



# FINANCIAL SOUNDNESS INDICATORS

Q2 of 2023



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இலங்கை மத்திய வங்கி  
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\*

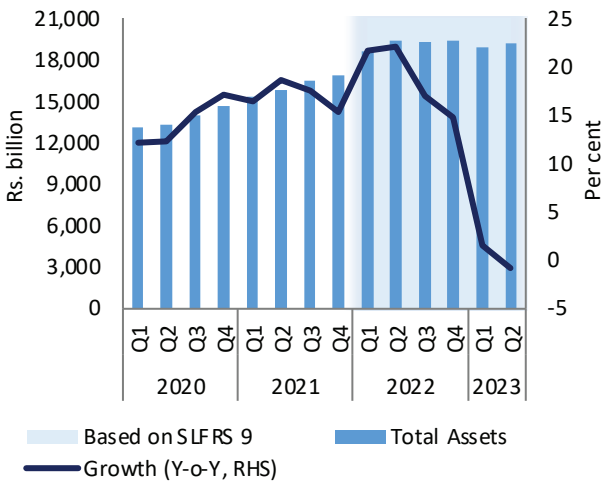
# 01

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.

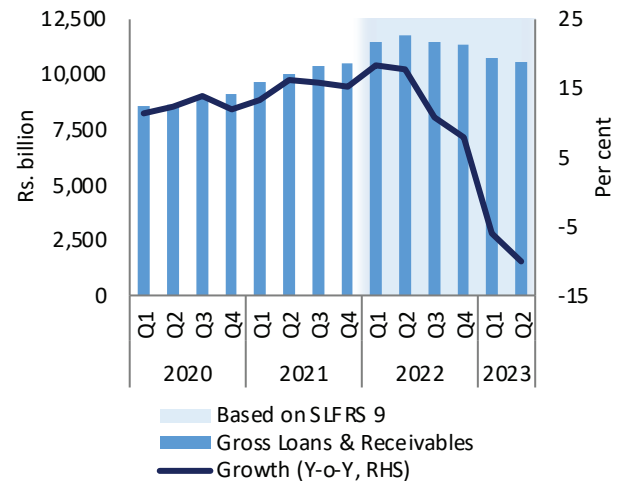
**Table 1** Banking Sector Assets (Rs. billion)

| 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             |

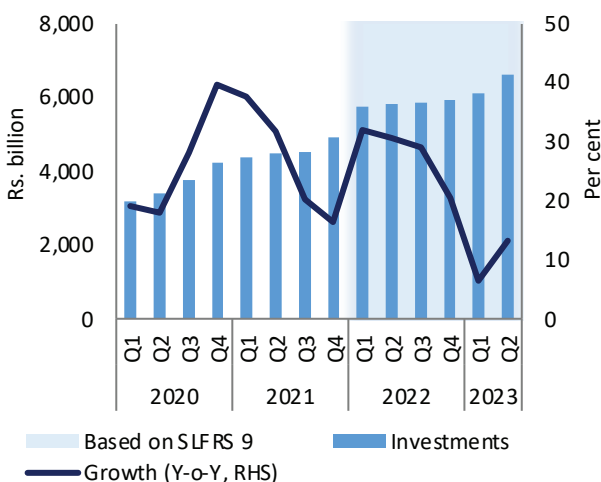
**Chart 1** Total Assets



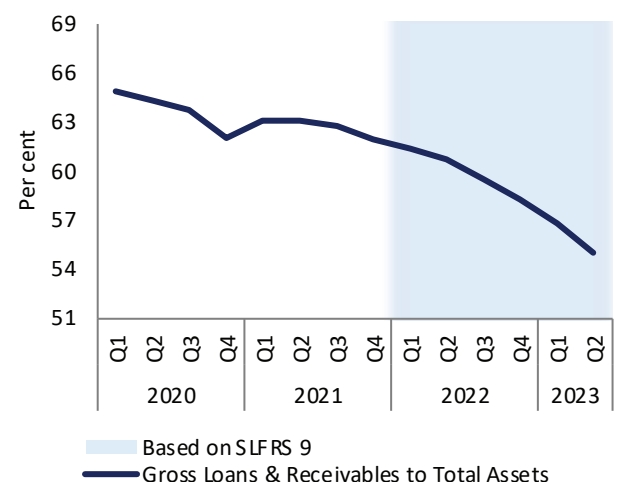
**Chart 2** Gross Loans & Receivables



**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\*

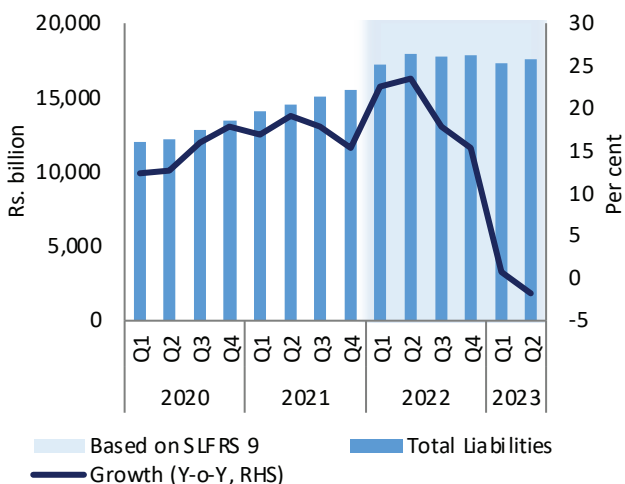
# 02

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.

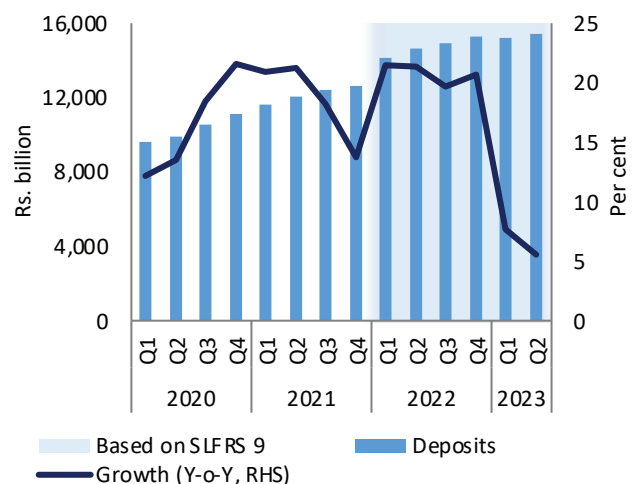
**Table 2** Liabilities & Equity (Rs. billion)

| 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             |

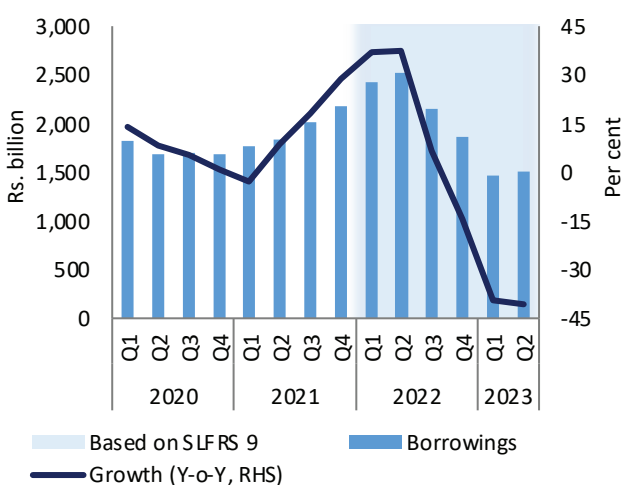
**Chart 5** Total Liabilities



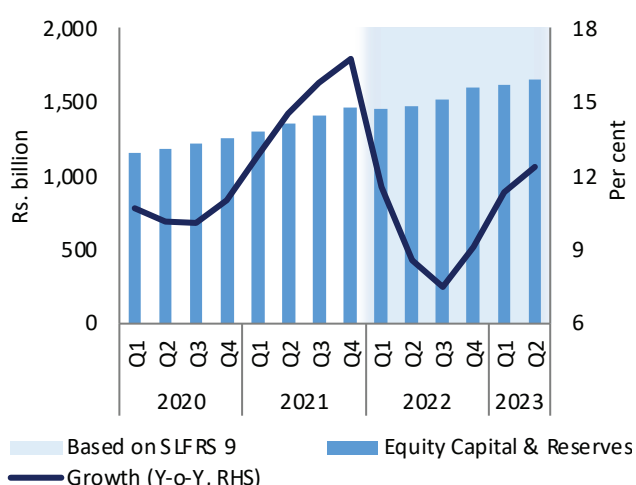
**Chart 6** Deposits



**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

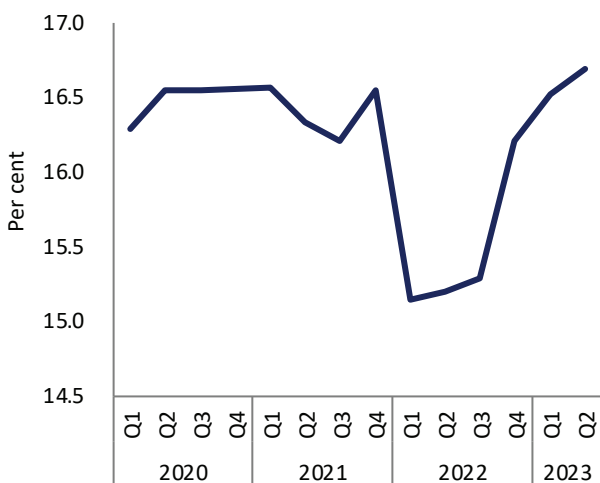
# 03

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.

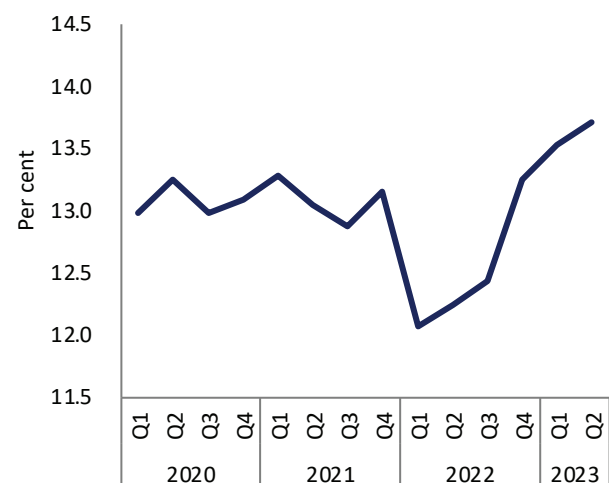
**Table 3** Regulatory Capital (Rs. billion)

| 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)            |

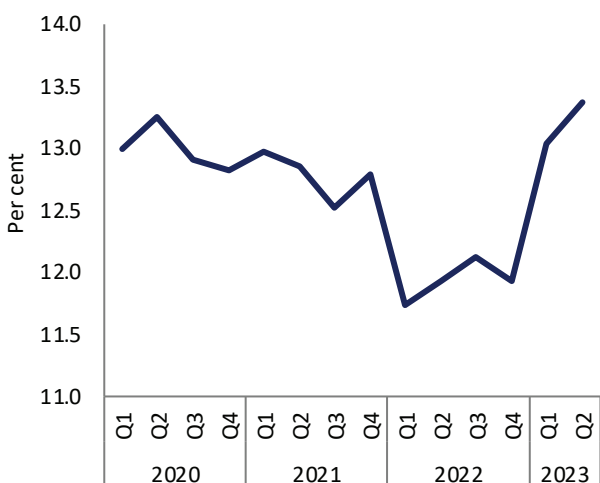
**Chart 9** Regulatory Capital to RWA



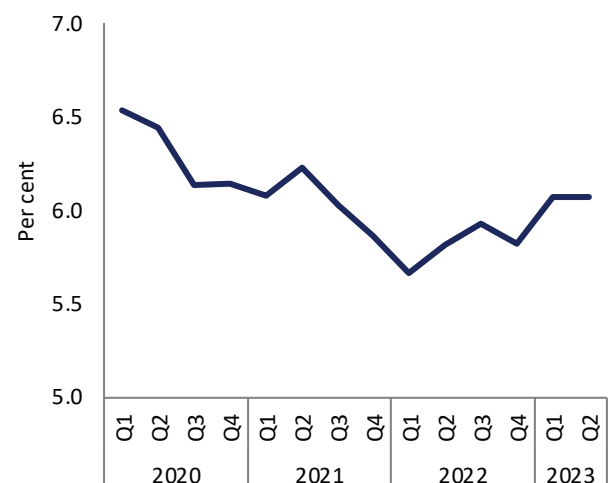
**Chart 10** Tier-1 Capital to RWA



**Chart 11** CET-1 Capital to RWA



**Chart 12** Leverage Ratio



# Banking Sector Asset Quality\*

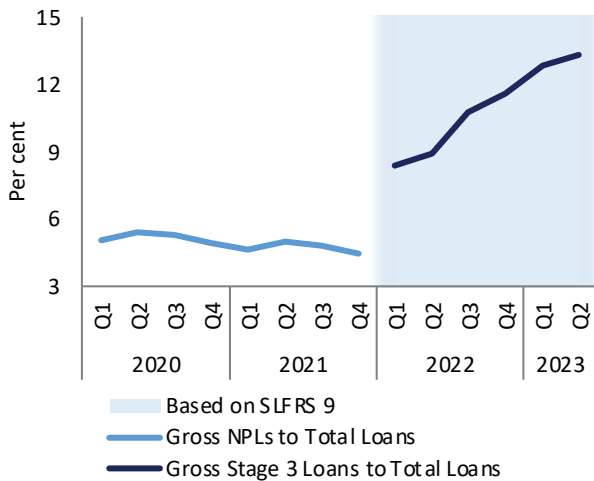
# 04

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.

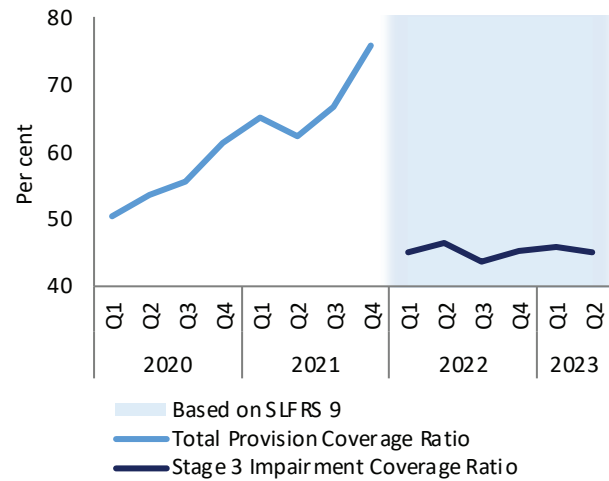
**Table 4** Asset Quality (Rs. billion)

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

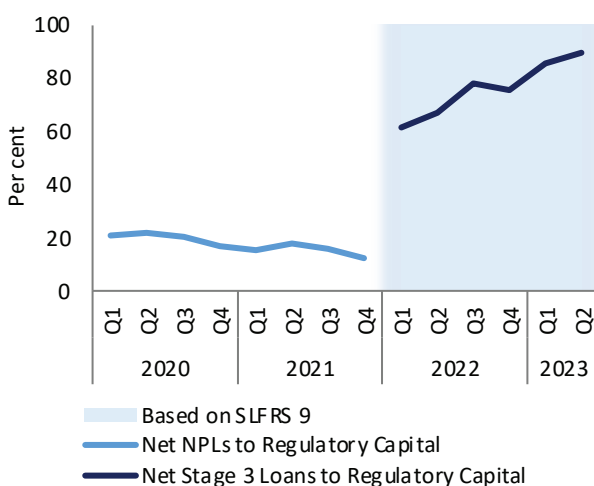
**Chart 13** Stage 3 Loans to Total Loans



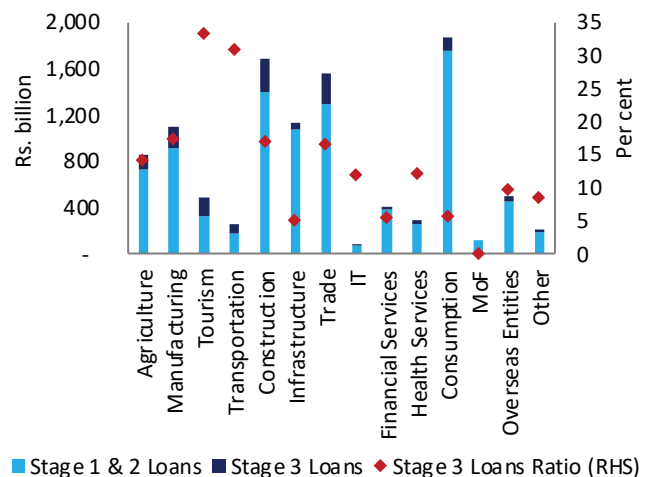
**Chart 14** Stage 3 Impairment Coverage



**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\*

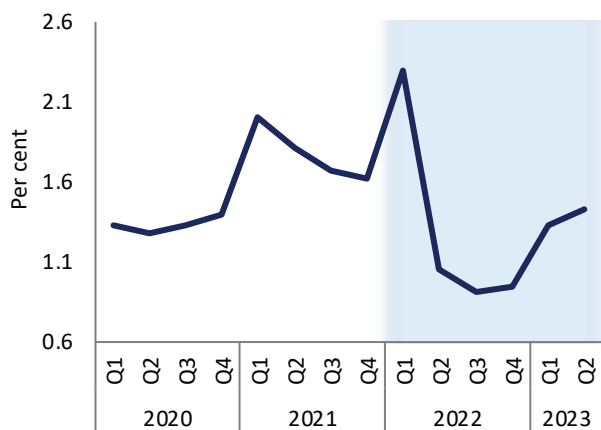
# 05

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)

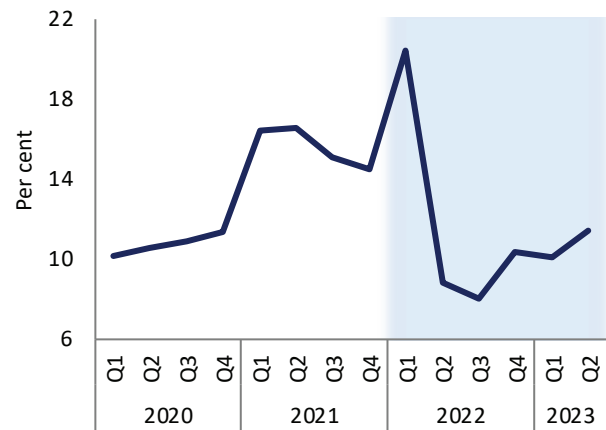
| Indicators                  | 2022 Q2 | 2023 Q2 | % Change (Y-o-Y) |
|-----------------------------|---------|---------|------------------|
| Net Interest Income         | 376.8   | 328.6   | (12.8)           |
| Gross Income <sup>(d)</sup> | 565.0   | 409.8   | (27.5)           |
| Profit Before Corporate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

**Chart 17** Return on Assets (before tax)



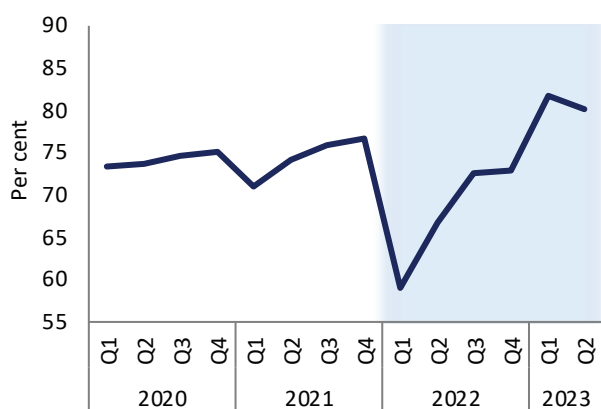
Based on SLFRS 9 — Return on Assets (Before Tax)

**Chart 18** Return on Equity (after tax)



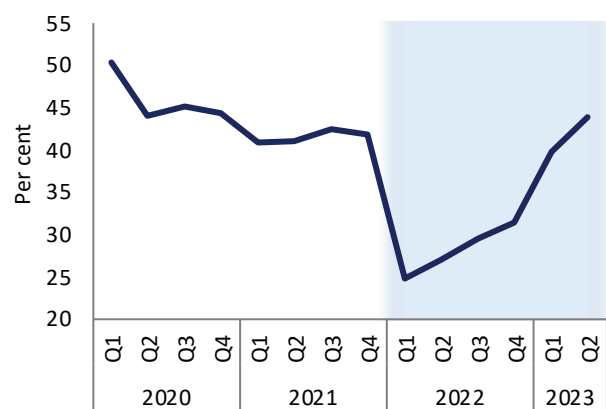
Based on SLFRS 9 — Return on Equity (After Tax)

**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

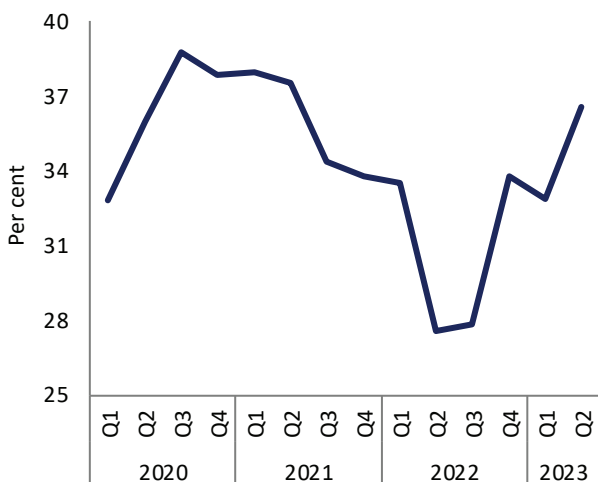
# 06

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.

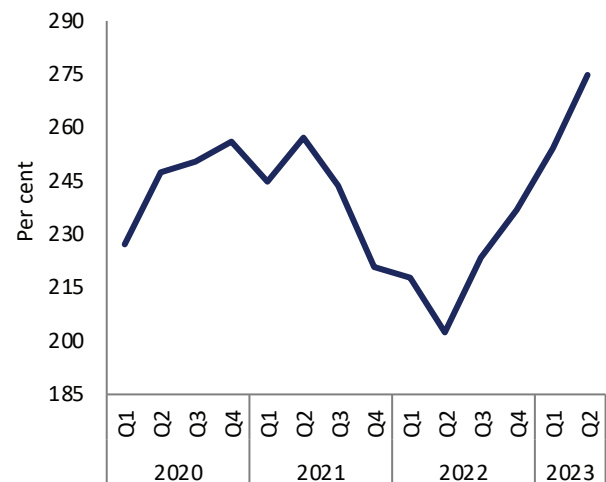
**Table 6** Liquidity (Per cent)

| Indicators  | 2022 Q2 | 2023 Q2 |
|---|---------|---------|
| Statutory Liquid Assets Ratio (DBUs) <sup>(e)</sup> | 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   |

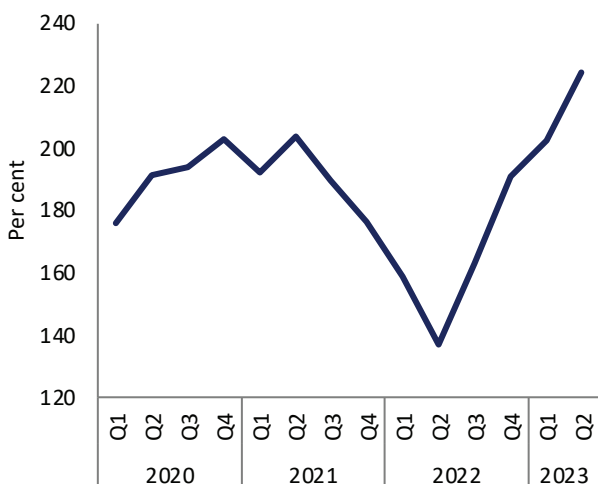
**Chart 21** Statutory Liquid Assets Ratio (DBUs)



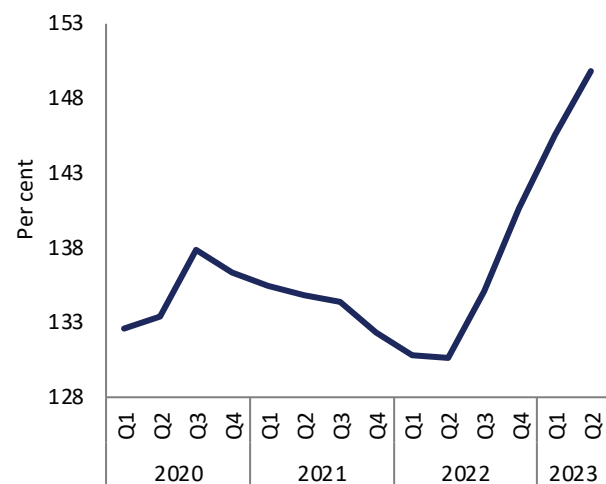
**Chart 22** Liquidity Coverage Ratio - Rupee



**Chart 23** Liquidity Coverage Ratio - All Currency



**Chart 24** Net Stable Funding Ratio



(e) Domestic Banking Units.



# Banking Sector Foreign Currency Operations\*

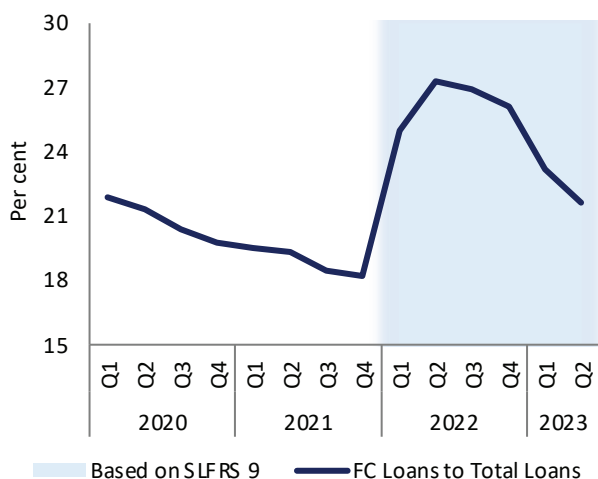
# 07

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.

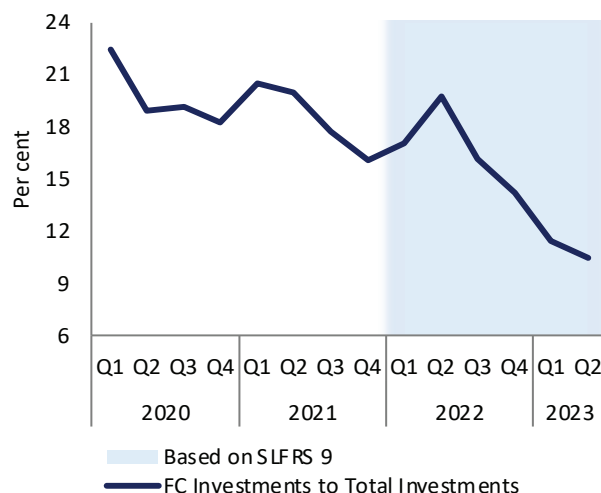
**Table 7** Foreign Currency (FC) Operations (Rs. billion)

| 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)           |

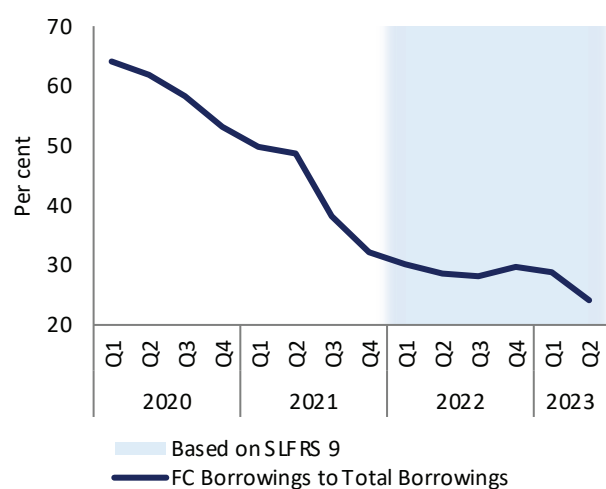
**Chart 25** FC Loans to Total Loans



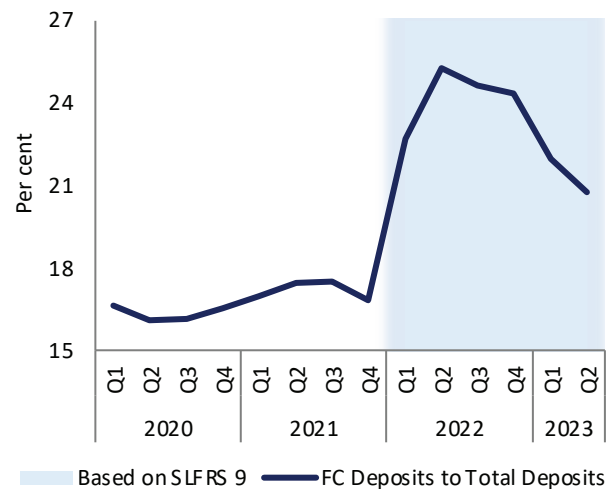
**Chart 26** FC Investments to Total Investments



**Chart 27** FC Borrowings to Total Borrowings



**Chart 28** FC Deposits to Total Deposits



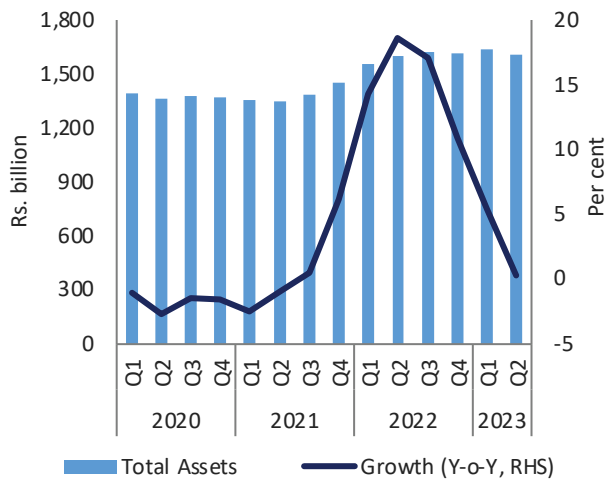
\* Banking sector indicators to be interpreted by factoring that Financial Statements have been prepared based on SLFRS-9 from 01.01.2022 onwards.

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.

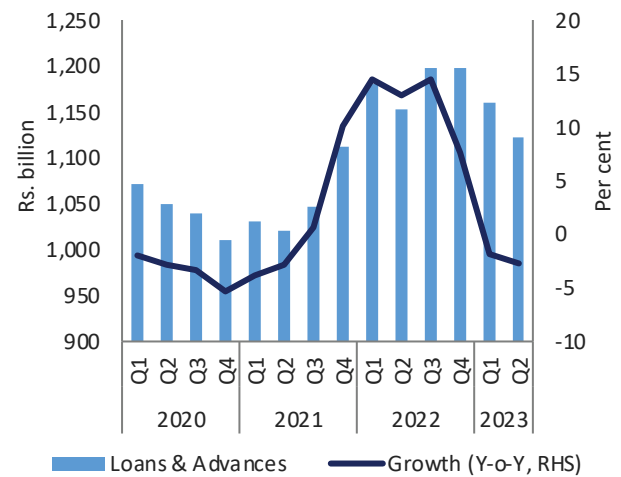
**Table 8** Assets (Rs. billion)

| 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             |

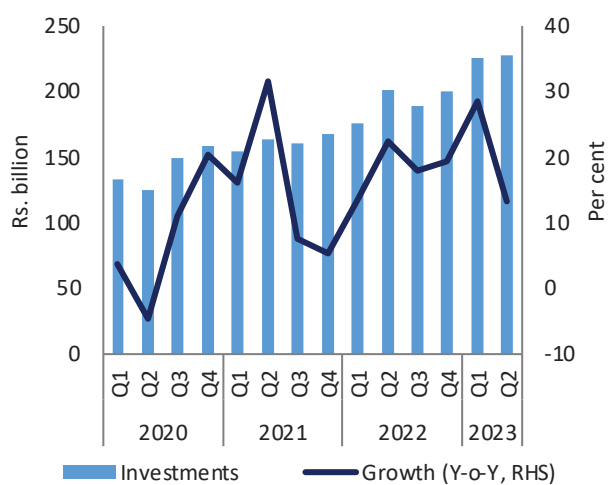
**Chart 29** Total Assets



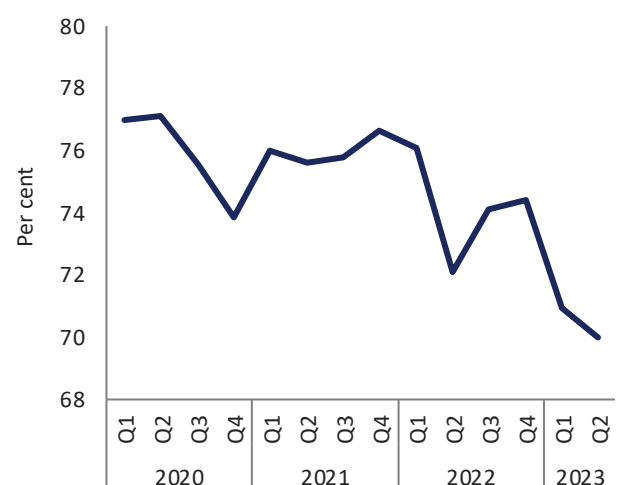
**Chart 30** Loans & Advances



**Chart 31** Investments



**Chart 32** Loans & Advances to Total Assets



# LFCs Sector Liabilities & Equity

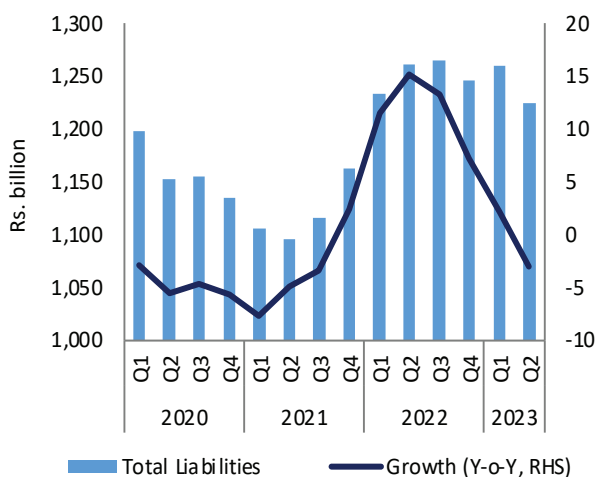
09

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.

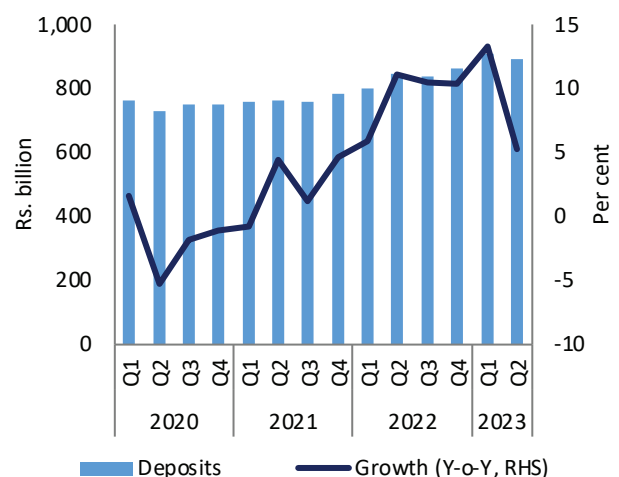
**Table 9** Liabilities & Equity (Rs. billion)

| 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             |

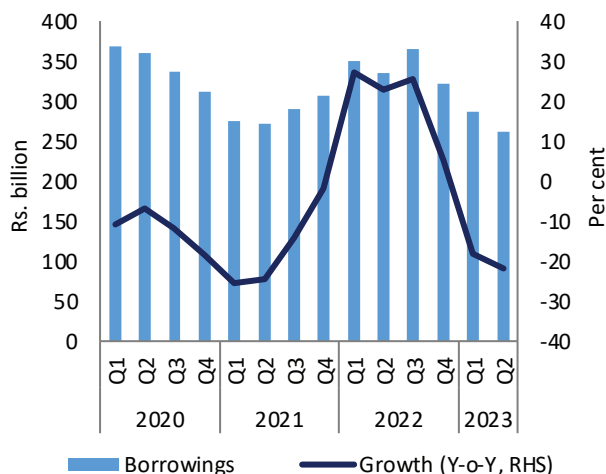
**Chart 33** Total Liabilities



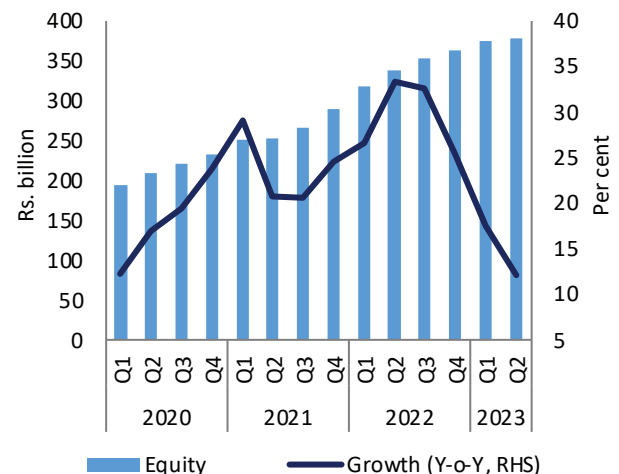
**Chart 34** Deposits



**Chart 35** Borrowings



**Chart 36** Equity



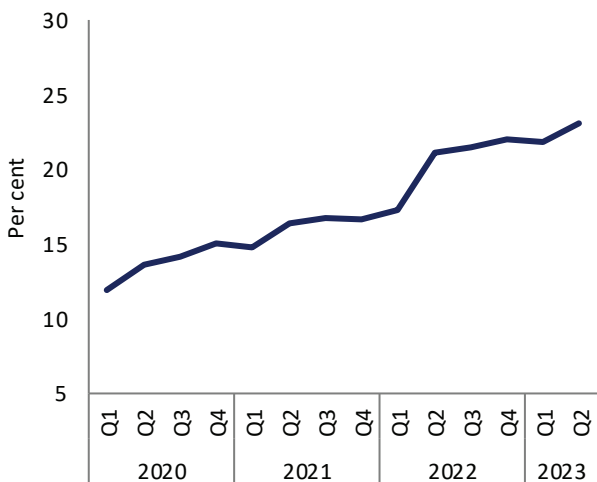
# LFCs Sector Capital Adequacy

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.

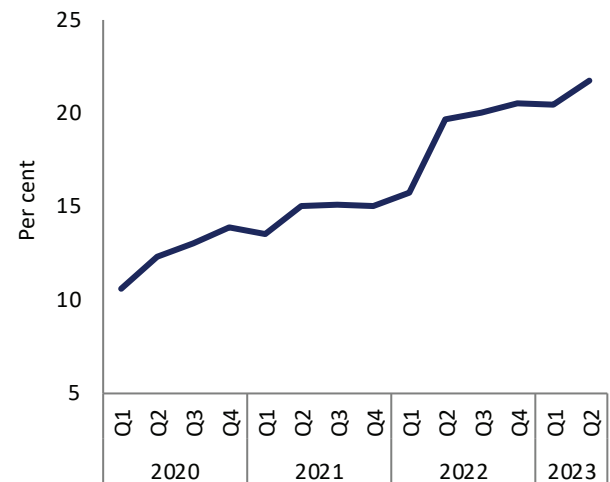
**Table 10** Regulatory Capital (Rs. billion)

| 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              |

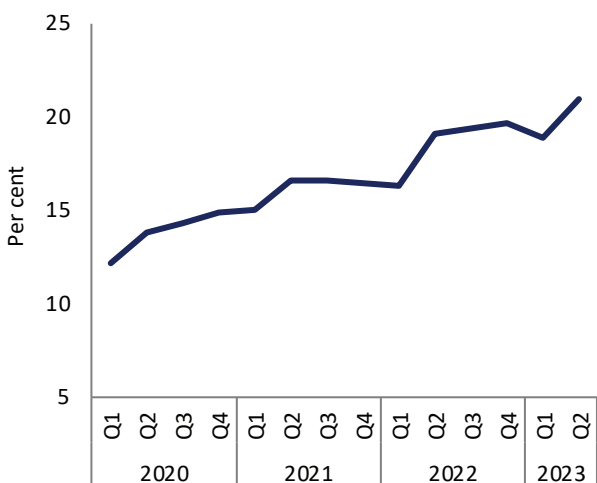
**Chart 33** Regulatory Capital to RWA



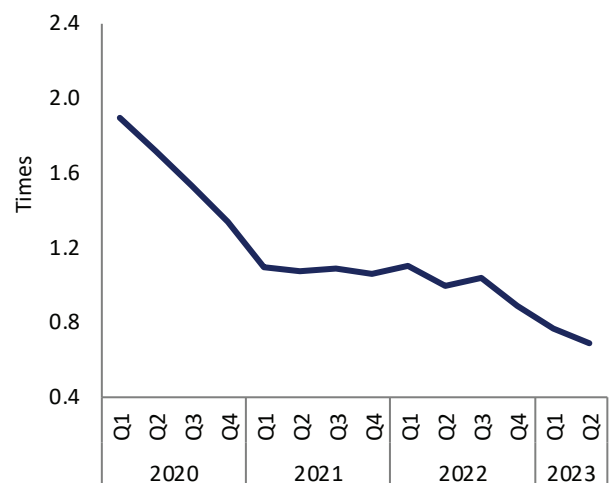
**Chart 34** Tier-1 Capital to RWA



**Chart 35** Regulatory Capital to Assets



**Chart 36** Borrowings to Equity



# LFCs Sector Asset Quality\*\*

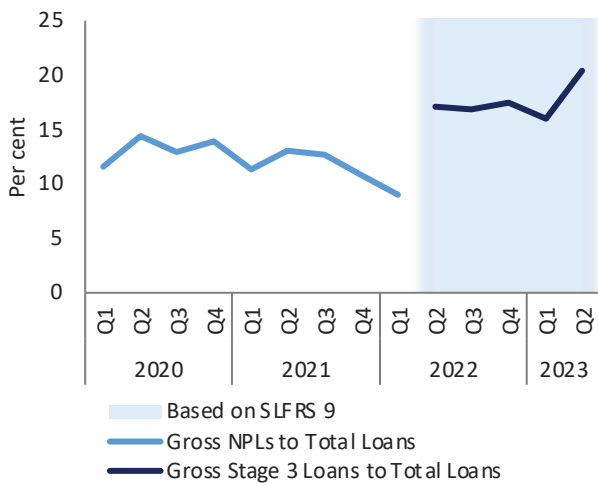
# 11

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.

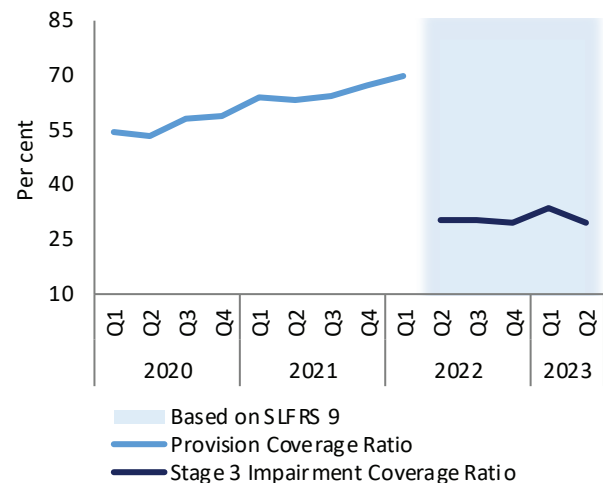
**Table 11** Asset Quality (Rs. billion)

| 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             |

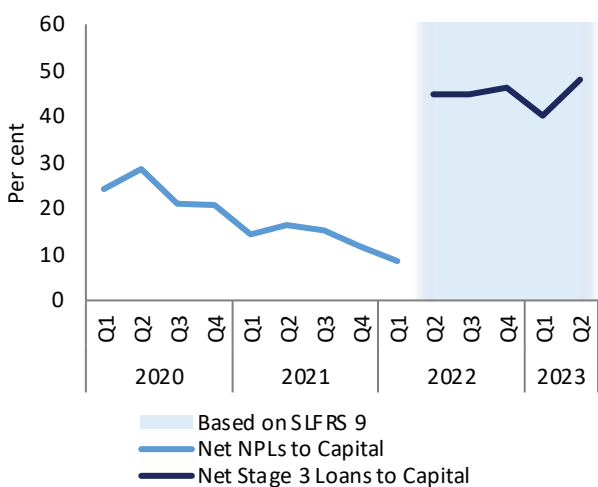
**Chart 41** Gross Stage 3 Loans to Total Loans



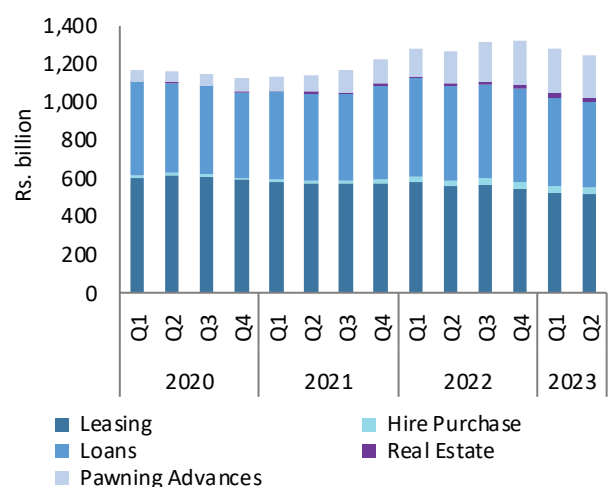
**Chart 42** Stage 3 Impairment Coverage



**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

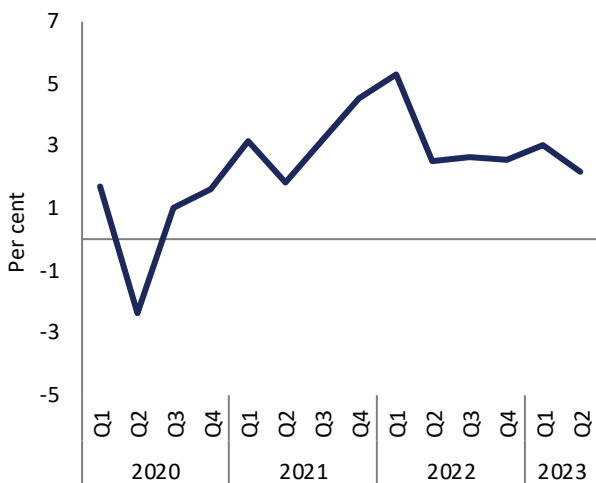
# 12

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.

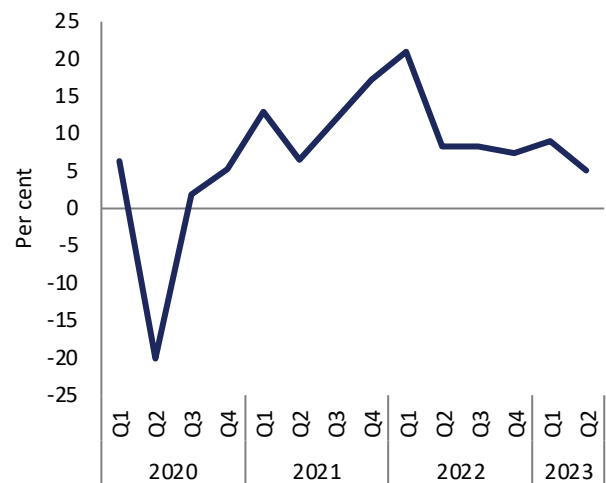
**Table 12** Earnings & Profitability (Rs. billion)

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

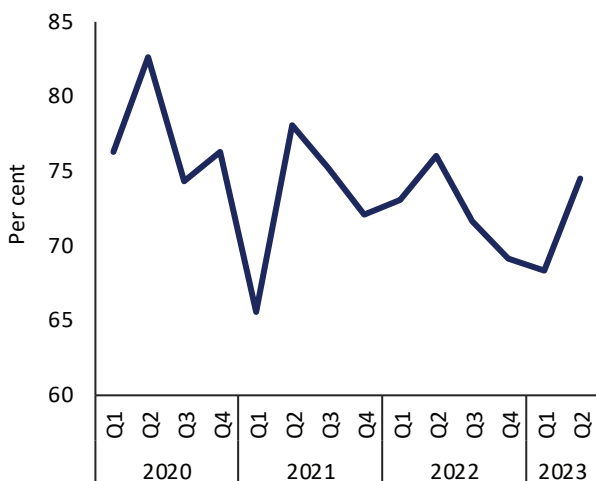
**Chart 45** Return on Assets (before tax)



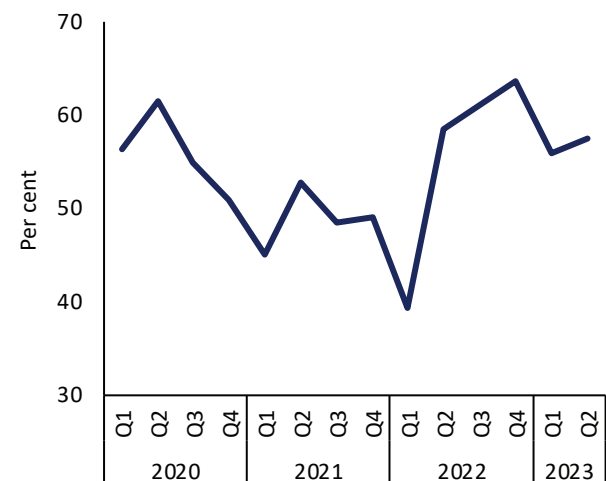
**Chart 46** Return on Equity (after tax)



**Chart 47** Net Interest Income to Gross Income



**Chart 48** Non-interest Expenses to Gross Income



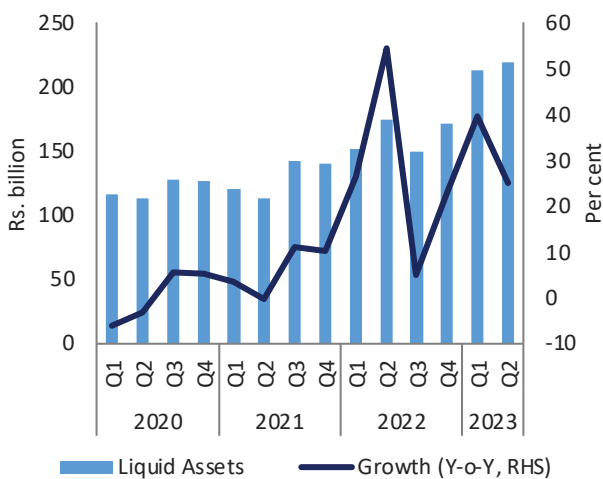
(f) Gross income includes net interest income and non-interest income.

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.

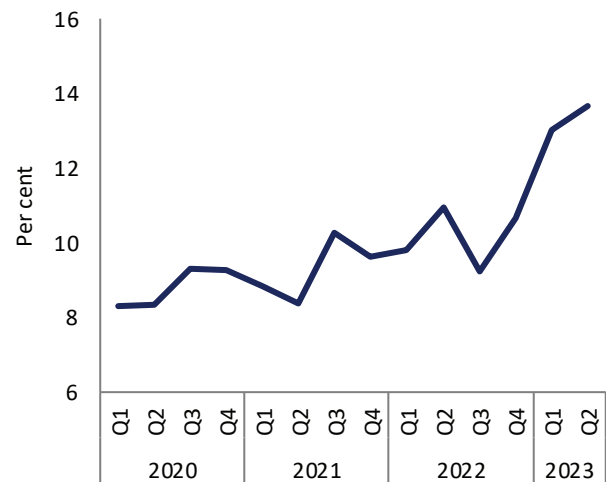
**Table 13** Liquidity (Per cent)

| 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    |

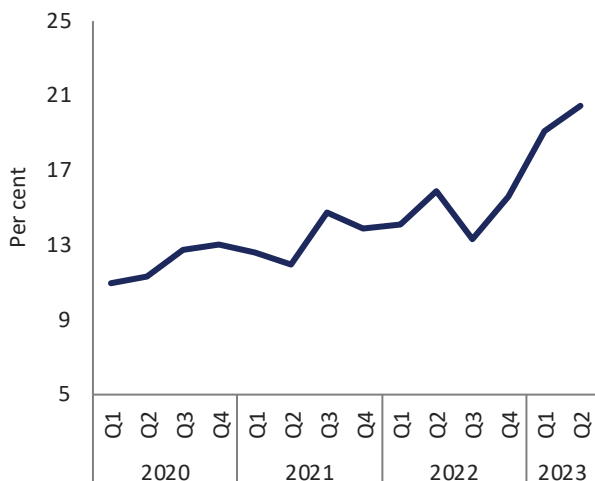
**Chart 49** Liquid Assets



**Chart 50** Liquid Assets to Total Assets Ratio



**Chart 51** Liquid Assets to Deposits & Borrowings



**Chart 52** Credit to Deposits Ratio

