

Sri Lanka Banks: Licensed Commercial Banks (LCB) : Key Performance Indicators

Total Assets of LCB's
LKR 17.5 Tn

As at 30.09.2023

Net Loan Book of LCB's
LKR 8.8 Tn

As at 30.09.2023

Loan Book Growth
-6% YTD

As at 30.09.2023

Deposit Book of LCB's
LKR 14.1 Tn

As at 30.09.2023

Deposit Book Growth
+5.5% YTD

As at 30.09.2023

Stage 3 Loans
13.7%

As at 30.09.2023

Avg NIMS
3.8%

As at 30.09.2023

Avg ROE (after tax)
11.6%

As at 30.09.2023

Stage 3 Impairment Coverage
48.0%

As at 30.09.2023

Tier 1 Capital Ratio
13.5%

As at 30.09.2023

CASA Ratio
32.1%

As at 30.09.2023

Avg Banking Sector PE/PVB
PE-4.5X, PVB-0.5X

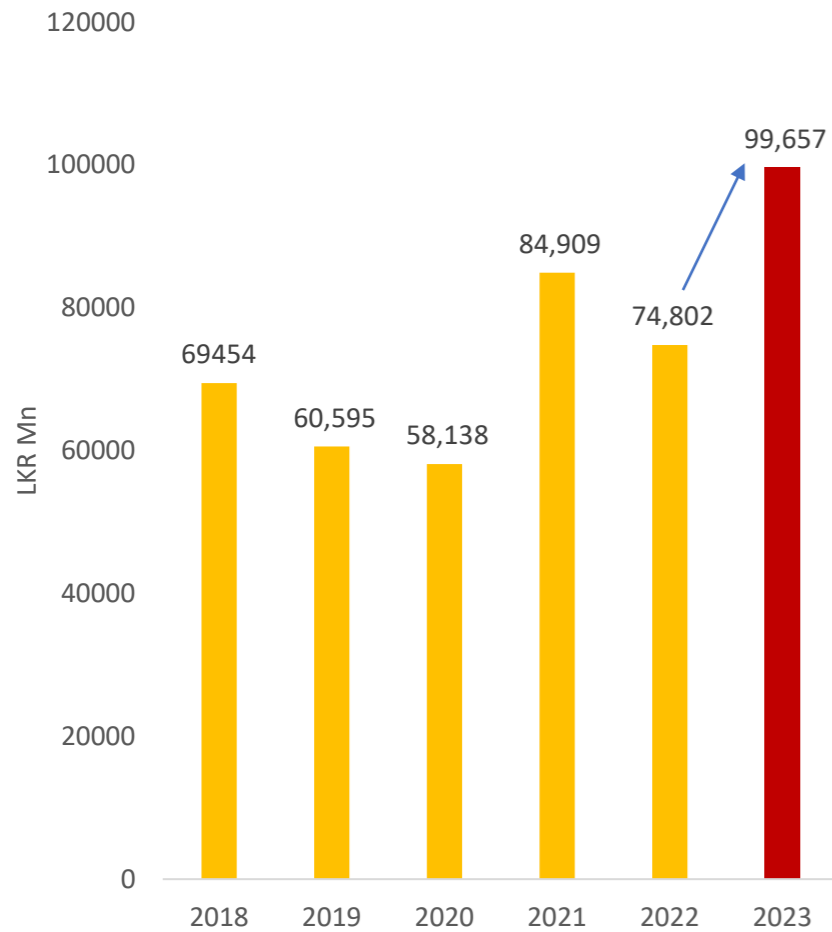
As at 11.03.2024

Sri Lanka Listed Banks Performance: 2023

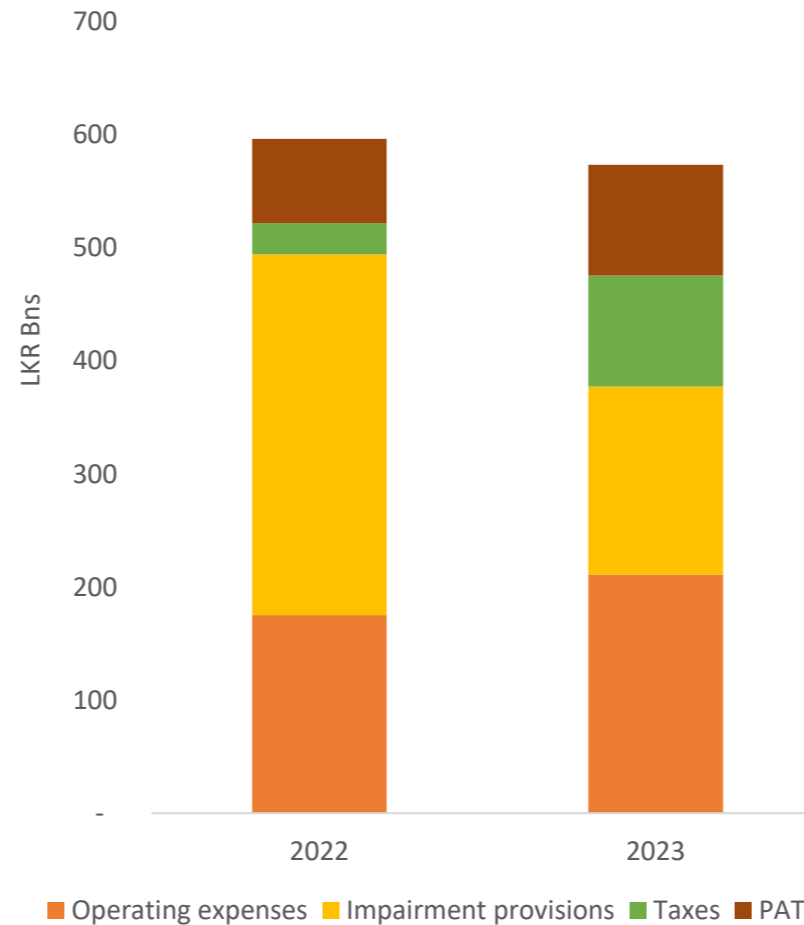
Banking sector profits jumped by 33% YoY to LKR 99.6Bn in 2023

Lower impairment provisions and moderate growth in NII helped

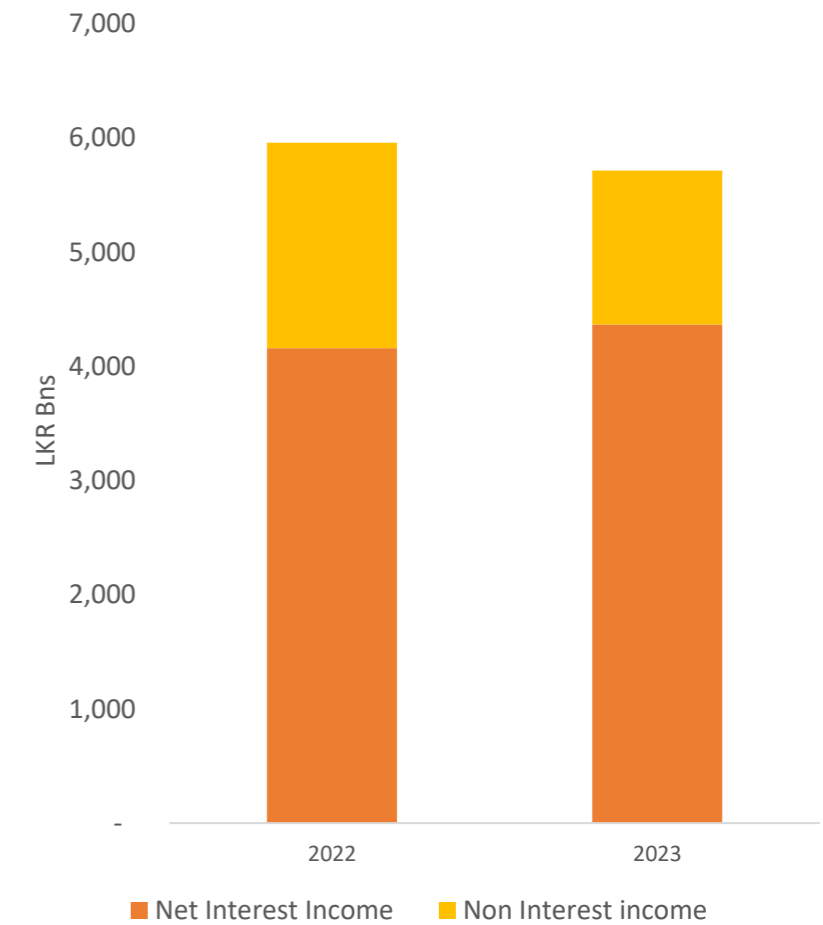
Banking sector profits have surpassed pre covid level profit figures



Impairments saw a considerable decline while tax charges increased due to full year impact in taxes

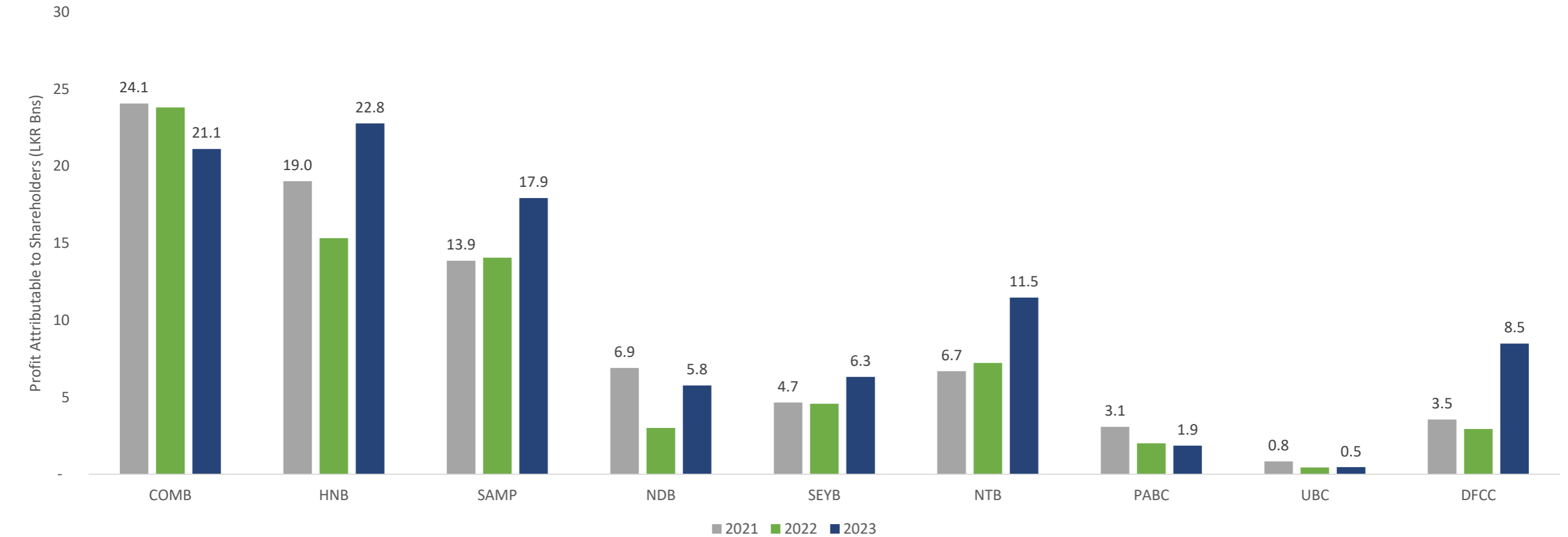


Net interest increased moderately while non-interest income declined mainly in absence of exchange gains



Most banks saw their profits growing in 2023

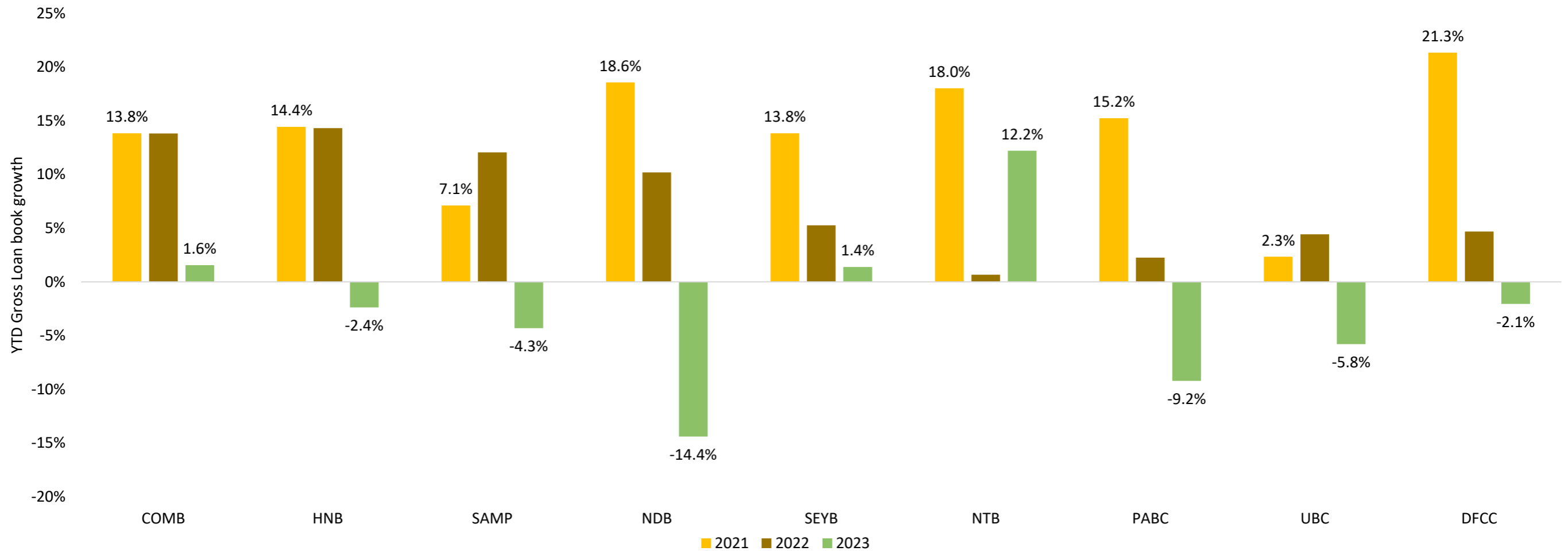
HNB recorded the highest profits in 2023 followed by COMB and SAMP



COMB- Commercial Bank, HNB-Hatton National Bank, SAMP- Sampath Bank, NDB- National Development Bank, SEYB- Seylan Bank, NTB- Nations Trust Bank, PABC- Pan Asia Bank, UBC- Union Bank, DFCC- DFCC Bank,

Loan books contracted due to sluggish demand for credit and the cautious approach adopted during the 1H'23 with interest being relatively high

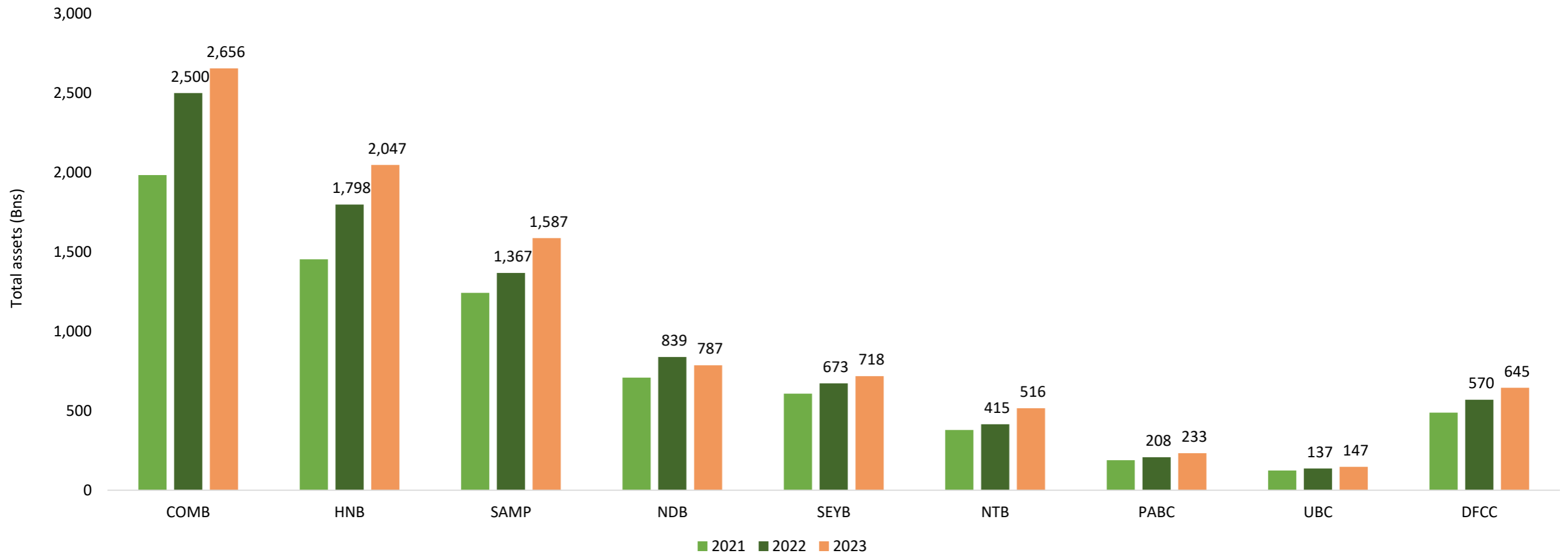
Gradual revival in economic activities and declining interest rates have helped contributed towards an uptick in loan books from 4Q'23



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Asset book however grew in most banks despite sluggish loan book growth

Assets grew mainly propelled by higher investments in government securities

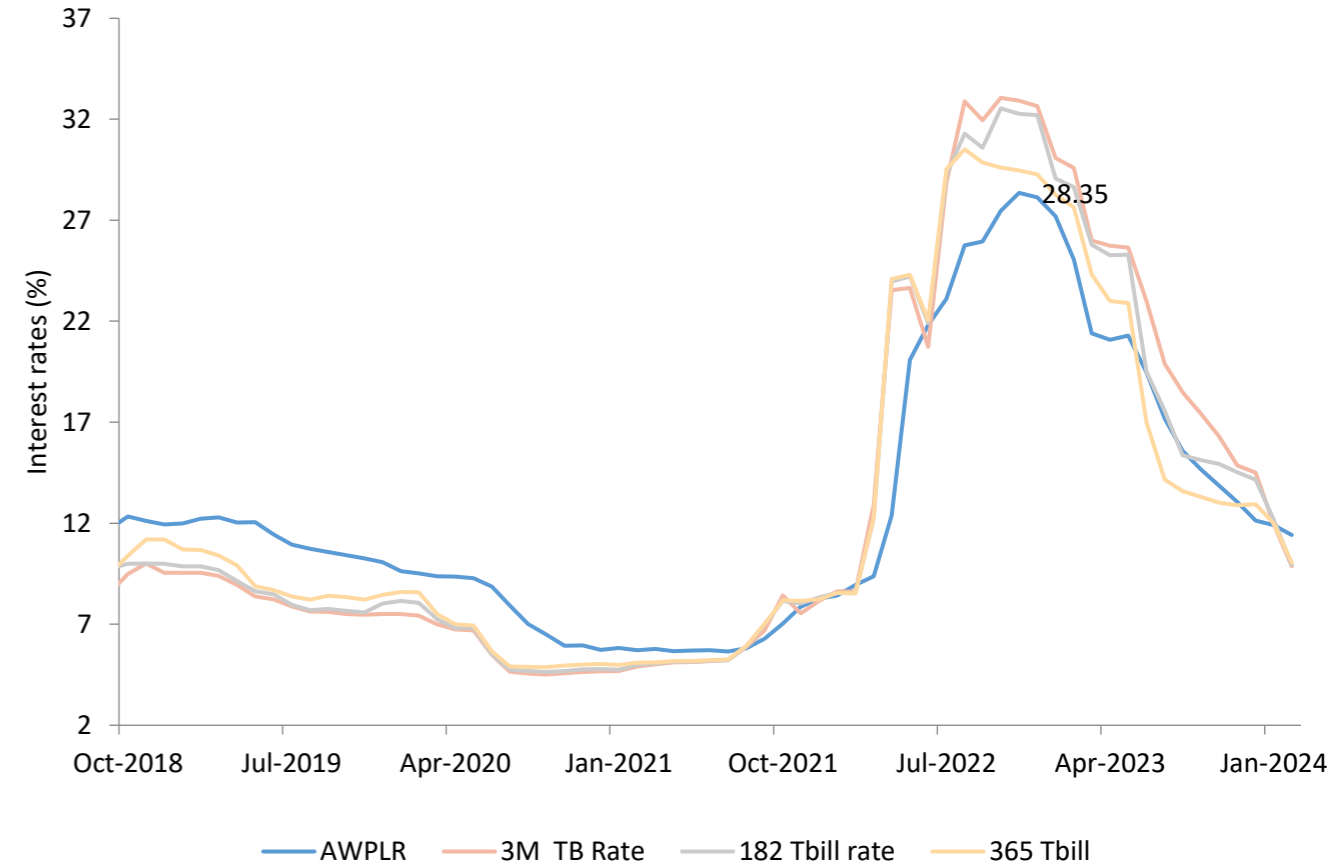
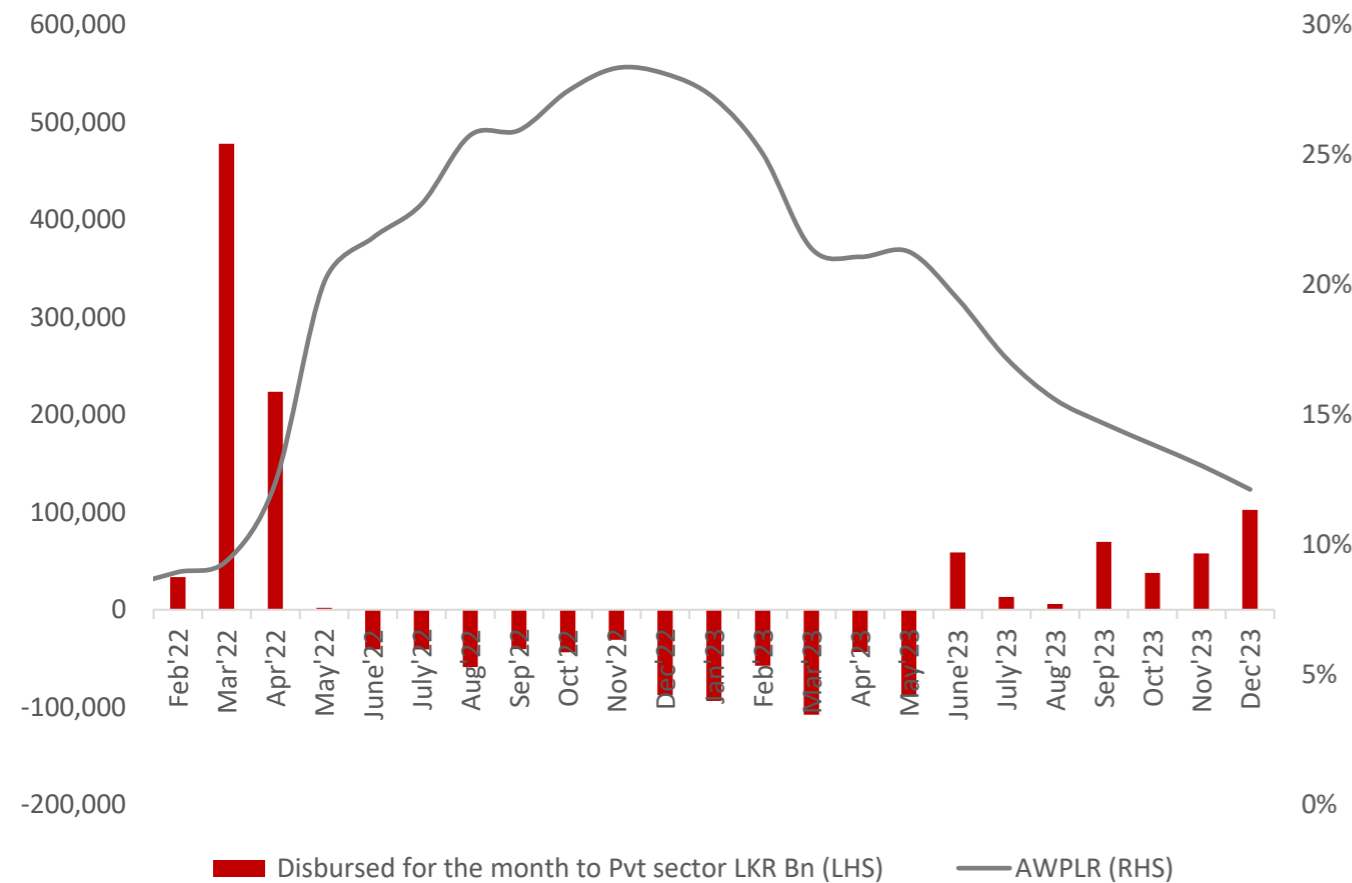


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Private sector credit saw LKR 345Bn added in 2H'23, Interest rates have halved from 2023 levels
Rates should fall by least another 100bps in our view with likely policy rate cut in 2Q'24

Private sector credit saw a jump from June'23 after a year of contraction

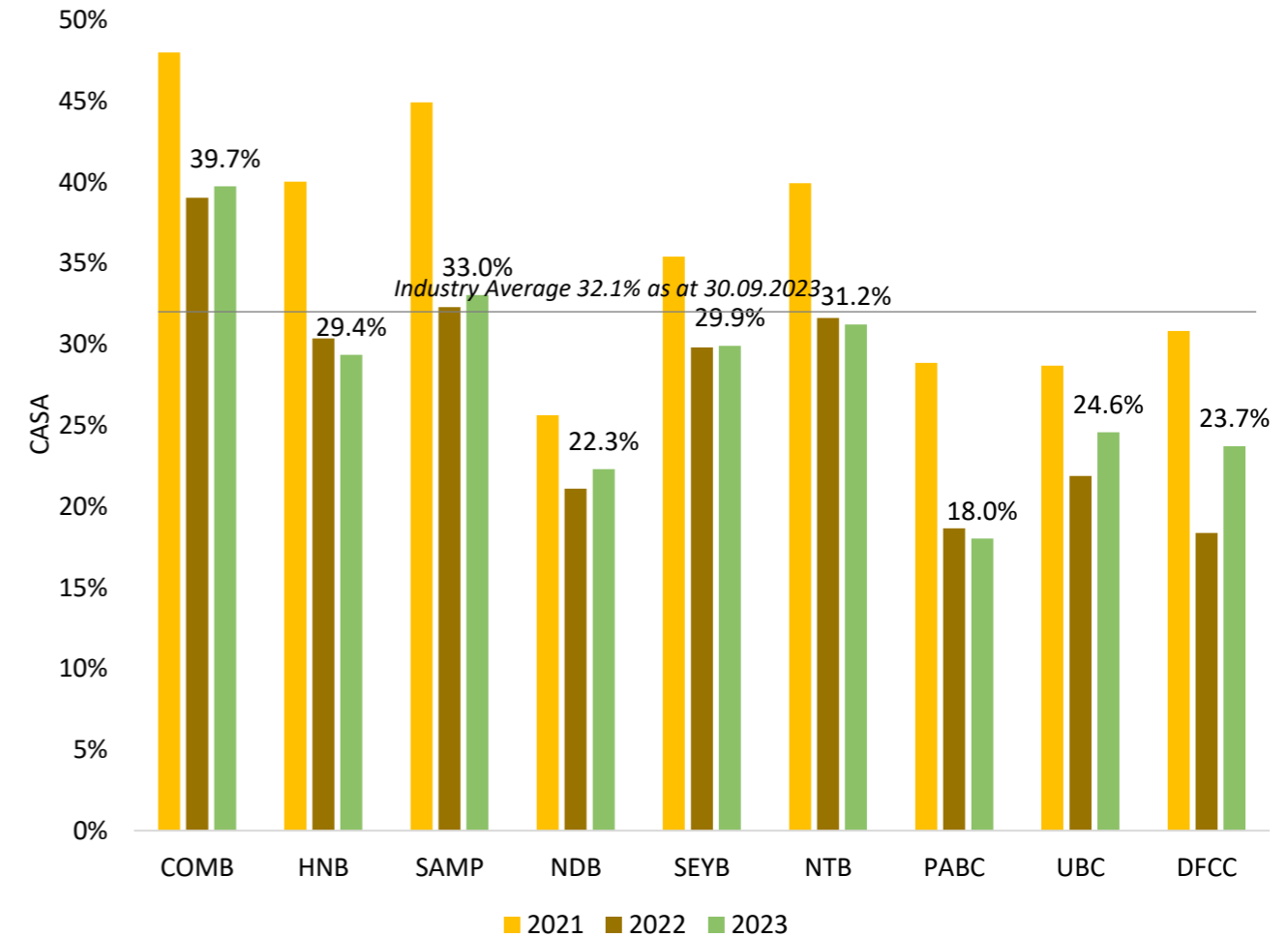
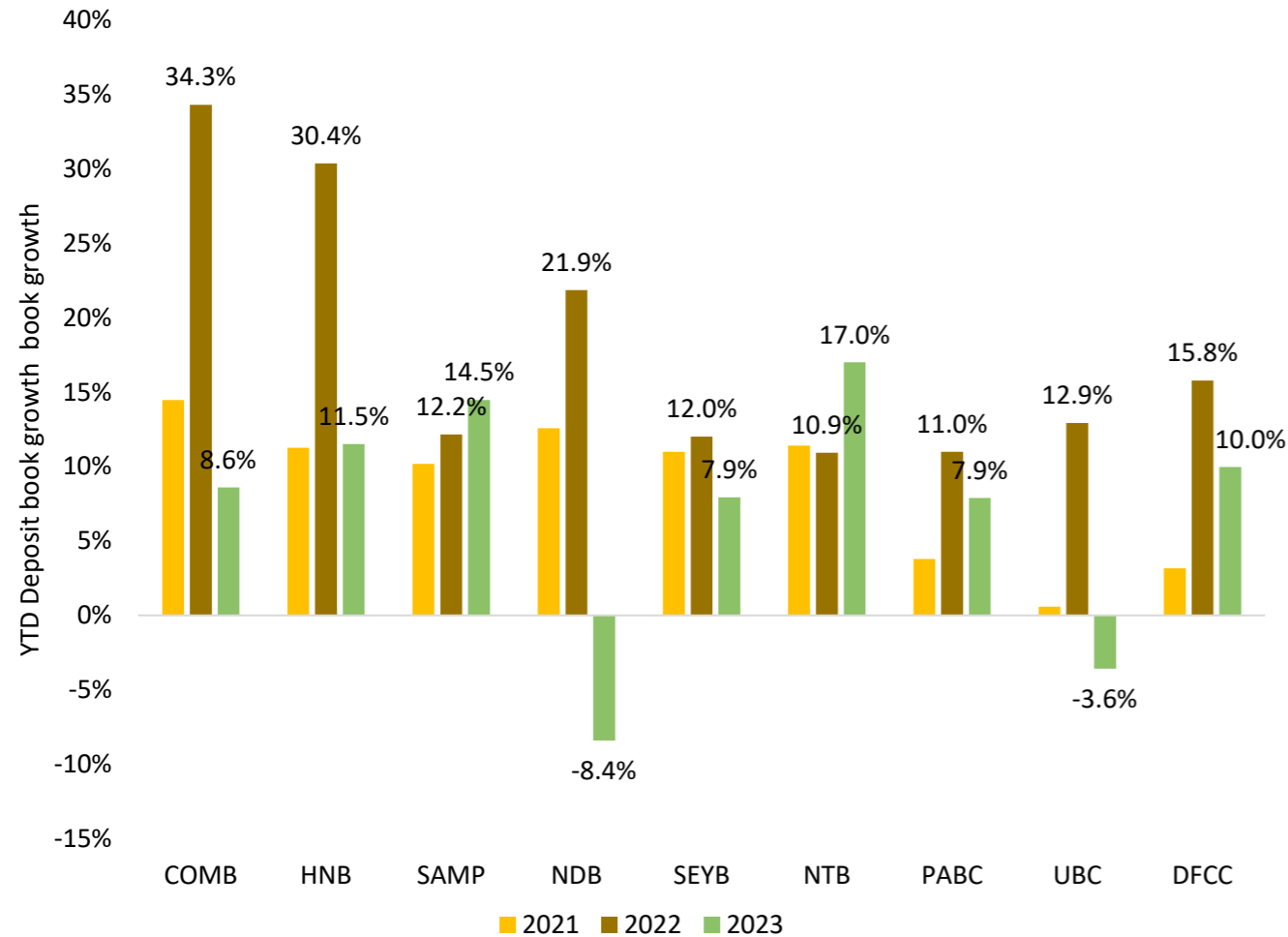
Interest rates should continue its downward trajectory



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Deposit book however expanded, slower than 2022, as falling rates discouraged deposits

CASA base therefore improved due to FD rates falling drastically

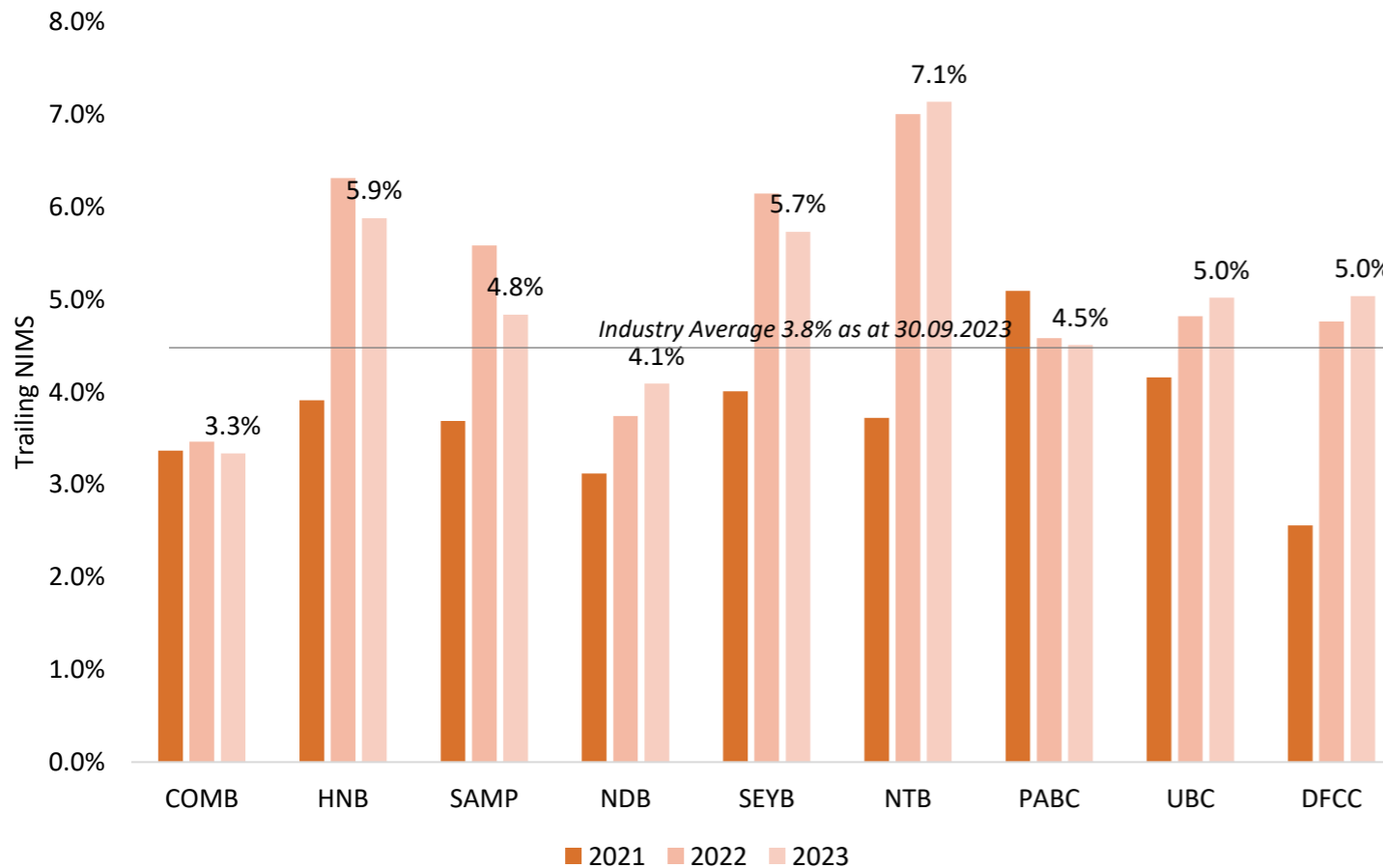


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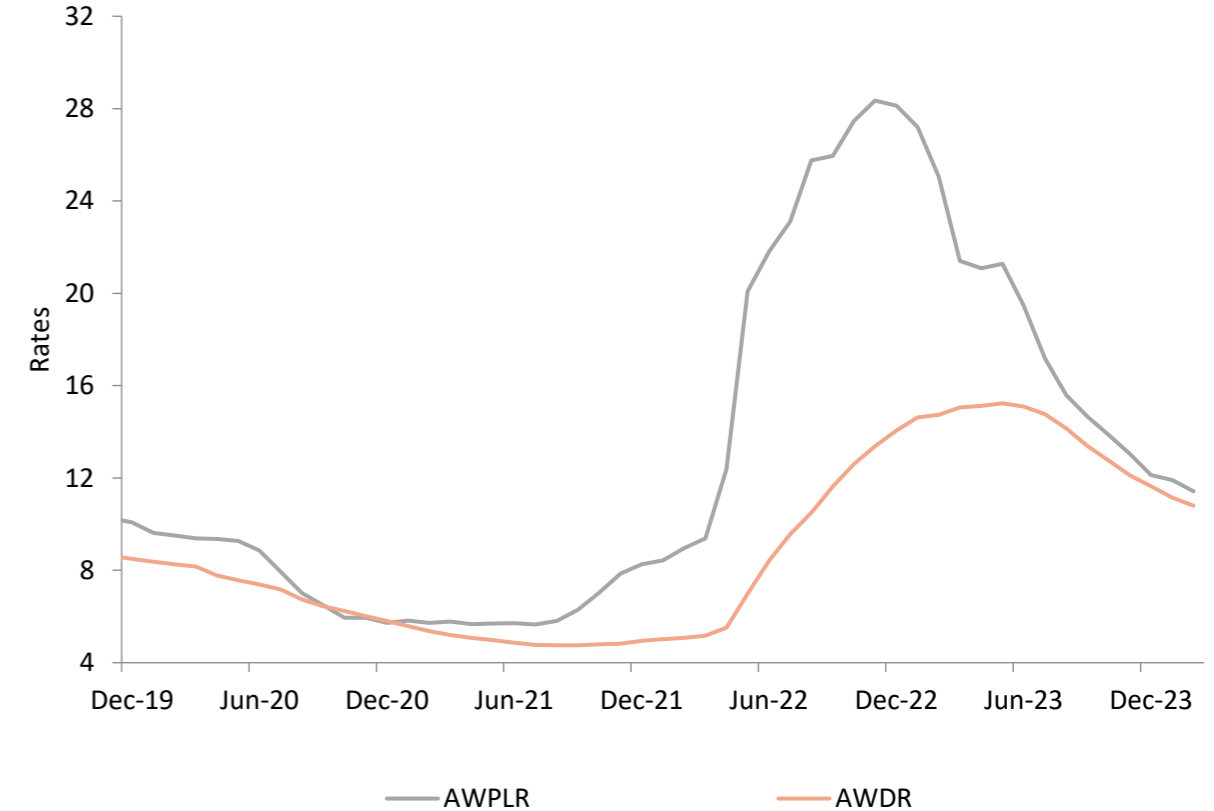
Net interest margins fell in most counters with falling rates

Drop in AWPLR together with mobilization of deposits for higher interest rates resulted in higher interest expenses, shrinking NIMS

NIMS are narrowing down



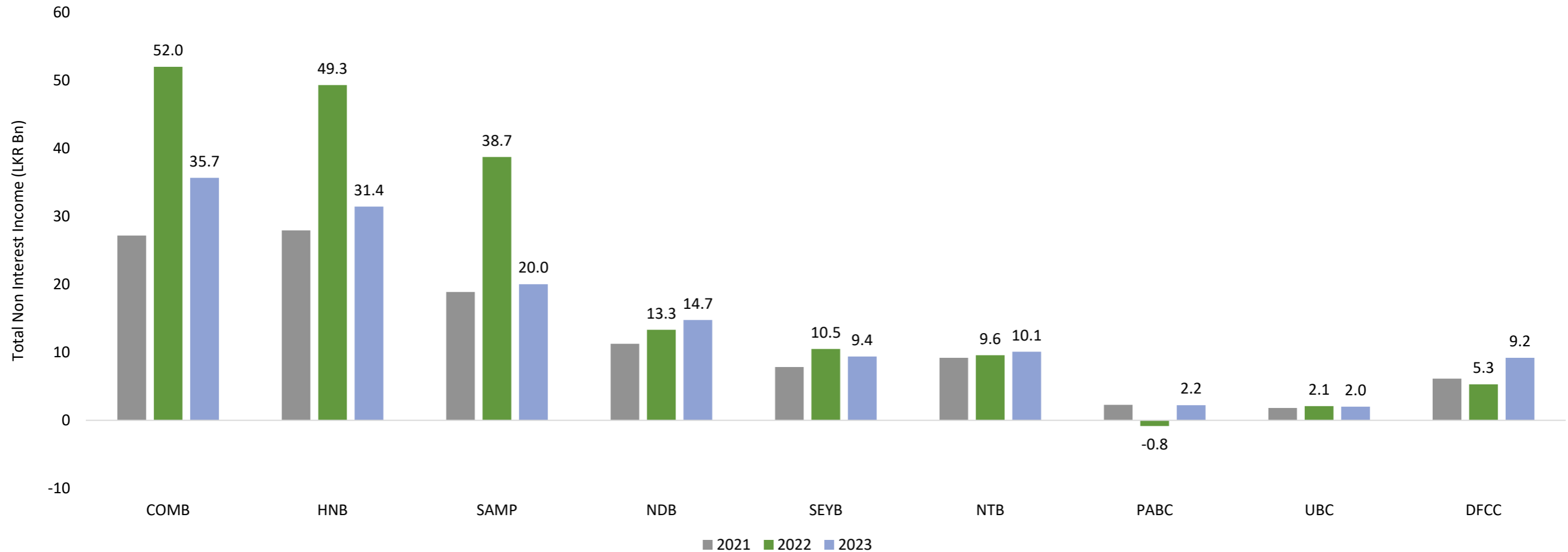
Spread is too narrowing with AWPLR falling



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Noninterest income dropped mainly due to the absence of foreign exchange gains and lower income from credit related activities

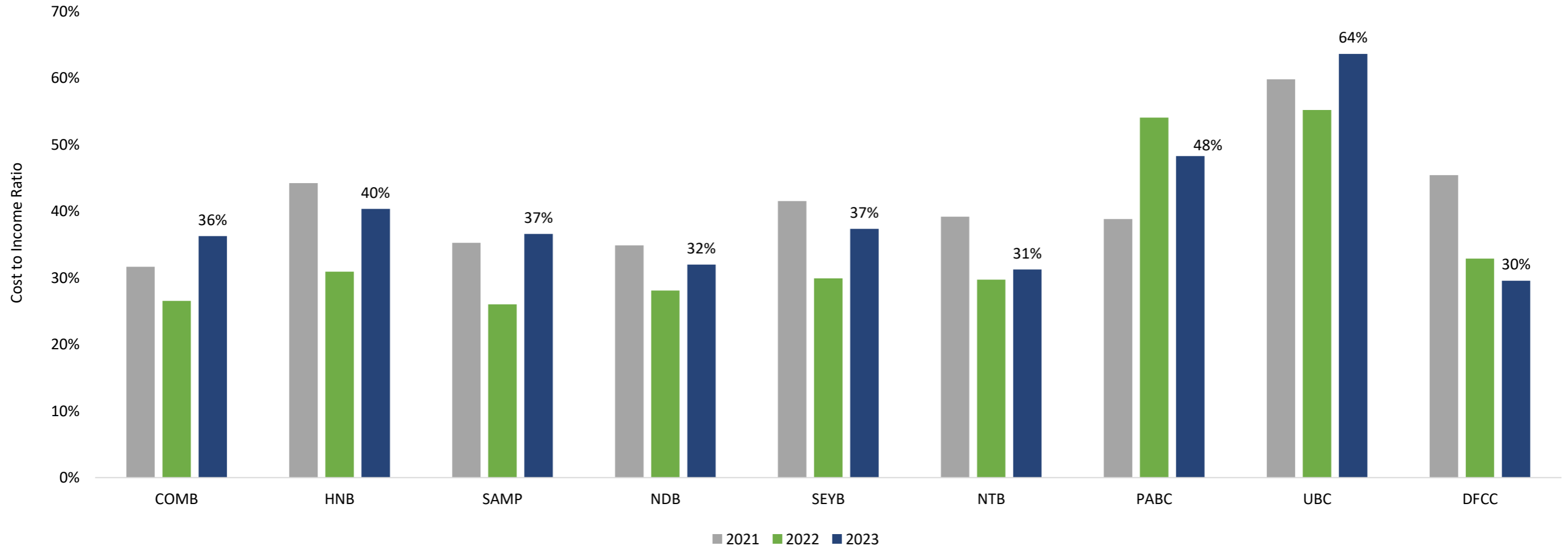
Appreciation of LKR also contributed towards exchange losses. Higher volumes in credit cards, improved remittances and an increased adoption of digital banking services however helped improve fee income.



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Cost to income ratio edged up with elevated overhead costs stemming from inflation-induced price hikes and decline in operating income

Energy cost and foreign currency denominated expenses too drove up the cost base

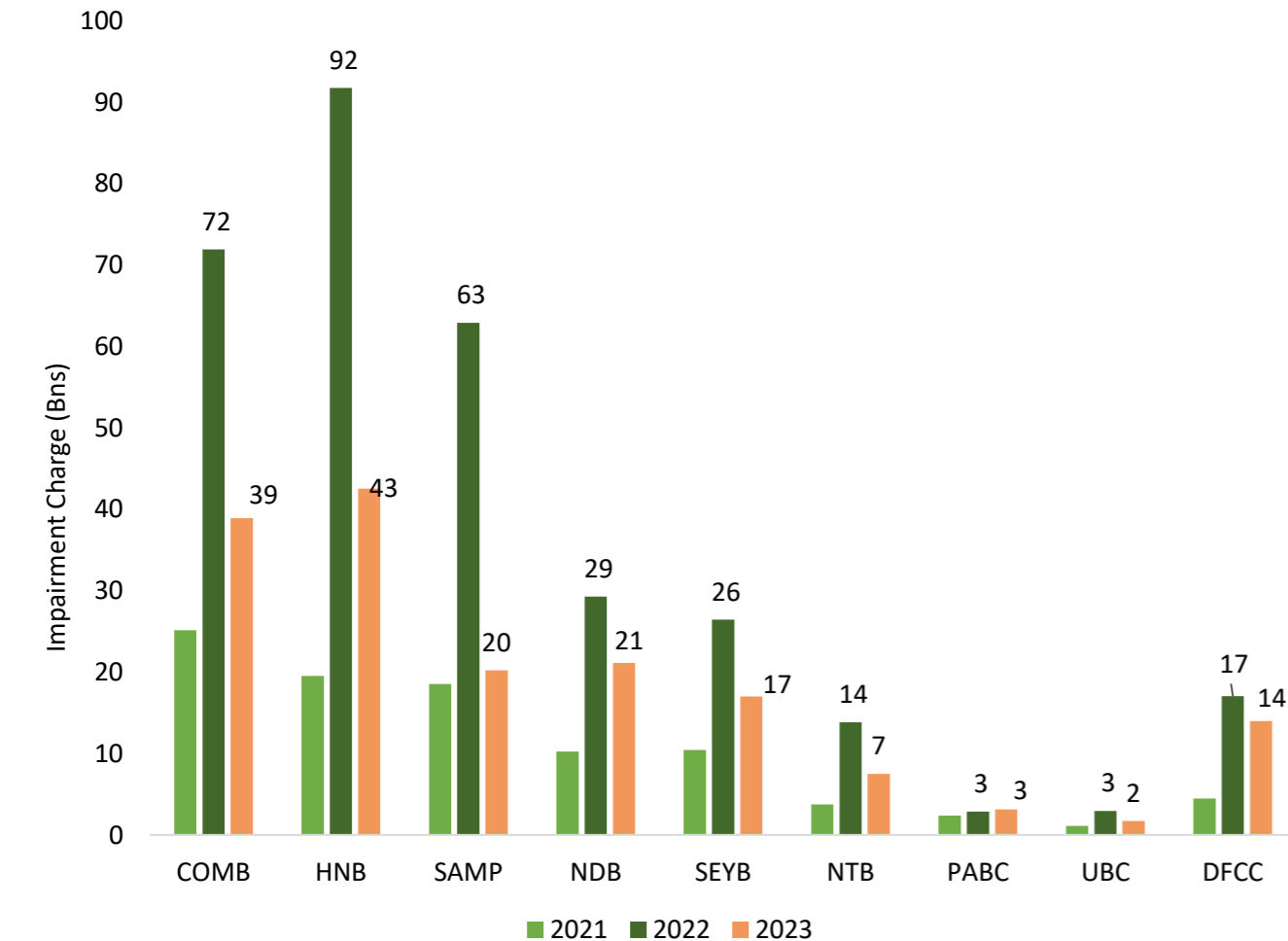


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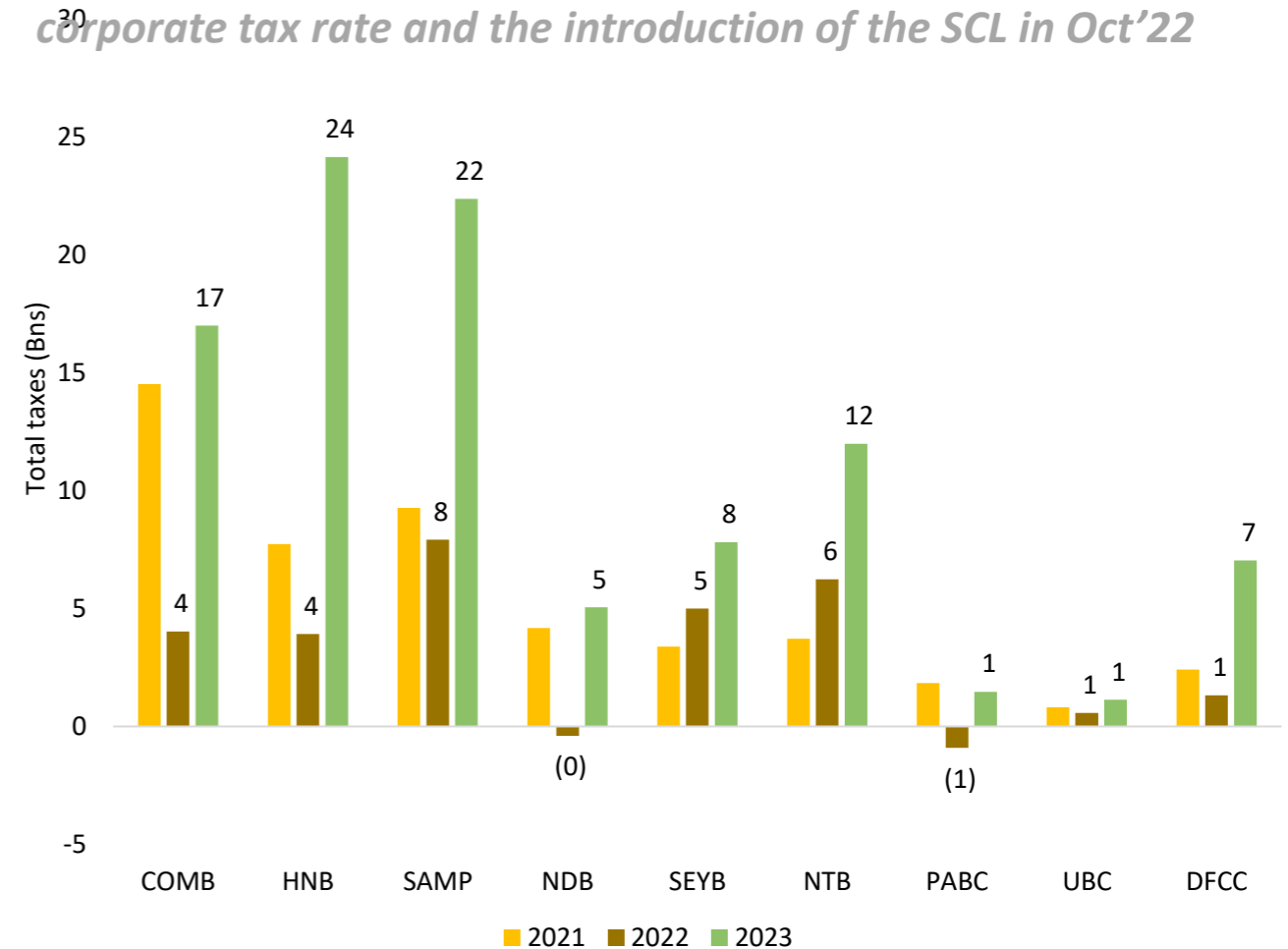
Impairment charges declined gradually largely due to higher impairment provisions made for FCY investments in 2022

Impairment charge for loans and advances picked up given the economic conditions. We however expect the provisioning to slow down with improved macro economic factors

Impairment provisioning now slowing down



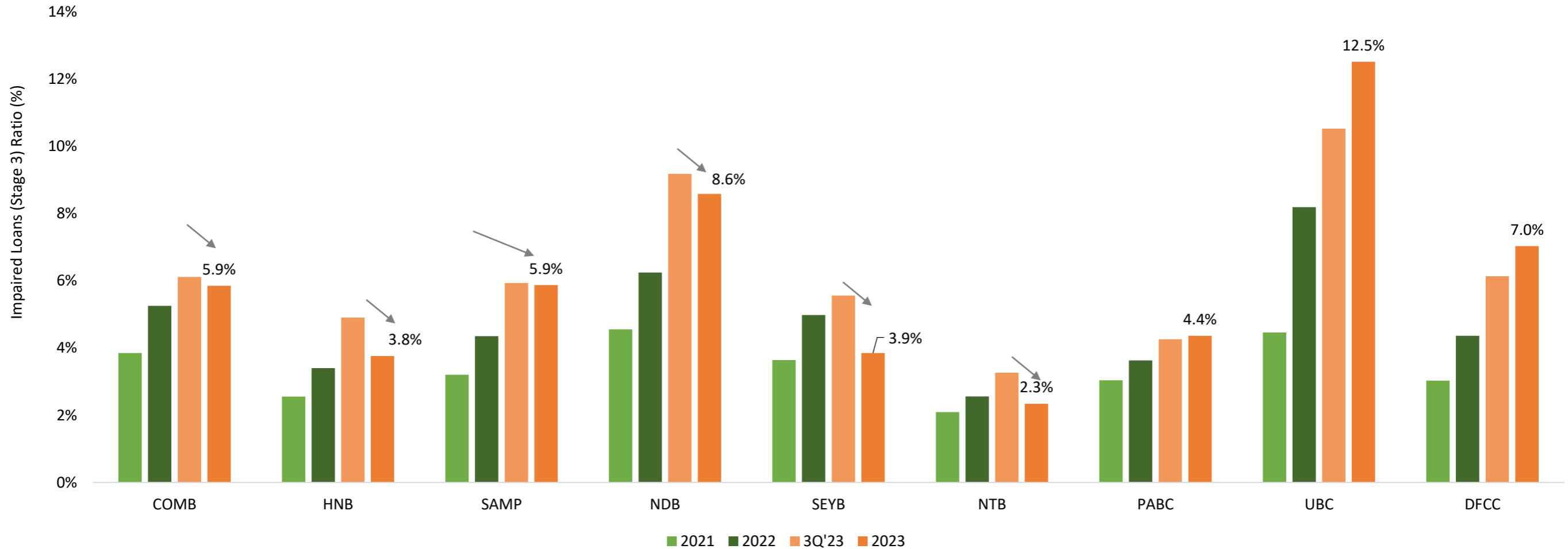
Tax charges edged up due to absence of deferred tax adjustment in 2022 and full year's impact of the increase in corporate tax rate and the introduction of the SCL in Oct'22



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Stage 03 impairment loans tapered down QoQ in most banks signaling gradual progress in macro indicators

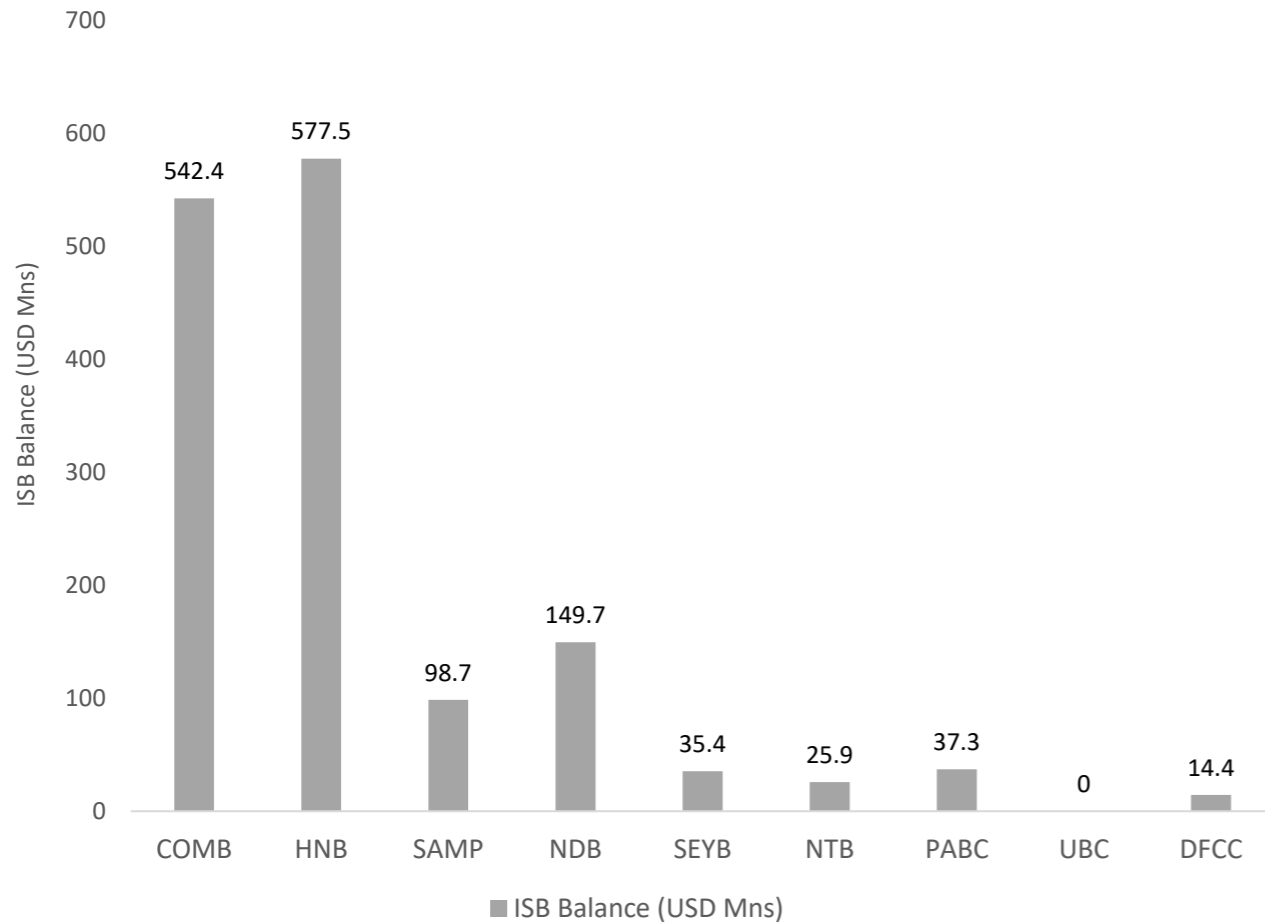
Stage 03 impaired loans should slow down further with economic conditions improving further.



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Most banks have provided for >50% of their respective ISB Exposures

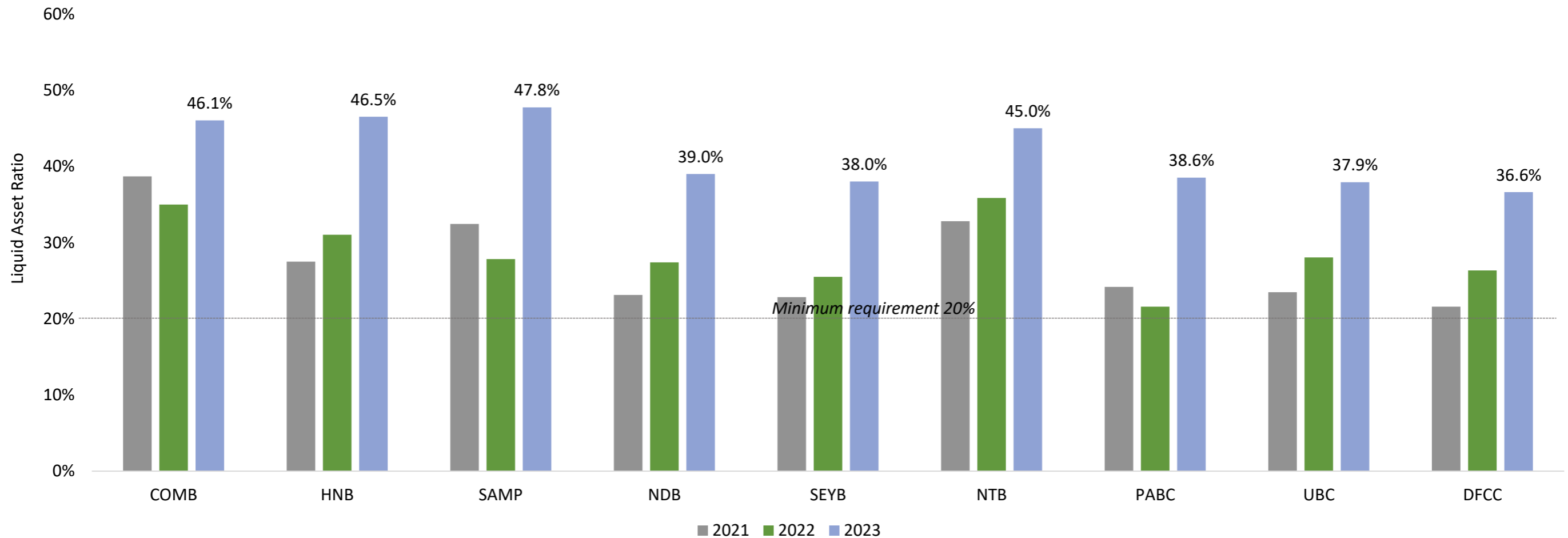
Most banks have provisioning made above the industry average



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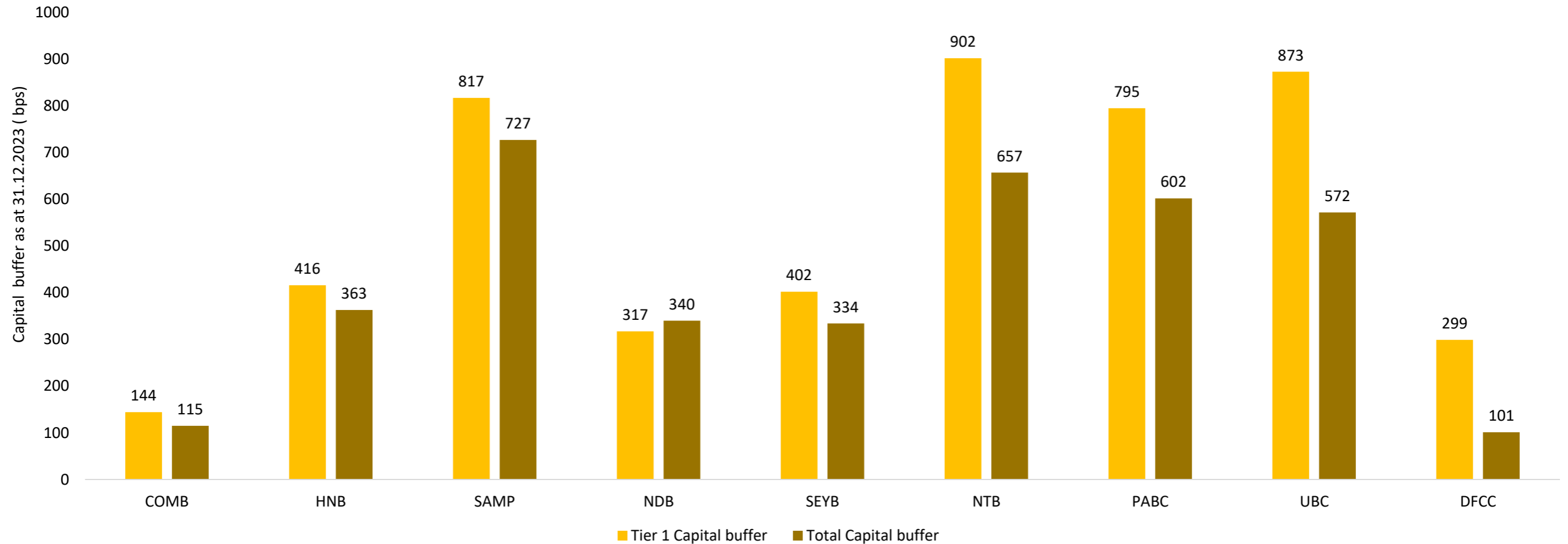
Liquid asset ratio was maintained above the minimum requirement along with higher exposure on GSEC.

We however think this ratio to gradually fall specially with interest yields dropping in government securities, giving more levy for banks to deploy their assets for loans



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Capital buffers of most banks are comfortably above minimum requirement
DFCC, COMB, SEYB are some of the banks which are accounting for low capital buffers.



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Returns bounced back in most banks due to improved profits
Returns should gradually normalize over the coming years



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Banking Sector : Valuations

We are bullish on the banking sector as the entire sector is trading at an attractive multiples
All listed banks trades well below the historic average trading multiples indicating value.

Counter	Ticker	MP as at 11/3/2024	PE (X)	PBV (X)	Trailing DY	ROE (%)
Banking Sector			4.5	0.48		10.6
Commercial Bank	COMB-N-0000	94.00	5.9	0.56	4.8	9.6
Commercial Bank [NV]	COMB-X-0000	81.70	5.1	0.49	5.8	9.6
DFCC Bank	DFCC-N-0000	70.50	3.5	0.44	2.8	12.5
Hatton National Bank	HNB -N-0000	159.75	3.9	0.42	3.1	10.7
Hatton National Bank [NV]	HNB -X-0000	138.75	3.4	0.37	3.6	10.7
HDFC	HDFC-N-0000	32.90	1.4	0.26	na	18.1
National Development Bank	NDB -N-0000	63.40	4.4	0.34	8.7	7.7
Nations Trust Bank	NTB -N-0000	103.00	2.9	0.54	3.9	18.8
Nations Trust Bank [NV]	NTB -X-0000	103.00	0.4	0.54	3.9	18.8
Pan Asia Bank	PABC-N-0000	19.60	4.7	0.38	na	8.2
Sampath Bank	SAMP-N-0000	74.90	4.9	0.56	6.1	11.4
Sanasa Development Bank	SDB -N-0000	30.60	9.7	0.34	na	3.5
Seylan Bank	SEYB-N-0000	45.60	4.4	0.45	4.4	10.1
Seylan Bank [NV]	SEYB-X-0000	34.50	3.4	0.34	5.8	10.1
Union Bank	UBC -N-0000	9.40	22.3	0.53	na	2.4
Cargills Bank	ABL -N-0000	7.80	16.8	0.62	na	3.7
Amana Bank	ABL -N-0000	2.20	8.7	0.56		6.4

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