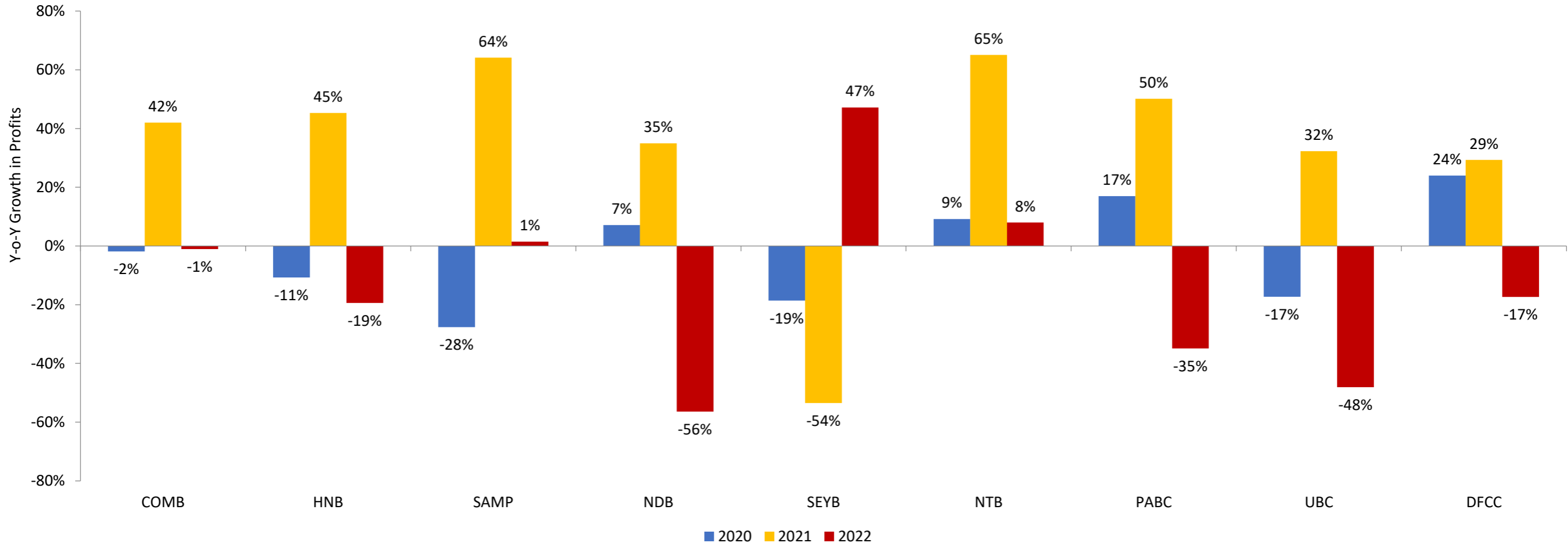


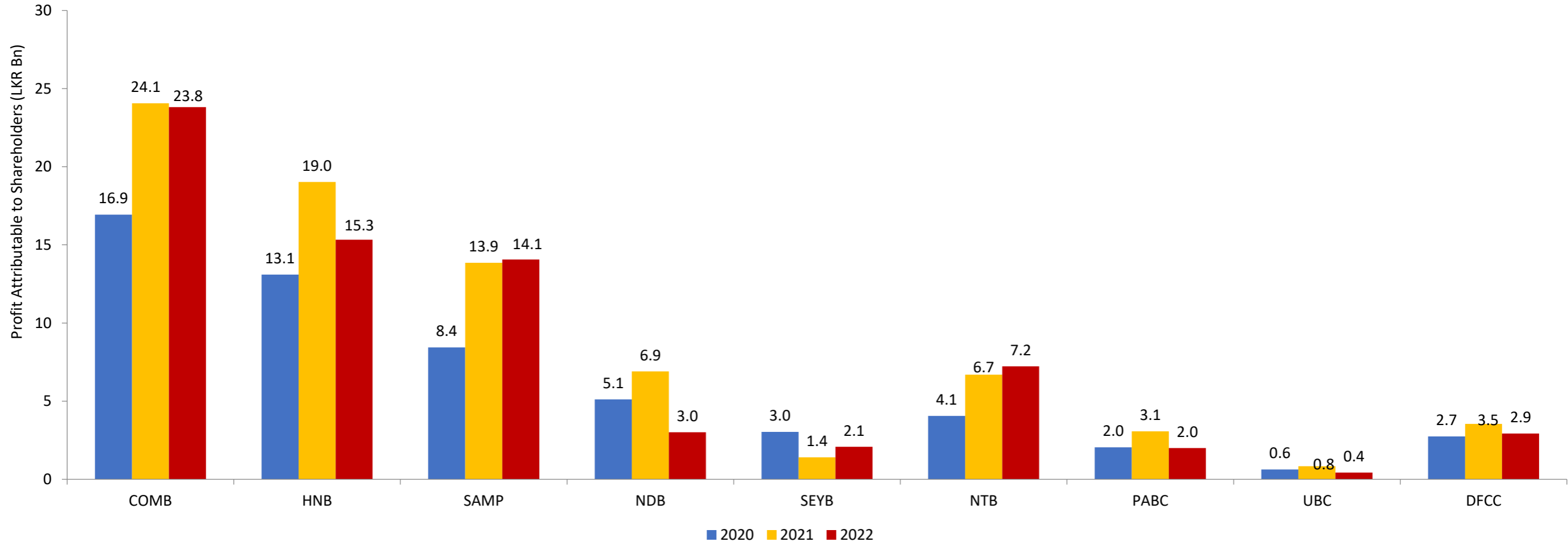
Sri Lanka Banks: 2022 Performance

Profits of LCB's dropped primarily due to higher provisions, increased expenses and taxes. This trend should reverse specially with the revival of economic activities and likely reversal in provisions.



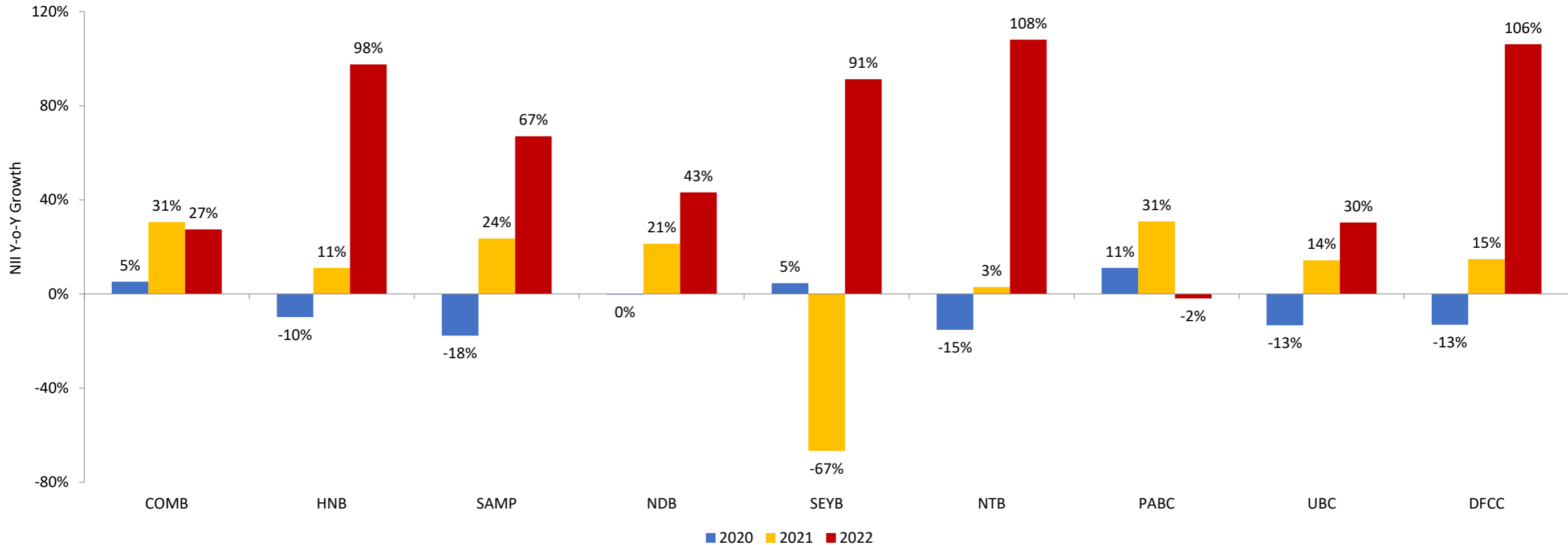
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COMB continued to be the highest profit maker for 2022 followed by HNB and SAMP



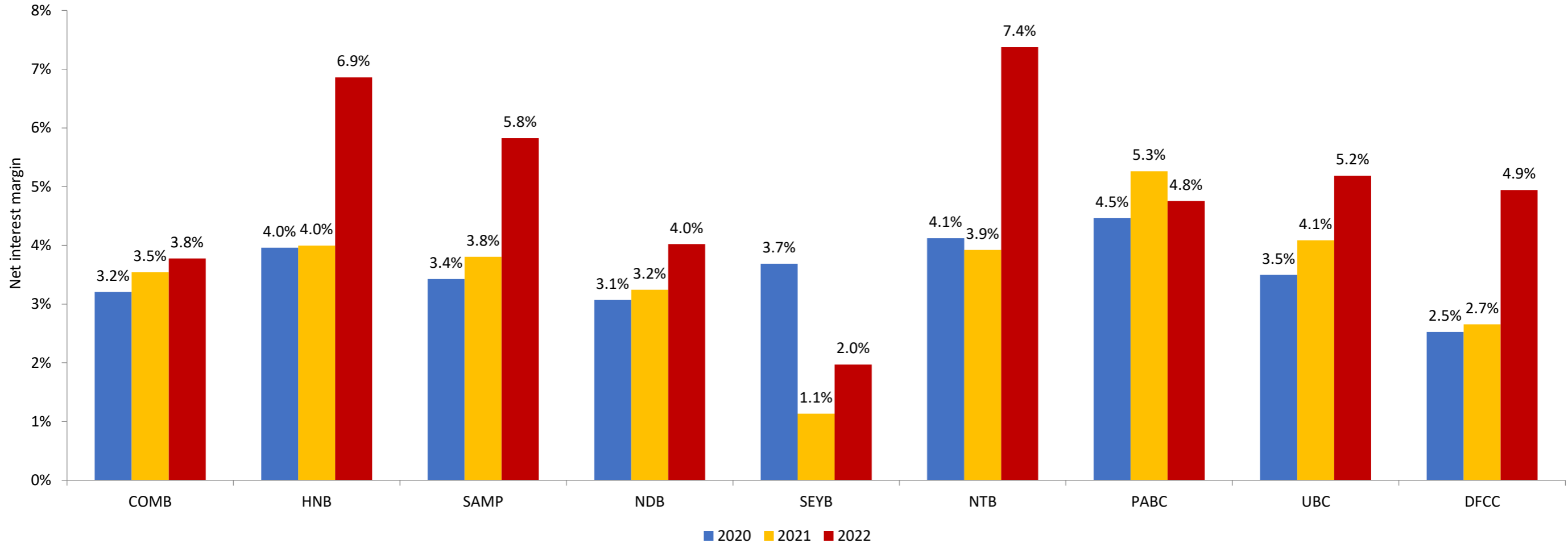
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NII of banks spiked primarily due to the increase in average AWPLR that climbed over 14%, consequent to the Central Bank's restrictive monetary policy to arrest the inflationary pressure in the economy.



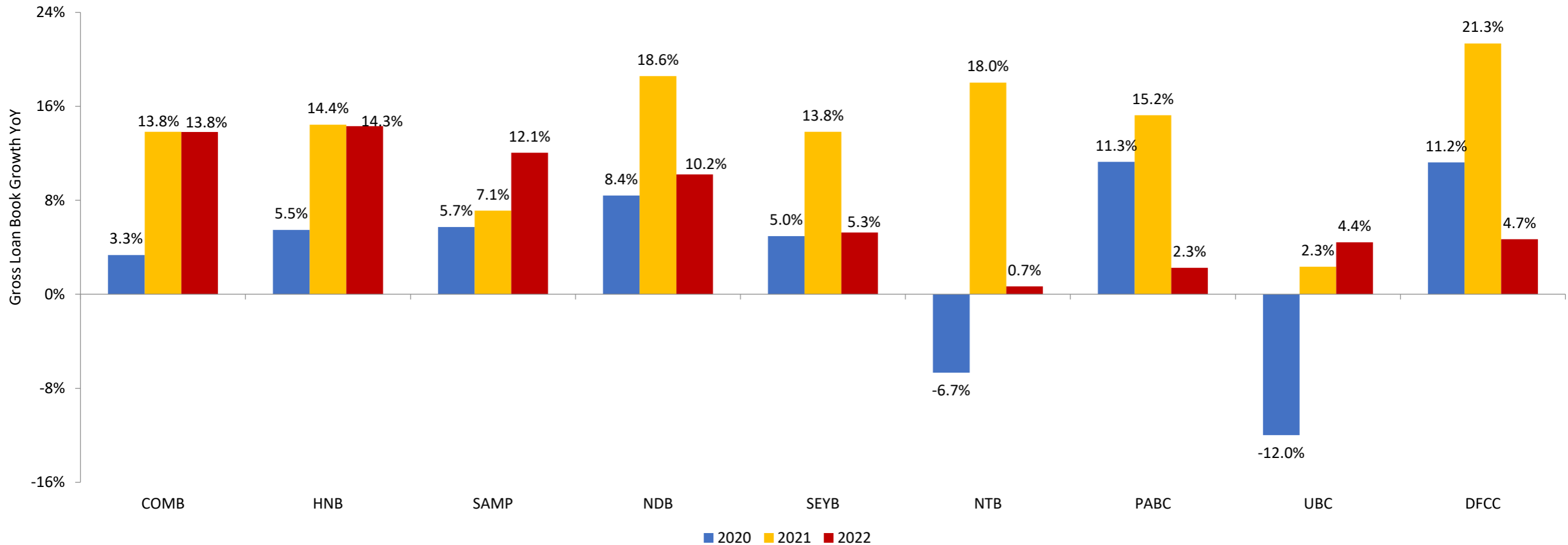
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NIMS thus improved benefiting from frequent repricing of the loans and advances portfolio. Similarly, higher interest income from T-bills and bonds due to unprecedented rate hikes too helped. NIMS should however gradually come down with interest rates falling.



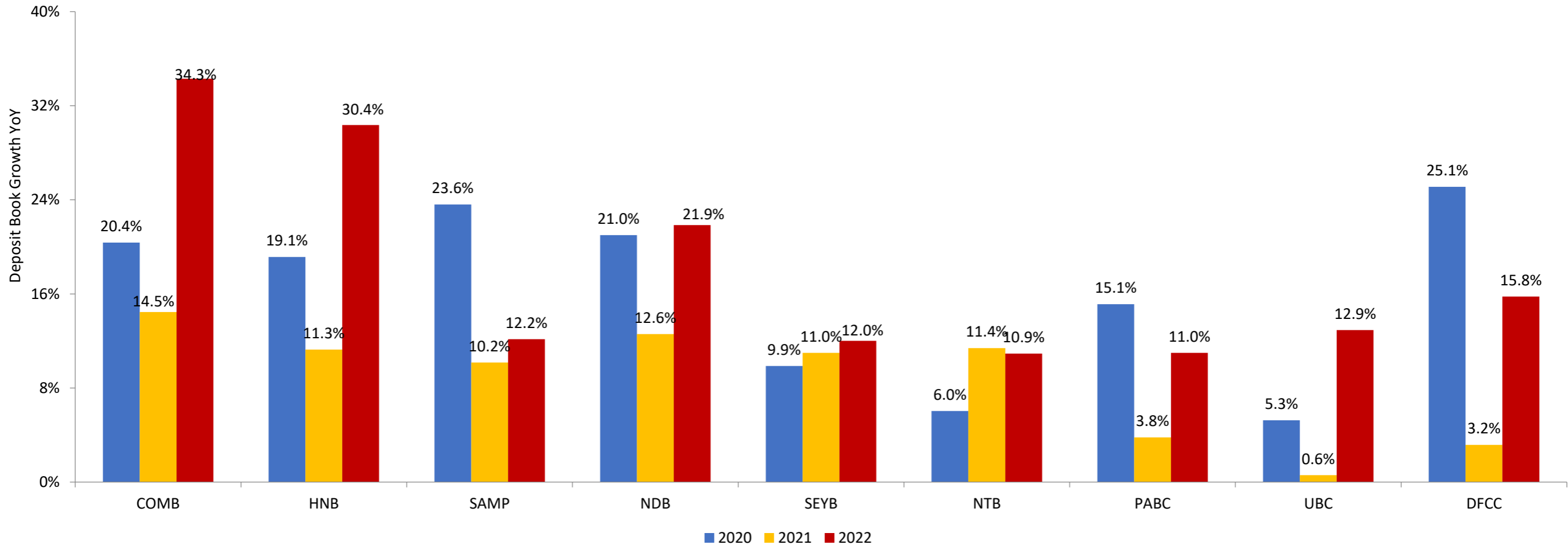
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Loan book was assisted by the impact of the sharp depreciation of LKR on foreign currency loans. When LKR weakness is disregarded, a marginal growth in loan book was recorded amidst a sharp decrease in credit to the private sector. With stability returning and rates falling, we expect this trend to reverse which could be likely from 2H'23.



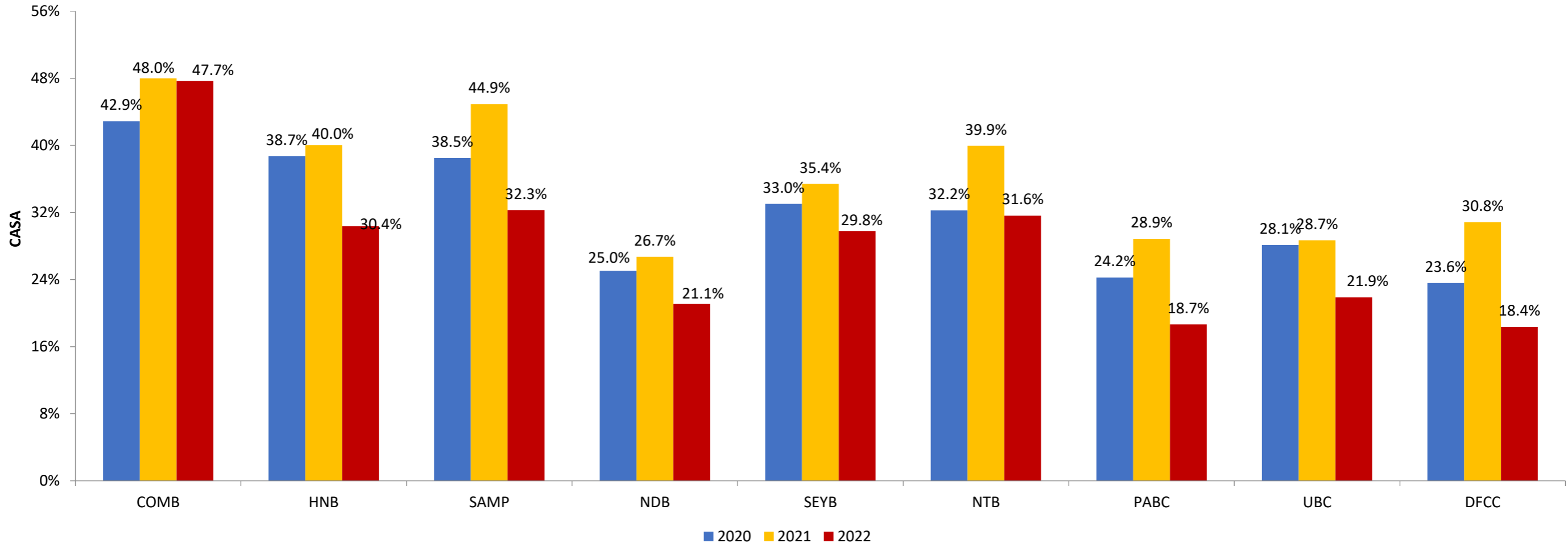
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Deposit book grew much higher than loan book specially with LKR deposits seen a significant growth. Depreciation of LKR too partly helped with foreign deposits getting repriced.



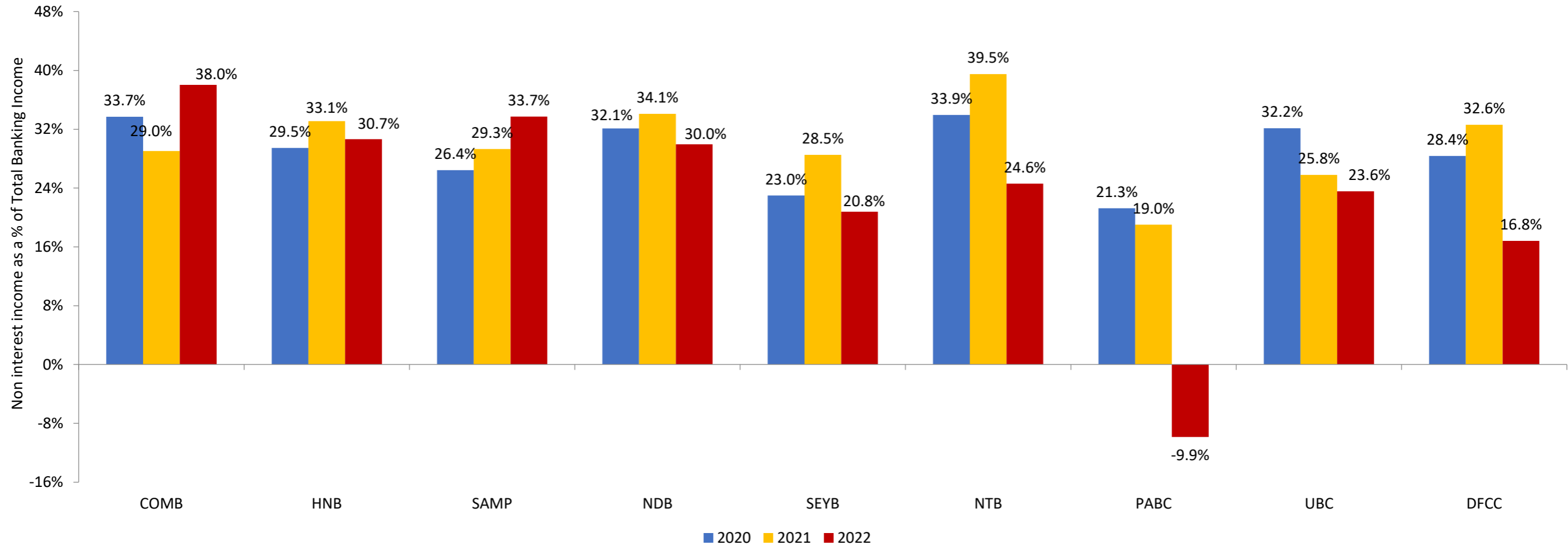
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Industry wise shifts to term deposits were seen due to higher interest rates on LKR deposits and increased shift to FD's owing to increased cost of living, causing a significant drop in the Bank's CASA ratio.



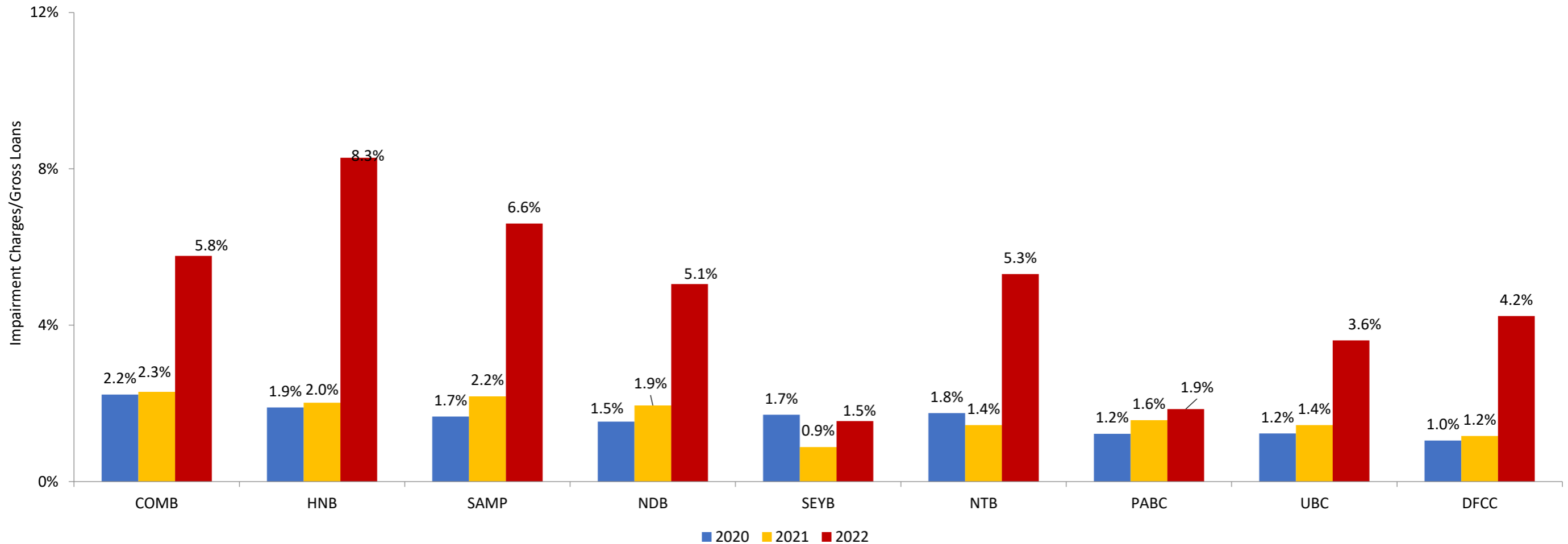
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Fee income increased mainly due to trade and card related activities and the impact of the depreciation of the Rupee on fees received in foreign currency. LKR weakness improved exchange income, cushioning non-interest income.



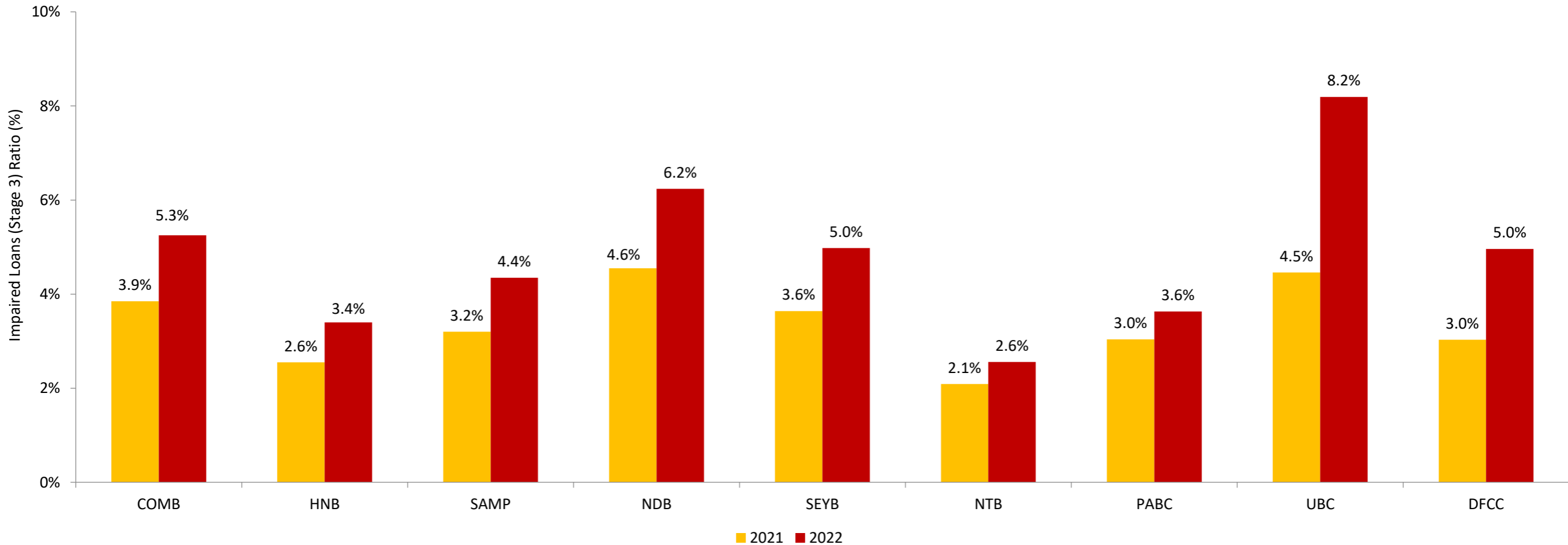
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Impairments spiked especially pursuant to the announcement on suspending repayment of foreign currency debt that prompted banks to provide for their investments in foreign currency denominated government securities. Erosion of disposable income, deteriorating business prospects amidst the breakdown of economic fundamentals, fuel and energy crisis, social unrest, and political instability also caused higher provisioning in loans and advances.



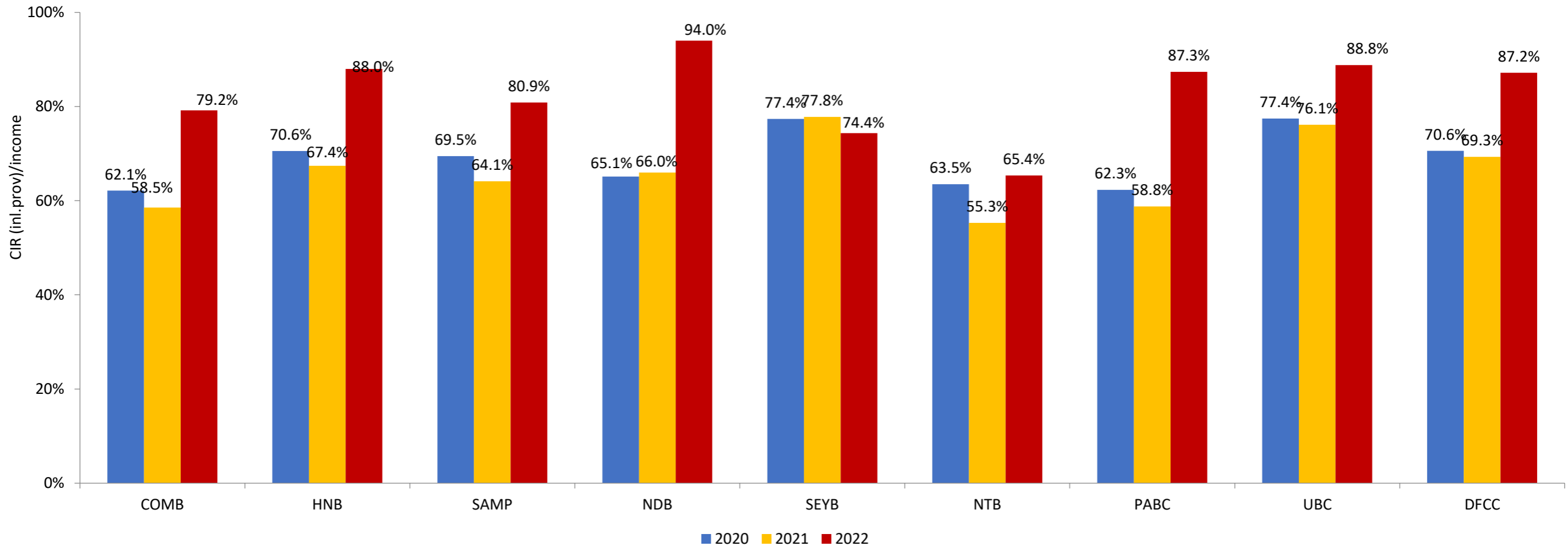
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Stage 3 loans also grew in tandem with uncertainties. Economic recovery and declining interest rates should however reverse this trend likely from 2H'23.



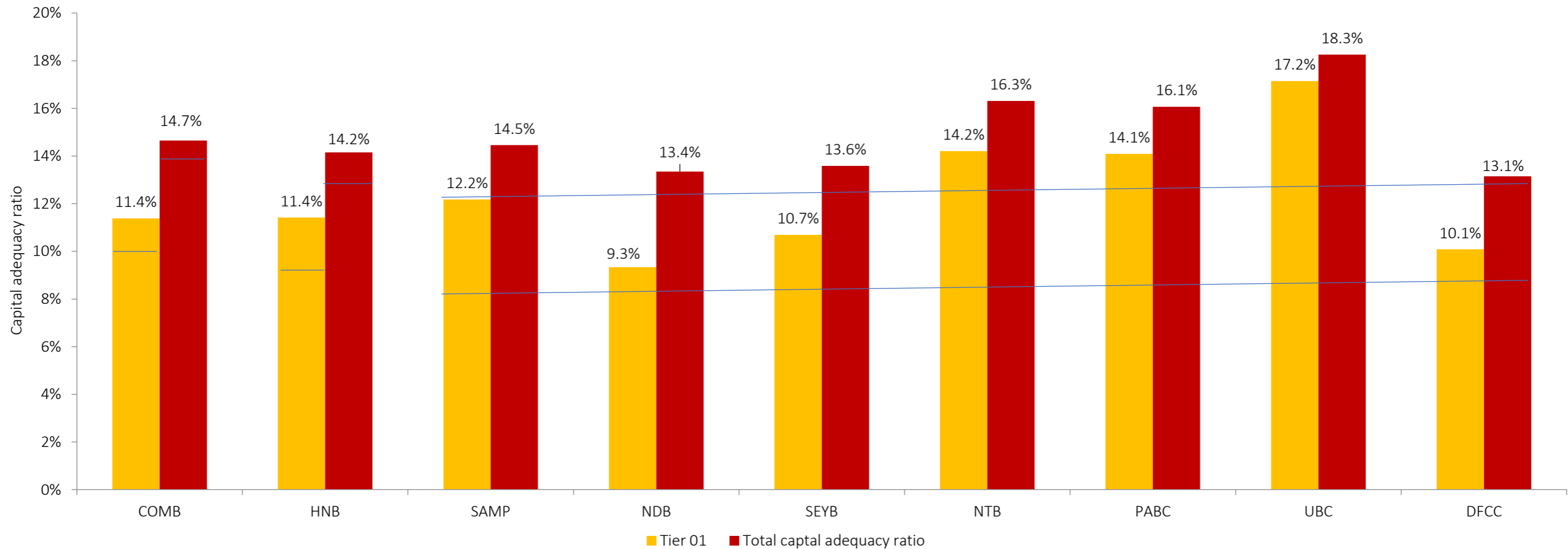
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Cost to income ratio including provisions thus increased significantly due to higher provisions and higher personnel costs and a culmination of widespread price increases that drove up other operating expenses.



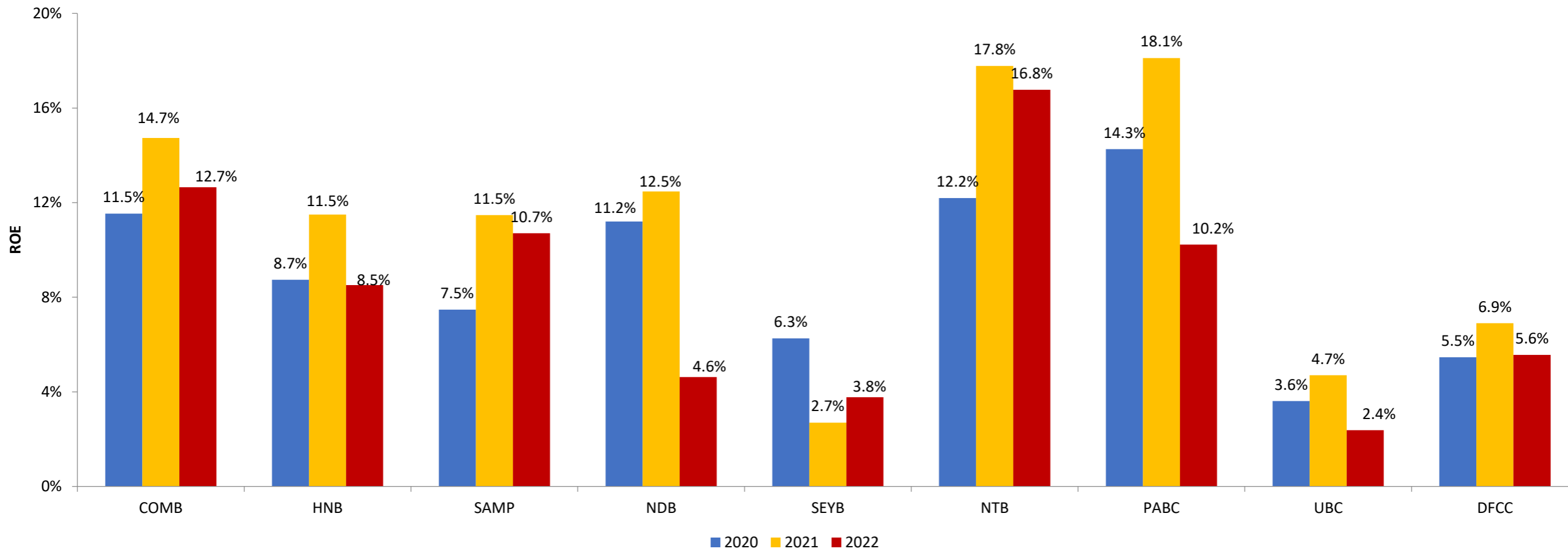
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Capital adequacies of all banks remained well above the minimum requirement after CBSL permitted licensed commercial banks to drawdown on their capital conservation buffers.



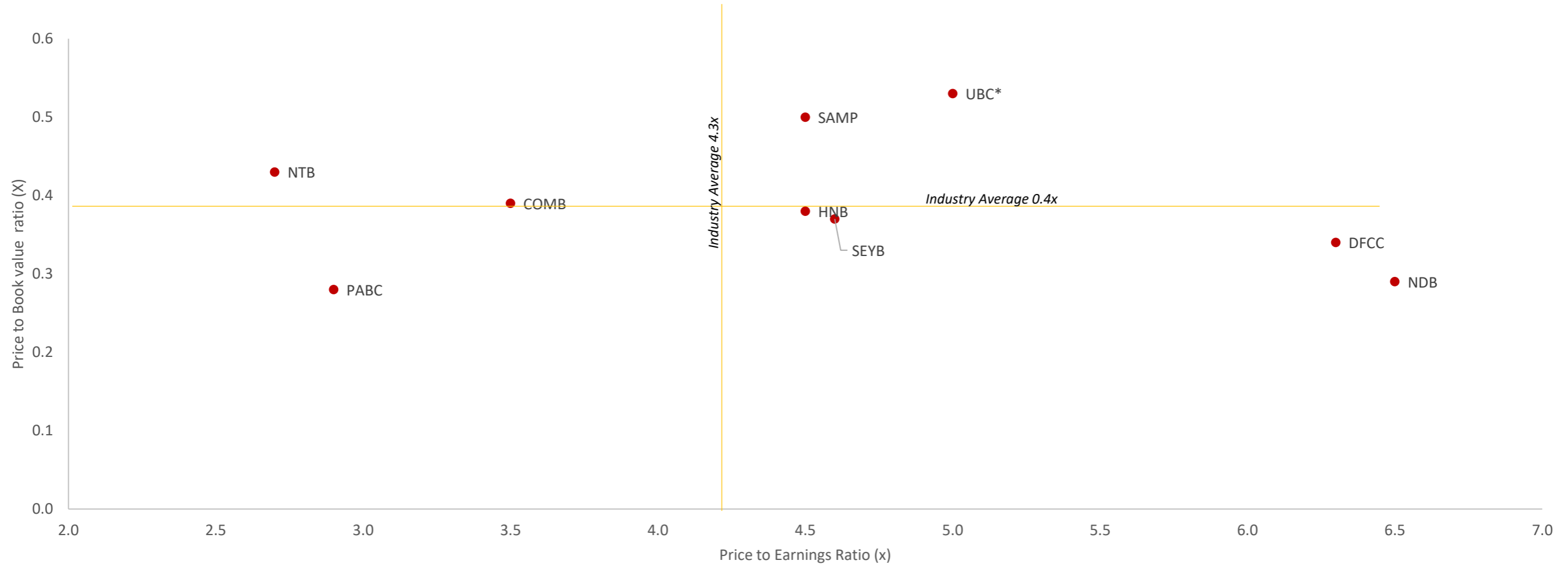
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ROE of banks were suppressed due to profits which were under pressure due to higher impairments, taxes and operational expenses.



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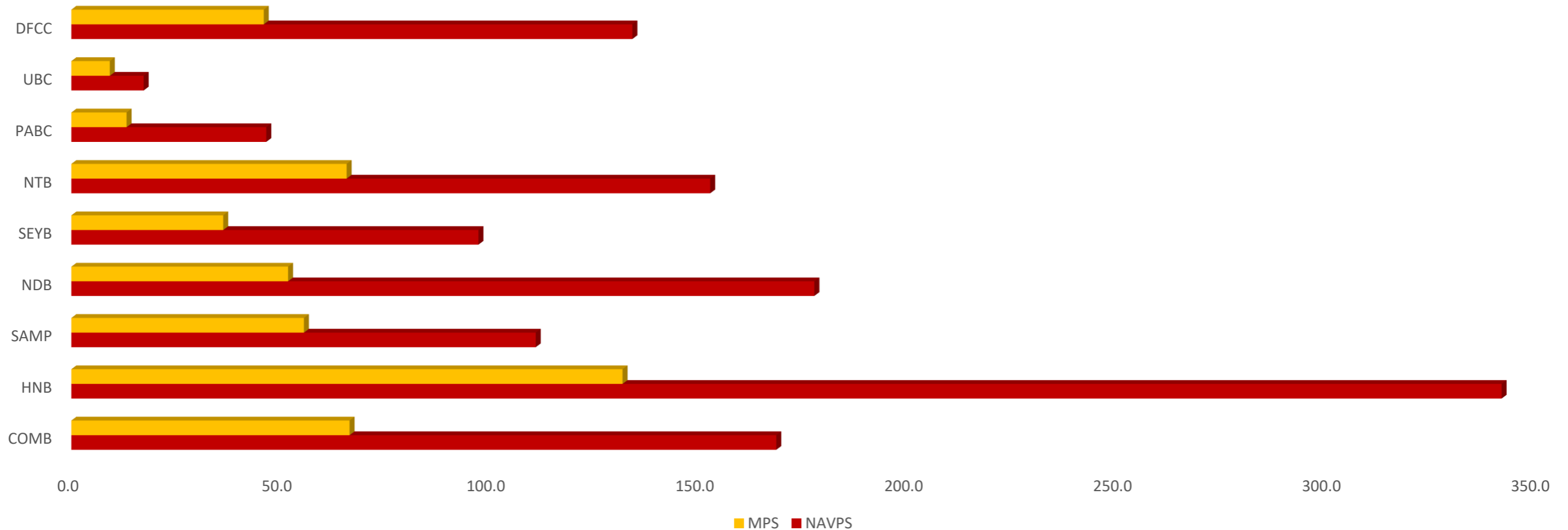
Banking sector valuations looks extremely attractive



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Prices as at 14.03.2023

Market prices of most banks trades than half of their NAVPS giving ample space to rerate the valuations of the industry



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