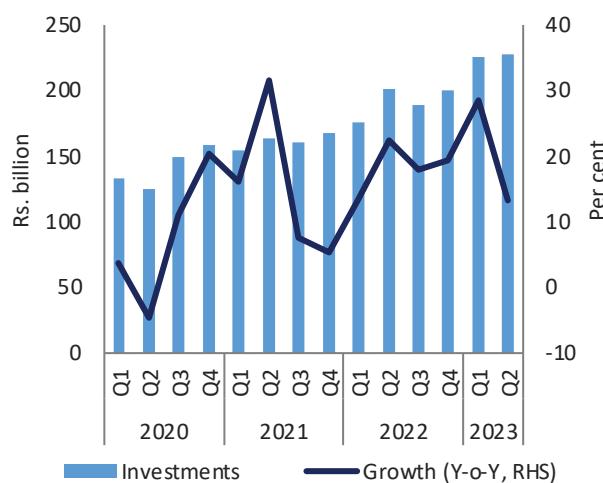
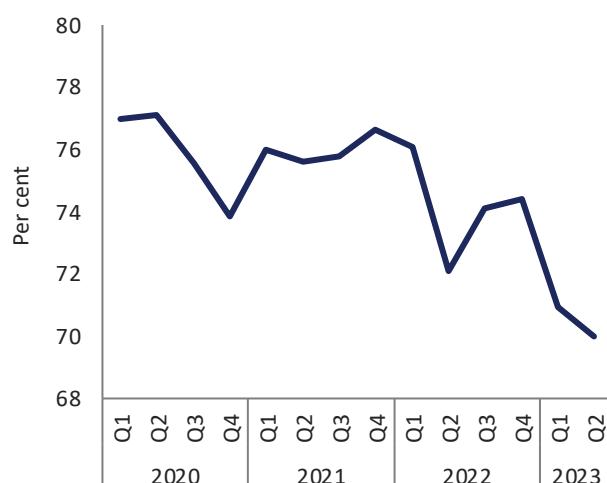


Chart 32 Loans & Advances to Total Assets



LFCs Sector Liabilities & Equity

Equity and Deposits of the sector are growing, at a moderate level, amidst sharply reducing Borrowings. Borrowings of the sector declined by 21.6 per cent, Y-o-Y, at end Q2 of 2023.

Table 9 Liabilities & Equity (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Total Liabilities	1,262.0	1,224.5	(3.0)
Deposits	845.7	890.1	5.2
Borrowings	334.8	262.3	(21.6)
Equity Fund	337.5	378.6	12.2

Chart 33 Total Liabilities

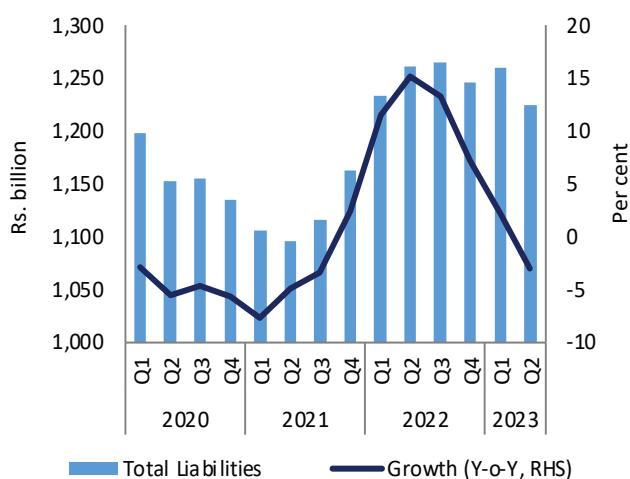


Chart 34 Deposits

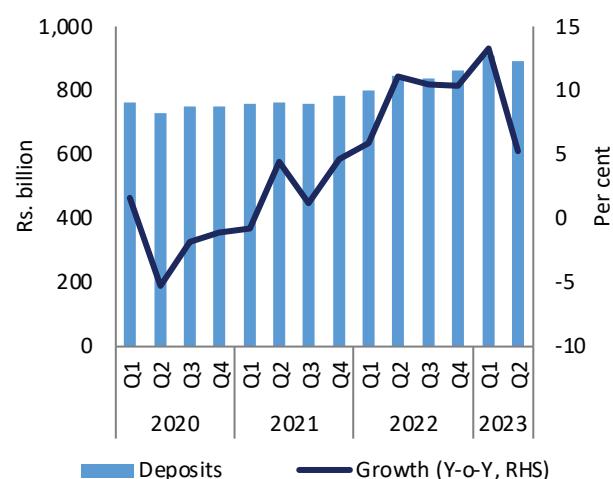


Chart 35 Borrowings

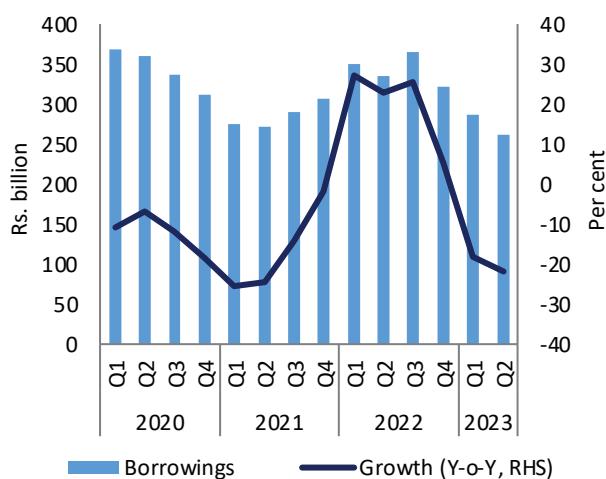
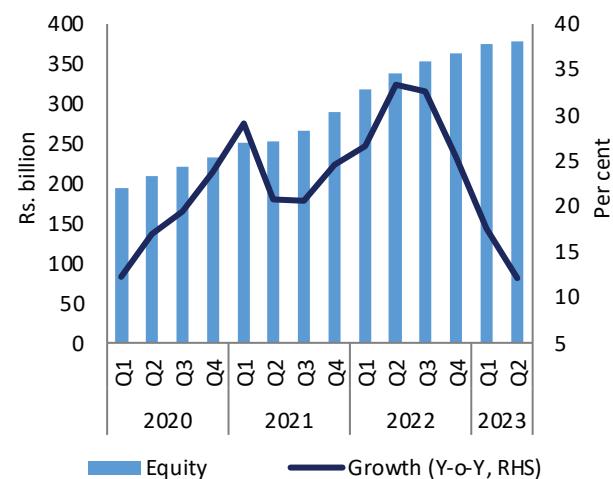


Chart 36 Equity



LFCs Sector Capital Adequacy

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Total Regulatory Capital to Risk Weighted Assets of the LFCs sector as a whole improved and remained well-above the minimum regulatory requirement. Meanwhile, Total Borrowings to Equity continued to decline.

Table 10 Regulatory Capital (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Regulatory Capital	305.6	335.4	9.8
Tier 1 Capital	284.0	315.3	11.0
Risk Weighted Assets	1,444.0	1,450.3	0.4

Chart 33 Regulatory Capital to RWA

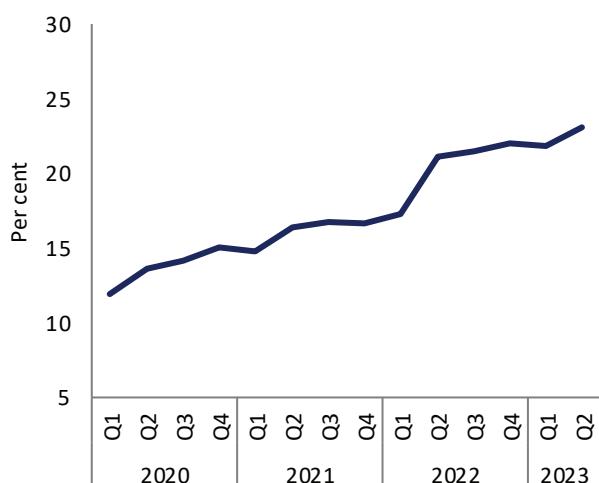


Chart 34 Tier-1 Capital to RWA

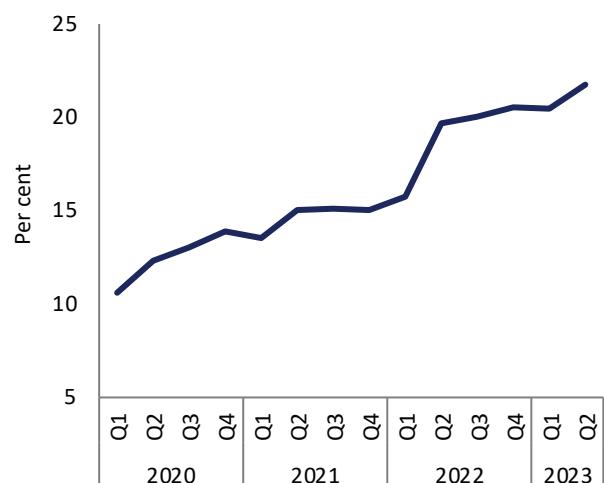


Chart 35 Regulatory Capital to Assets

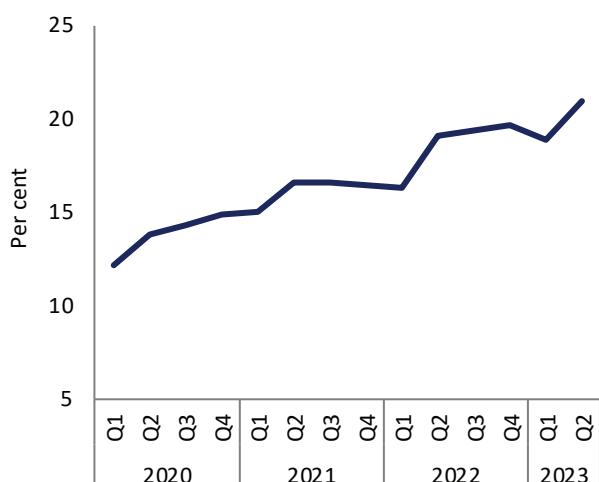
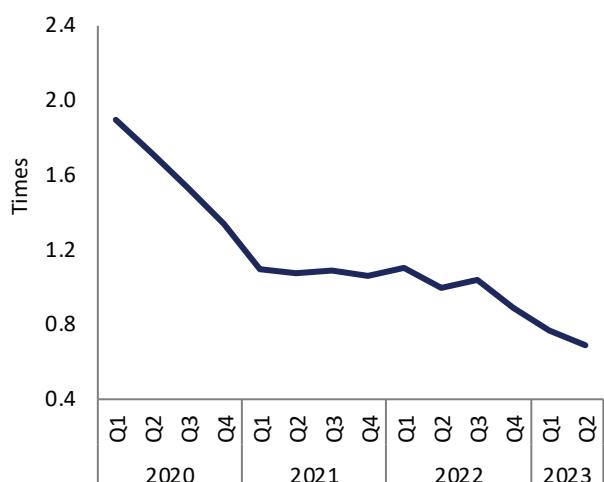


Chart 36 Borrowings to Equity



LFCs Sector Asset Quality**

Asset quality indicators are deteriorating. Accordingly, Gross Stage 3 Loans to Total Loans and Net Stage 3 Loans to Total Loans increased to 20.3 per cent and 14.3 per cent, respectively, at end Q2 of 2023 when compared to Q2 of 2022.

Table 11 Asset Quality (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Gross Stage 3 Loans	214.8	252.9	17.7
Impairment for Stage 3 Loans	65.0	74.8	15.1
Net Stage 3 Loans	149.8	178.0	18.9

Chart 41 Gross Stage 3 Loans to Total Loans

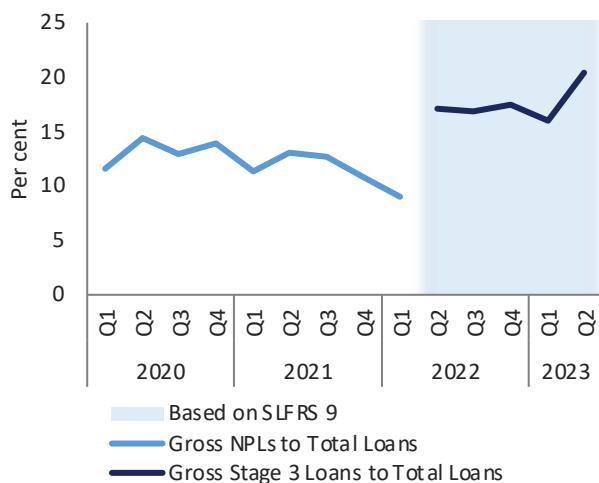


Chart 42 Stage 3 Impairment Coverage

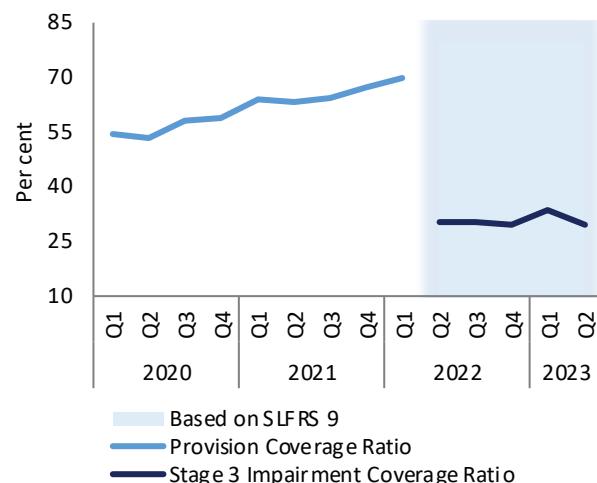


Chart 43 Net Stage 3 Loans to Capital

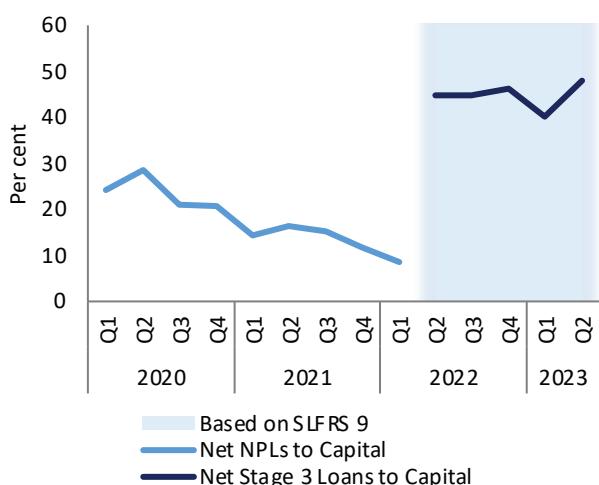


Chart 44 Loan Concentration by Product



** LFCs sector adopted the Finance Business Act Direction No.01 of 2020 on Classification and Measurement of Credit Facilities, with effect from 01.04.2022.

LFCs Sector Earnings & Profitability

LFCs sector recorded a Profit after Tax of Rs. 4.6 billion during the Q2 of 2023. Most of the profitability indicators deteriorated during Q2 of 2023 compared to previous quarter.

Table 12 Earnings & Profitability (Rs. billion)

Indicators	2022 Q2	2023 Q2	% Change (Y-o-Y)
Net Interest Income	29.4	29.3	(0.4)
Gross Income ^(f)	38.7	39.3	1.6
Profit Before Tax	10.0	9.4	(6.2)
Profit After Tax	6.0	4.6	(24.2)

Chart 45 Return on Assets (before tax)

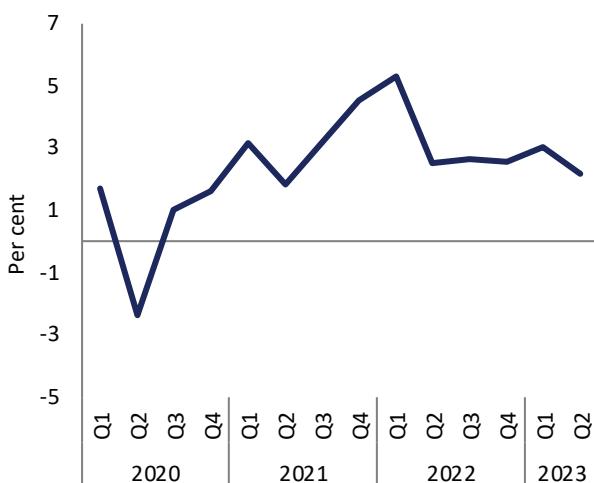


Chart 46 Return on Equity (after tax)

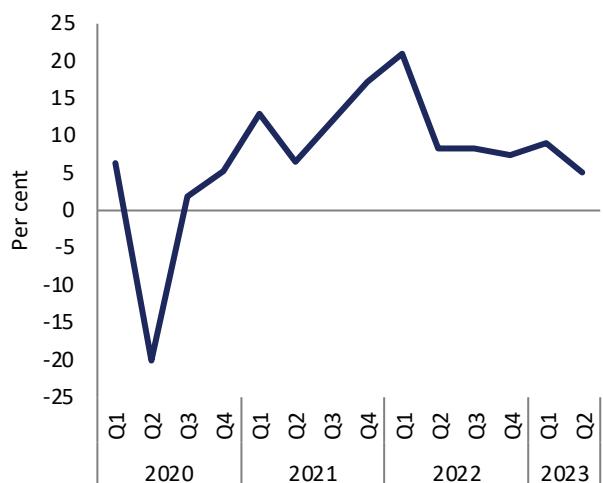


Chart 47 Net Interest Income to Gross Income

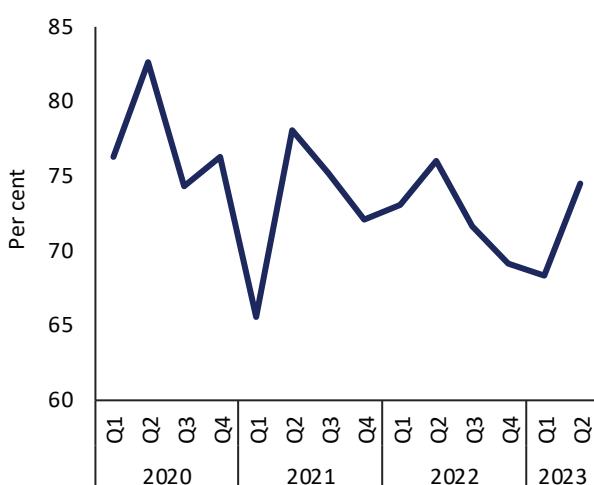
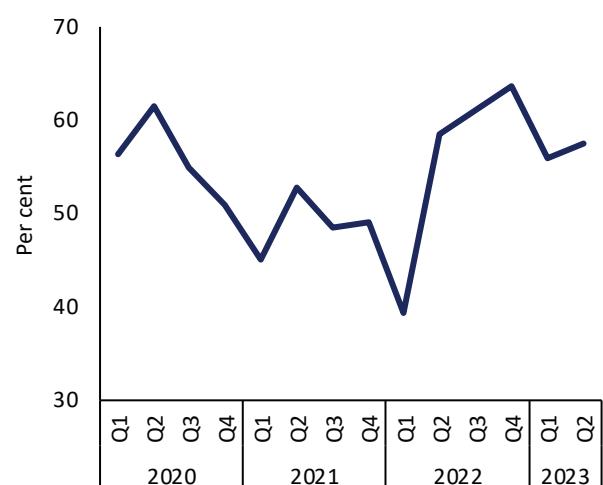


Chart 48 Non-interest Expenses to Gross Income



(f) Gross income includes net interest income and non-interest income.

LFCs Sector Liquidity

Sector maintained a liquidity buffer above the regulatory requirement. Furthermore, ratio of Liquid Assets to Total Assets has been increasing during the recent quarters as investments in government securities have increased.

Table 13 Liquidity (Per cent)

Indicators	2022 Q2	2023 Q2
Liquid Assets to Total Assets Ratio	10.9	13.7
Credit to Deposit Ratio	136.3	126.1
Liquid Assets to Deposits & Borrowings	15.9	20.5

Chart 49 Liquid Assets

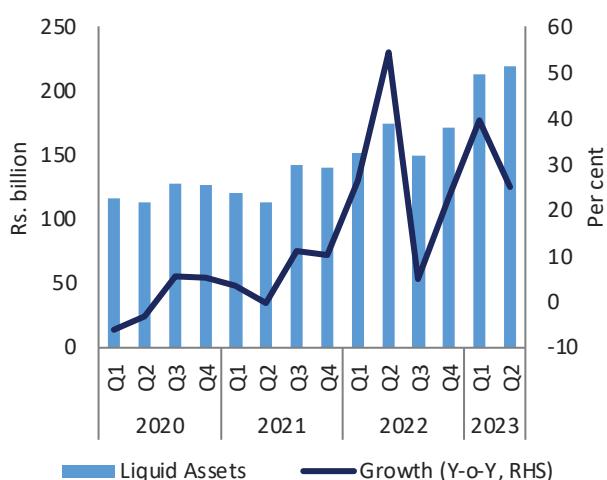


Chart 50 Liquid Assets to Total Assets Ratio

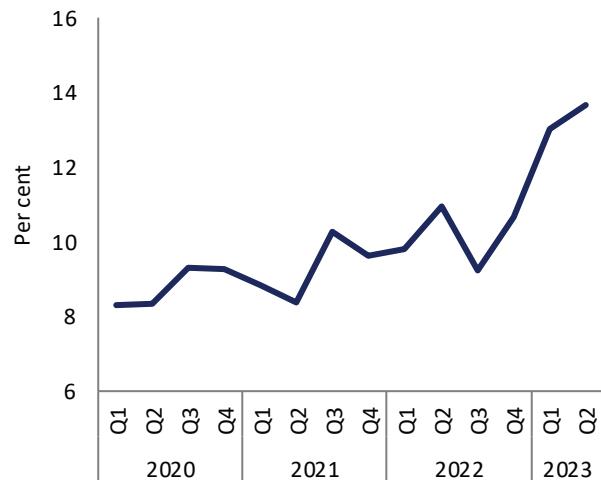


Chart 51 Liquid Assets to Deposits & Borrowings

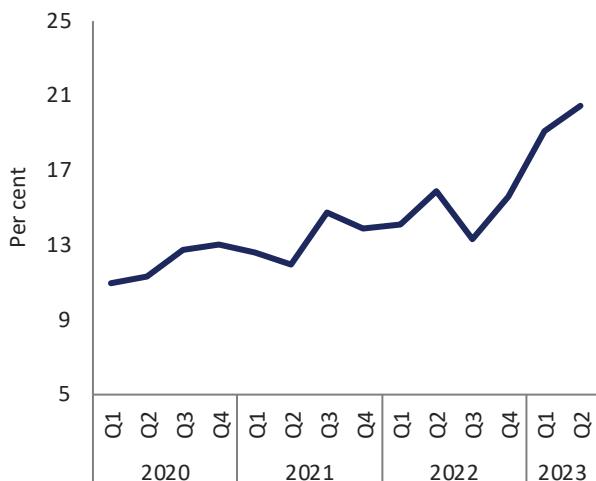


Chart 52 Credit to Deposits Ratio

