



FINANCIAL SOUNDNESS INDICATORS

Q3 of 2023



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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Contents

Page 2	Banking Sector Assets
Page 3	Banking Sector Liabilities & Equity
Page 4	Banking Sector Capital Adequacy
Page 5	Banking Sector Asset Quality
Page 6	Banking Sector Earnings & Profitability
Page 7	Banking Sector Liquidity
Page 8	Banking Sector Foreign Currency Operations
Page 9	LFCs Sector Assets
Page 10	LFCs Sector Liabilities & Equity
Page 11	LFCs Sector Capital Adequacy
Page 12	LFCs Sector Asset Quality
Page 13	LFCs Sector Earnings & Profitability
Page 14	LFCs Sector Liquidity

The Financial Soundness Indicators – Q3 of 2023 focuses on data ending September 2023. Moreover, the data for Q3 of 2023 are provisional. Data may include calculations made specifically for this publication.

Banking Sector Assets*

01

The banking sector recorded a y-o-y asset growth of 2.8 per cent at end Q3 of 2023, mainly due to the deceleration in the contraction of gross loans and receivables and increased investments. During Q3 of 2023, total credit of the sector expanded by 1.8 per cent on a q-o-q basis.

Table 1 Banking Sector Assets (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Total Assets	19,287.6	19,836.5	2.8
Gross Loans & Receivables	11,477.1	10,767.6	(6.2)
Investments	5,852.4	6,913.3	18.1

Chart 1 Total Assets

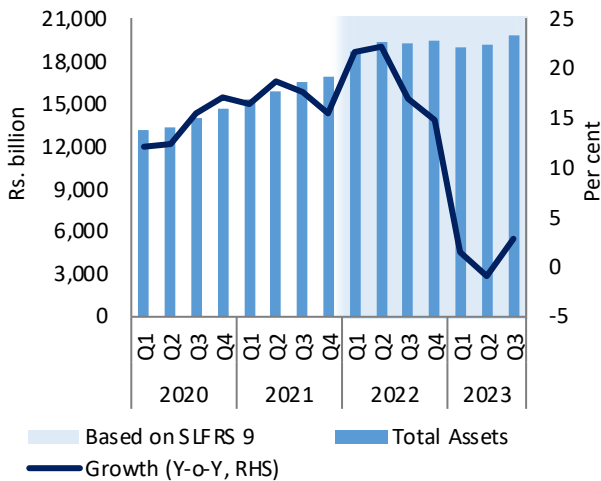


Chart 2 Gross Loans & Receivables

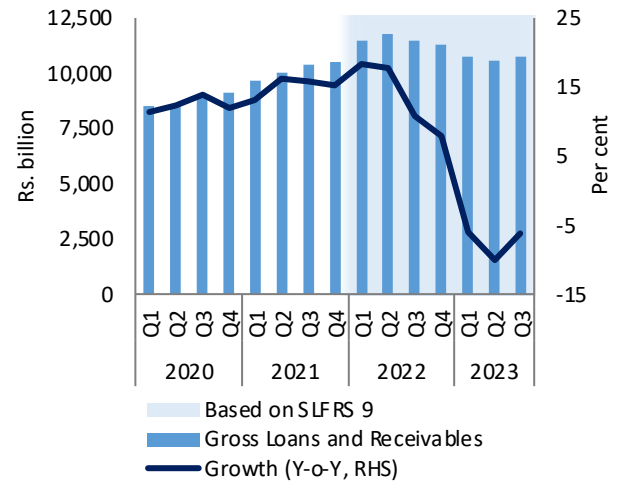


Chart 3 Investments

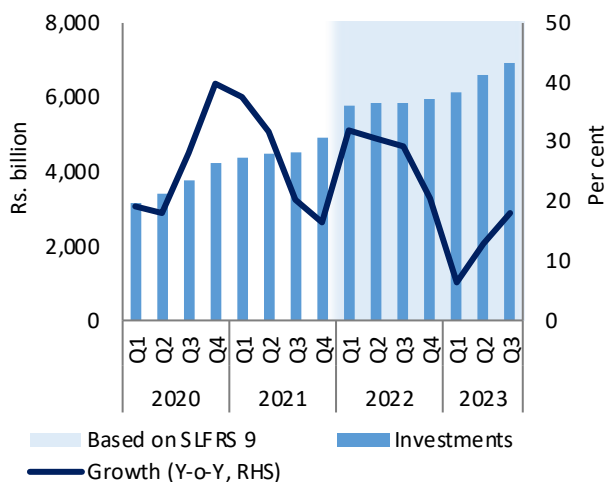
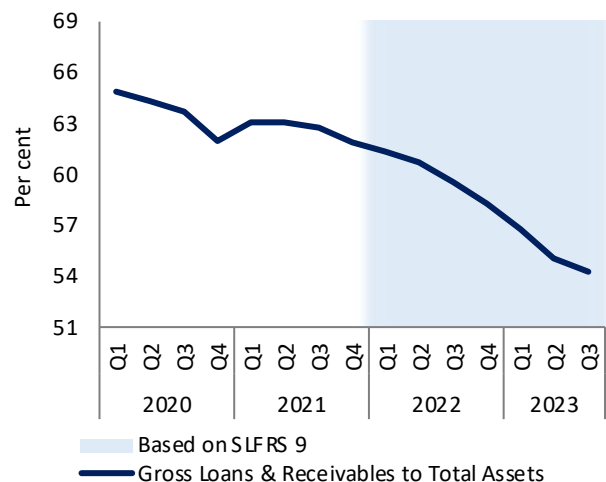


Chart 4 Gross Loans to Total Assets



* 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 grew by 1.9 per cent y-o-y at end Q3 of 2023, mainly due to the gradual recovery in deposit growth.

Table 2 Liabilities & Equity (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Total Liabilities	17,774.0	18,114.6	1.9
Deposits	14,924.7	16,061.2	7.6
Borrowings	2,155.7	1,365.3	(36.7)
Equity Capital & Reserves	1,513.6	1,721.8	13.8

Chart 5 Total Liabilities

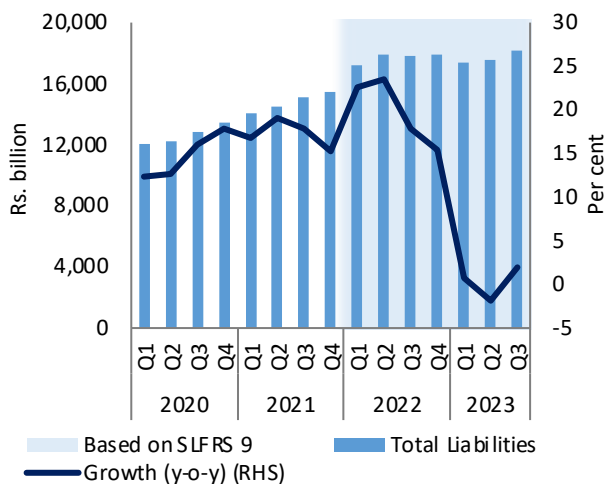


Chart 6 Deposits

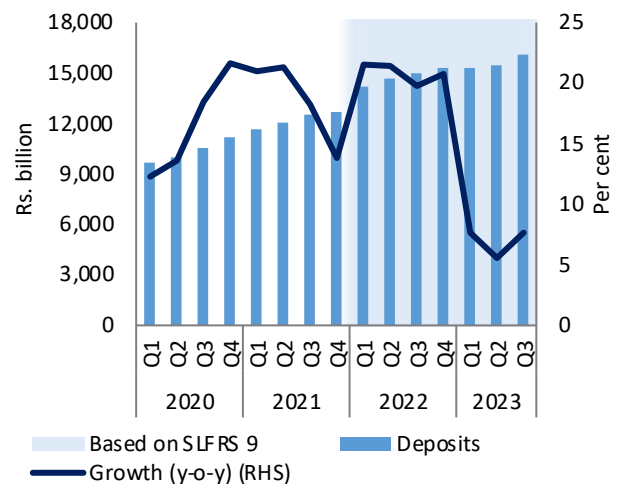


Chart 7 Borrowings

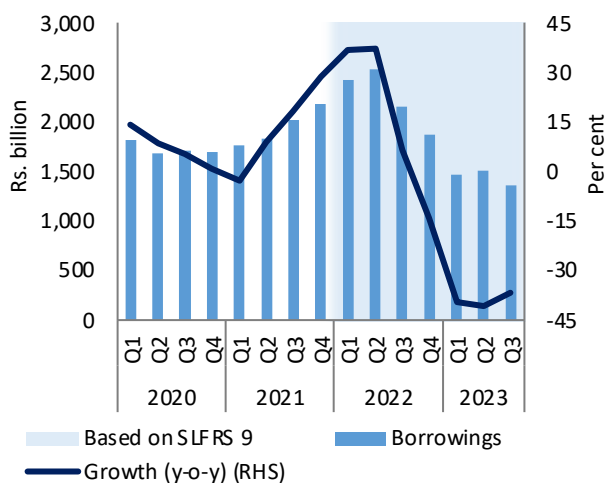
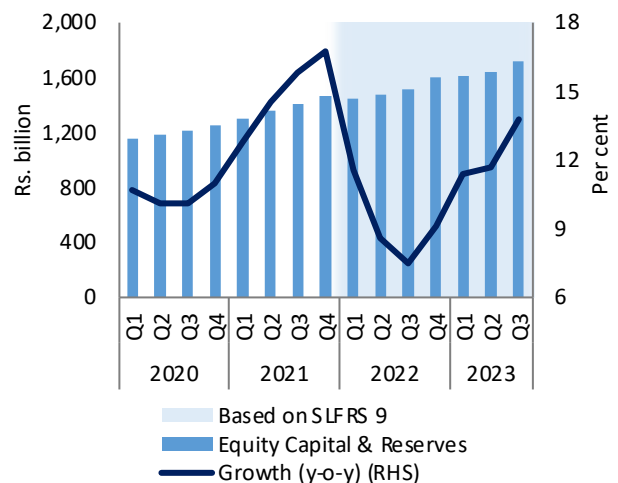


Chart 8 Equity Capital & Reserves



* 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 improved to 16.4 per cent at end Q3 of 2023 compared to 15.3 per cent at end Q3 of 2022, mainly due to the contraction in RWA on a y-o-y basis.

Table 3 Regulatory Capital (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Total Regulatory Capital	1,467.8	1,493.9	1.8
Tier 1 Capital	1,193.8	1,236.2	3.6
Risk Weighted Assets (RWA)	9,598.8	9,127.9	(4.9)
Leverage Exposure	18,213.3	19,014.9	4.4

Chart 9 Regulatory Capital to RWA

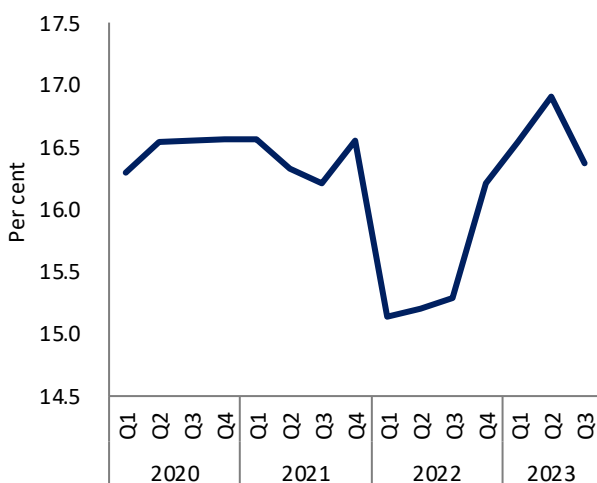


Chart 10 Tier-1 Capital to RWA

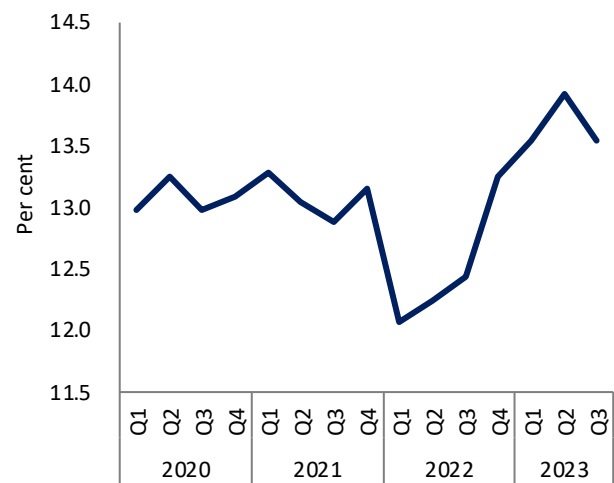


Chart 11 CET-1 Capital to RWA

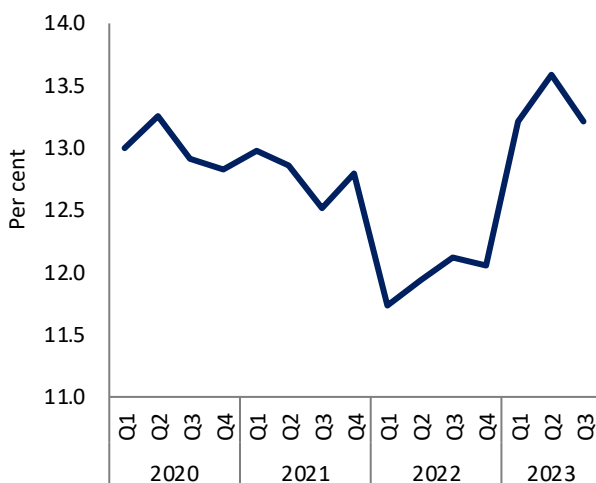
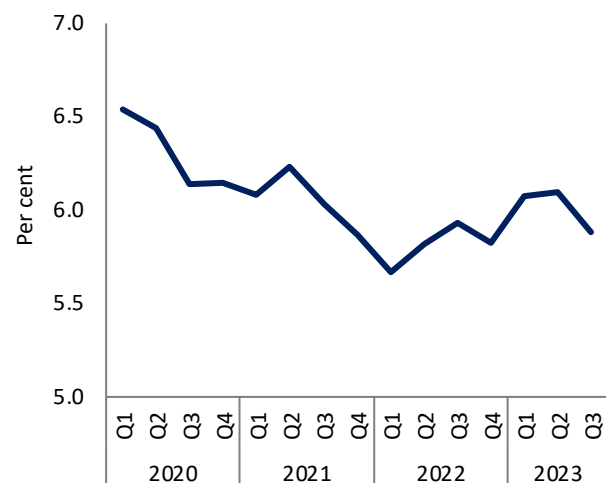


Chart 12 Leverage Ratio



Banking Sector Asset Quality*

04

Stage 3 Loans to Total Loans^(a) of the banking sector increased to 13.4 per cent at end Q3 of 2023, due to expansion in gross stage 3 loans and contraction in credit on y-o-y basis.

Table 4 Asset Quality (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Stage 3 Loans	1,233.7	1,443.7	17.0
Impairment for Total Loans	860.8	961.2	11.7
Impairment for Stage 3 Loans ^(b)	544.0	673.1	23.7

Chart 13 Stage 3 Loans to Total Loans

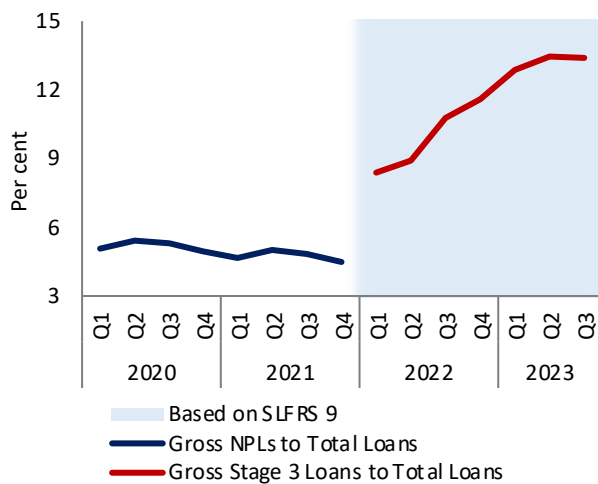


Chart 14 Stage 3 Impairment Coverage

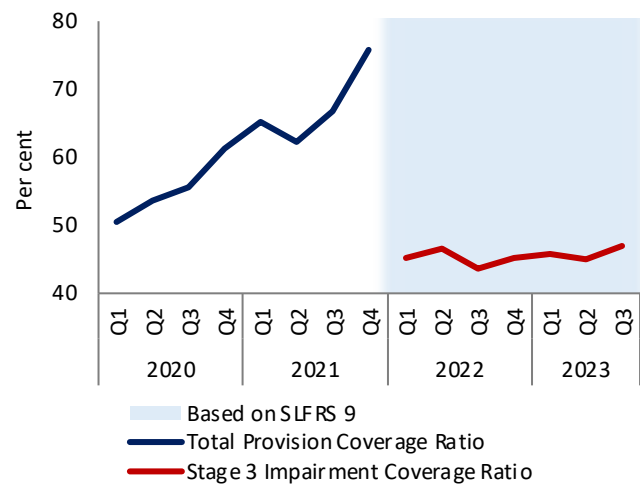


Chart 15 Net Stage 3 Loans to Regulatory Capital

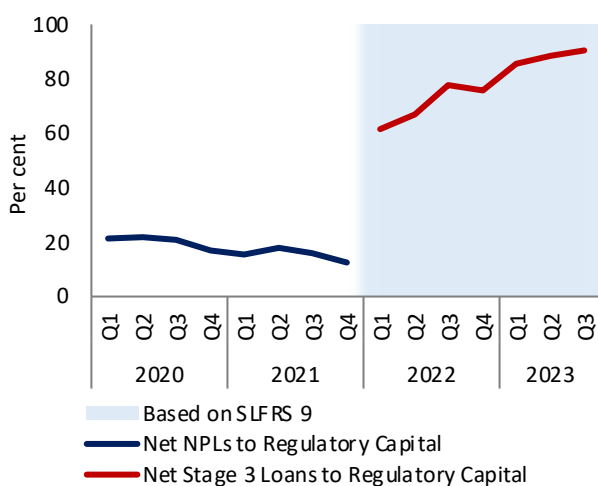
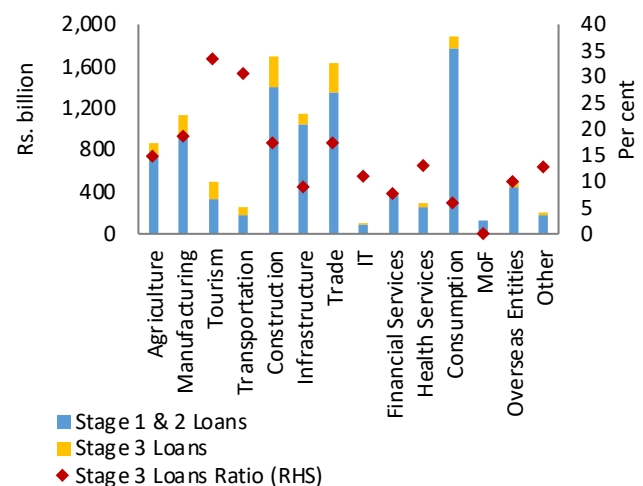


Chart 16 Loan Concentration by Economic Activity



(a) Excluding undrawn portion.

(b) Including undrawn portion.

* 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*

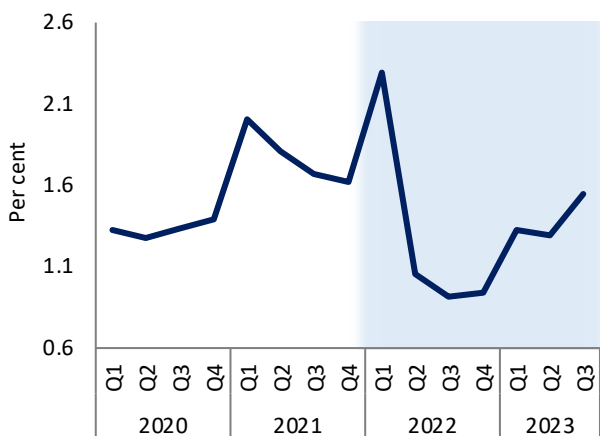
05

The banking sector reported a cumulative profit after tax of Rs. 146.4 billion for the first nine months of 2023, recording an increase of 71.1 per cent y-o-y mainly due to the decline in new impairment allocation by banks. Accordingly, ROA and ROE improved to 1.5 per cent and 11.2 per cent, respectively, at end Q3 of 2023.

Table 5 Earnings and Profitability (Rs. billion)

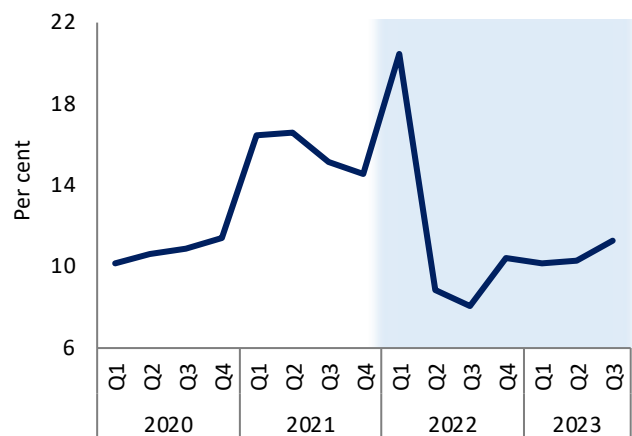
Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Net Interest Income	561.5	520.1	(7.4)
Gross Income ^(d)	774.3	674.5	(12.9)
Profit Before Corporate Tax	124.6	223.8	79.6
Profit After Corporate Tax	85.5	146.4	71.1

Chart 17 Return on Assets (before tax)



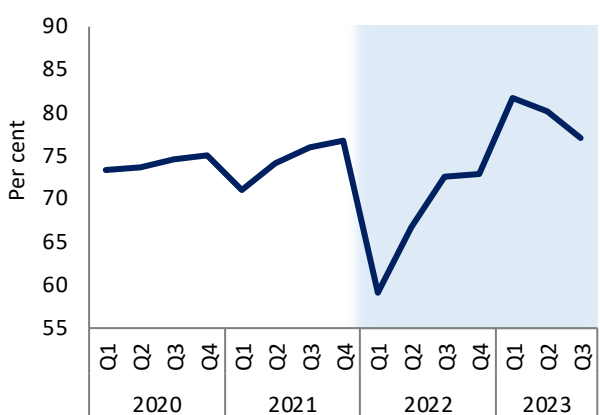
Based on SLFRS 9 — Return on Assets (Before Tax)

Chart 18 Return on Equity (after tax)



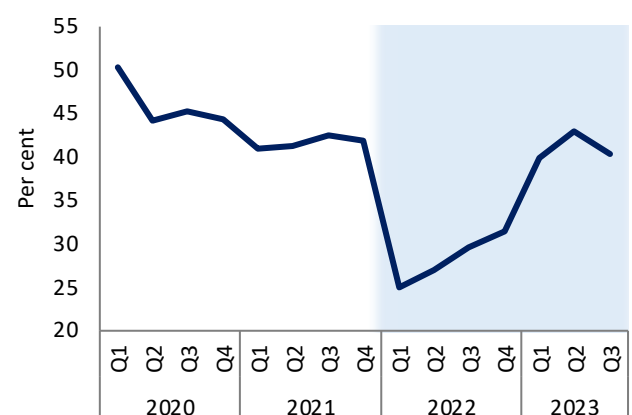
Based on SLFRS 9 — Return on Equity (After Tax)

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 at end Q3 of 2023 compared to end Q3 of 2022.

Table 6 Liquidity (Per cent)

Indicators	2022 Q3	2023 Q3
Statutory Liquid Assets Ratio (DBUs) ^(e)	27.8	43.8
Liquidity Coverage Ratio - Rupee	223.2	336.6
Liquidity Coverage Ratio - All Currency	163.0	283.4
Net Stable Funding Ratio	135.1	153.9

Chart 21 Statutory Liquid Assets Ratio (DBUs)

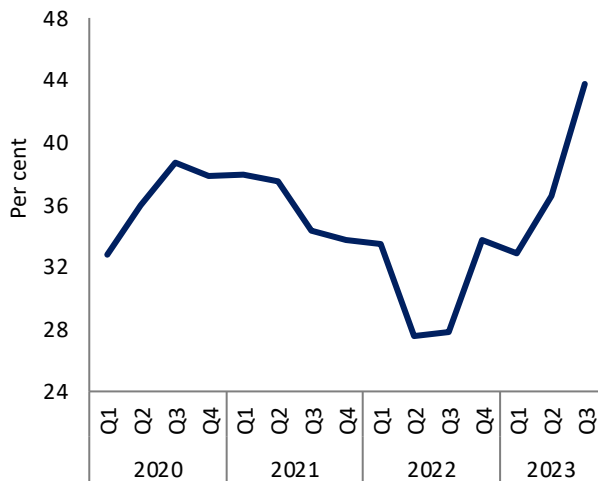


Chart 22 Liquidity Coverage Ratio - Rupee

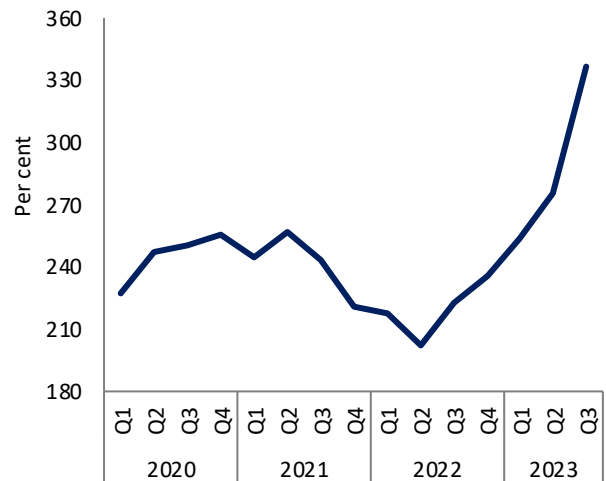


Chart 23 Liquidity Coverage Ratio - All Currency

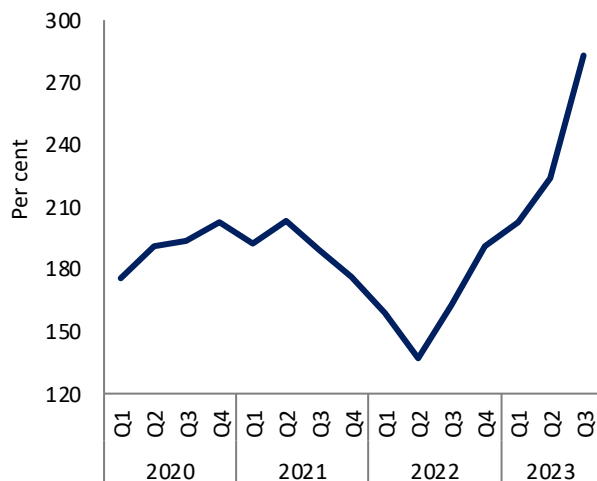
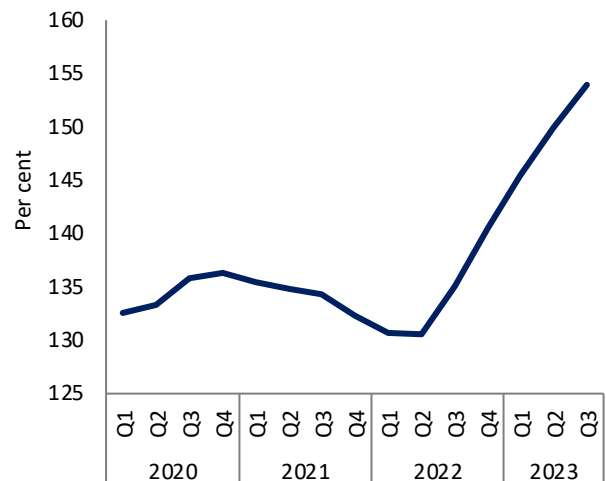


Chart 24 Net Stable Funding Ratio



(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 the appreciation of the Sri Lankan Rupee.

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

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
FC Loans & Receivables	3,086.7	2,331.2	(24.5)
FC Investments	946.6	512.8	(45.8)
FC Borrowings	606.6	343.3	(43.4)
FC Deposits	3,681.0	3,526.9	(4.2)

Chart 25 FC Loans to Total Loans

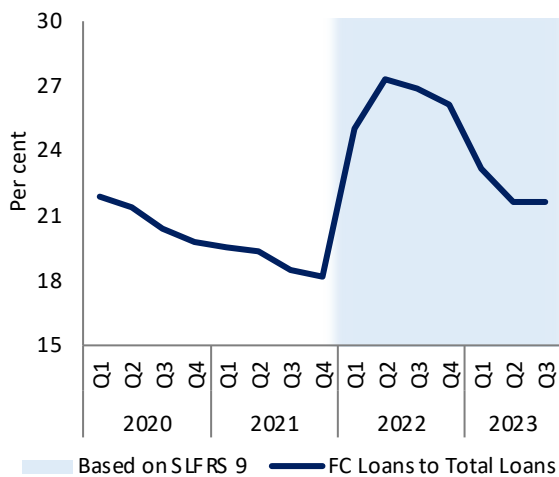


Chart 26 FC Investments to Total Investments

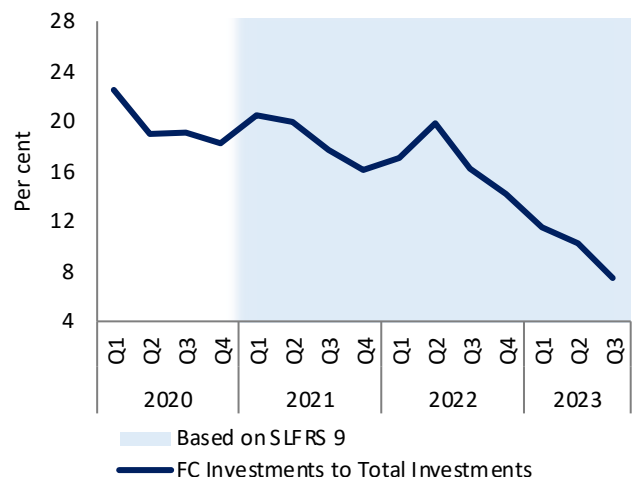


Chart 27 FC Borrowings to Total Borrowings

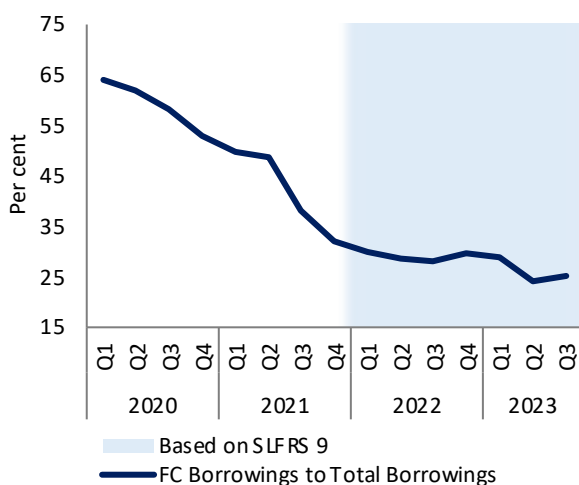
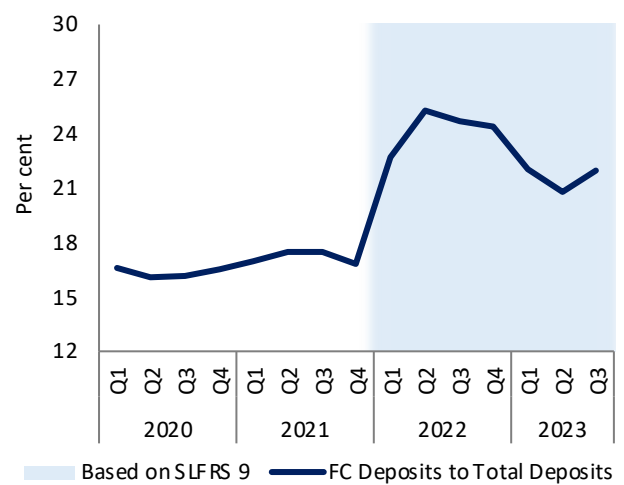


Chart 28 FC Deposits to Total Deposits



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

Total assets of the sector grew by 1.1 per cent, y-o-y, at end Q3 of 2023 mainly due to increased investments in Government securities.

Table 8 Assets (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Total Assets	1,617.6	1,635.2	1.1
Loans & Advances (Net)	1,198.9	1,131.5	(5.6)
Investments	189.2	283.4	49.7

Chart 29 Total Assets

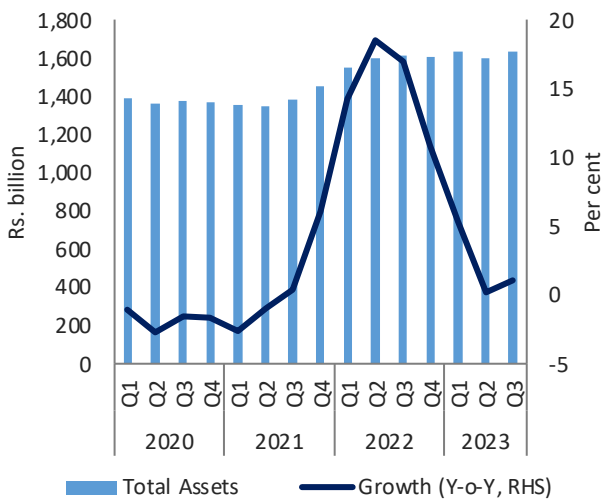


Chart 30 Loans & Advances

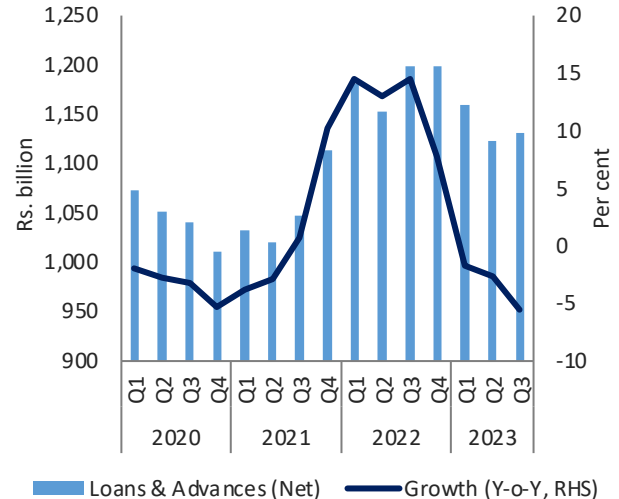


Chart 31 Investments

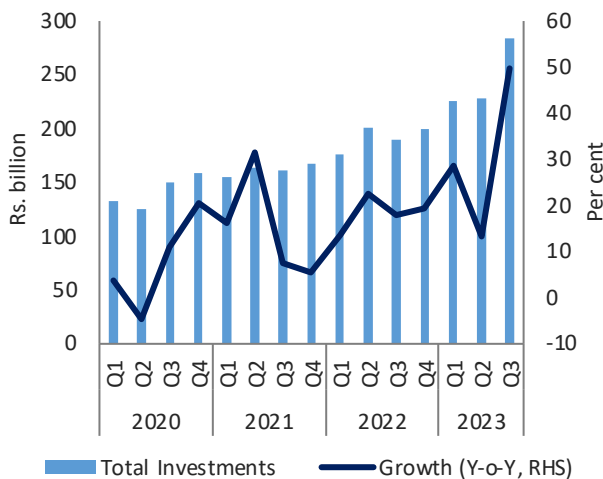
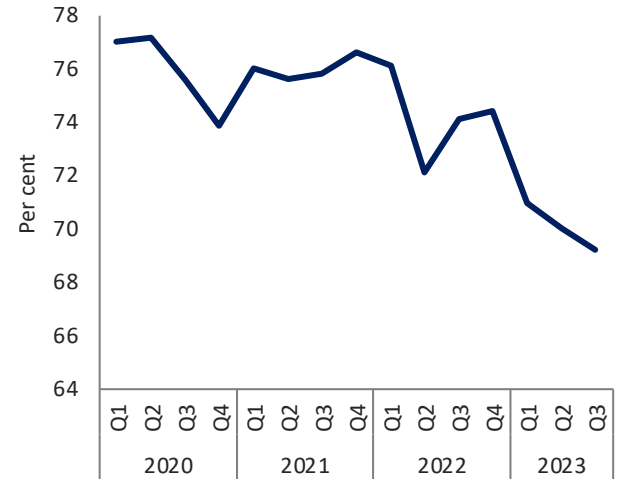


Chart 32 Loans & Advances to Total Assets



LFCs Sector Liabilities & Equity

09

Equity and deposits of the sector have increased at a moderate level, amidst the sharp reduction in borrowings, which declined by 34.0 per cent, y-o-y, at end Q3 of 2023.

Table 9 Liabilities & Equity (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Total Liabilities	1,264.7	1,244.5	(1.6)
Deposits	837.0	929.2	11.0
Borrowings	365.2	241.0	(34.0)
Equity Fund	352.9	390.7	10.7

Chart 33 Total Liabilities

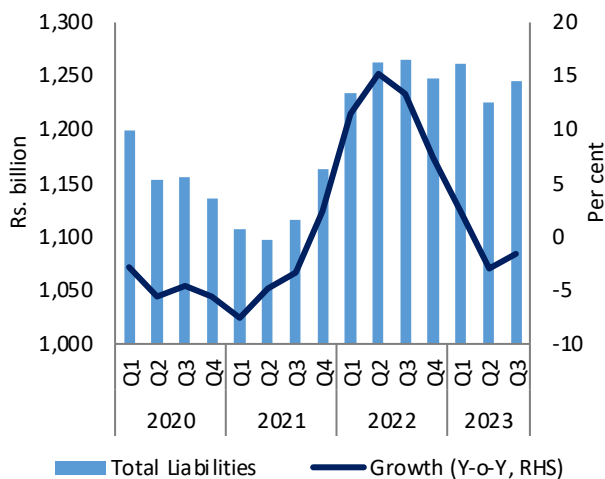


Chart 34 Deposits

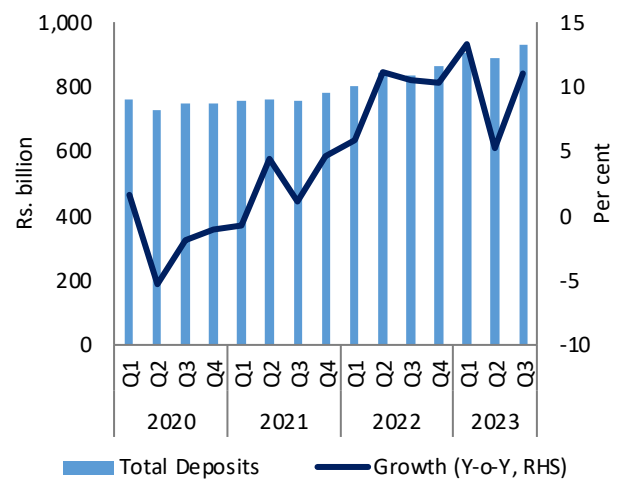


Chart 35 Borrowings

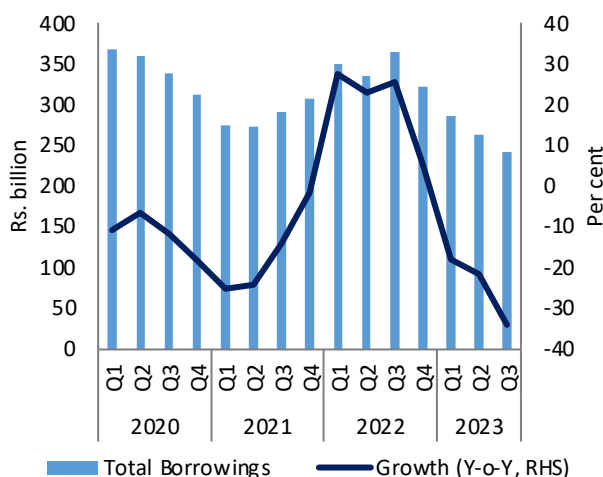
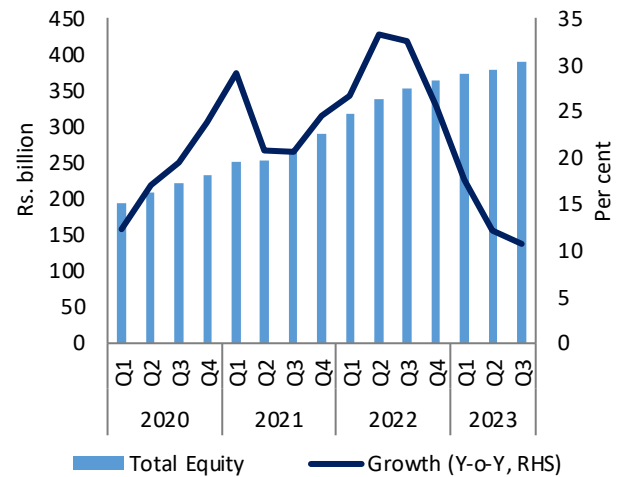


Chart 36 Equity



LFCs Sector Capital Adequacy

10

Total regulatory capital to risk weighted assets of the LFCs sector declined to 22.6 per cent in Q3 of 2023 from 23.2 per cent in the previous quarter. Meanwhile, total borrowings to equity continued to decline.

Table 10 Regulatory Capital (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Regulatory Capital	313.7	329.8	5.1
Tier 1 Capital	292.5	311.7	6.6
Risk Weighted Assets	1,460.5	1,462.2	0.1

Chart 33 Regulatory Capital to RWA

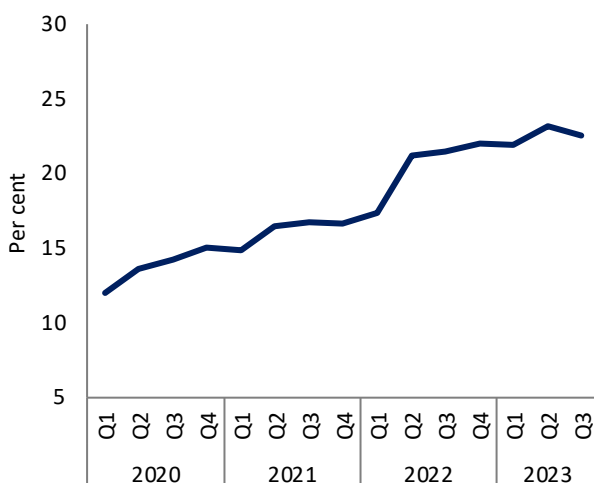


Chart 34 Tier-1 Capital to RWA

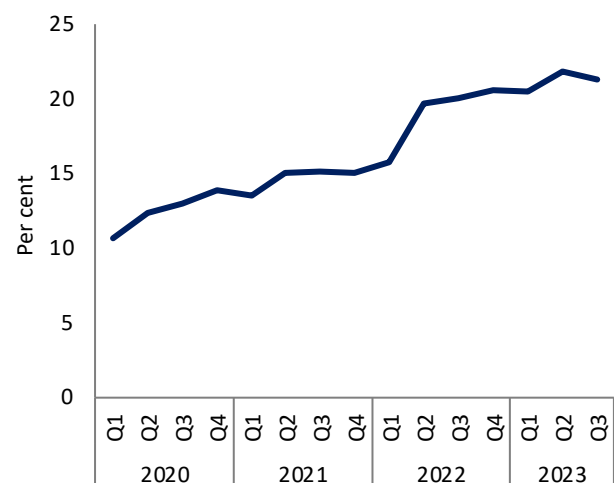


Chart 35 Regulatory Capital to Assets

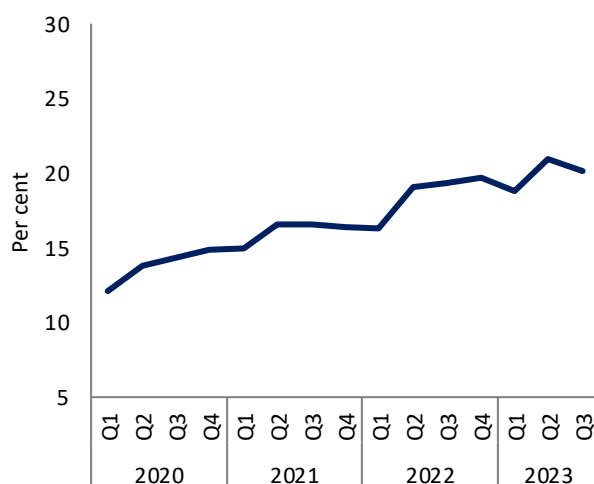
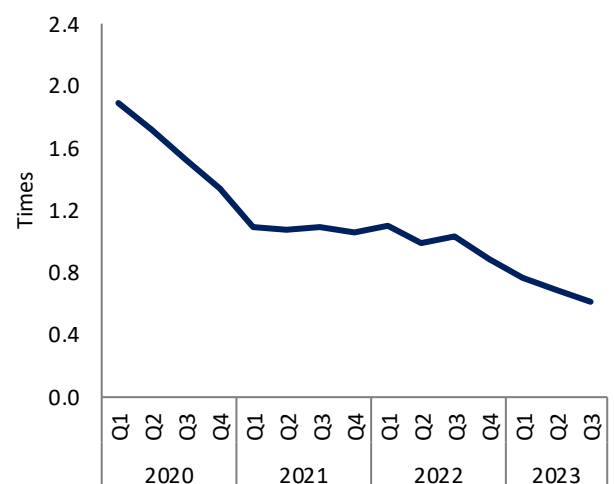


Chart 36 Borrowings to Equity



LFCs Sector Asset Quality*

11

Asset quality indicators of the sector marginally improved during the quarter. Gross stage 3 loans ratio reduced marginally to 20.0 per cent at end Q3 of 2023 compared to 20.3 per cent at end Q2 of 2023. Impairment coverage for stage 3 loans remained almost unchanged at 29.6 per cent at end Q3 of 2023.

Table 11 Asset Quality (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Gross Stage 3 Loans	220.3	249.4	13.2
Impairment for Stage 3 Loans	66.2	73.9	11.8
Net Stage 3 Loans	154.1	175.5	13.8

Chart 41 Gross Stage 3 Loans to Total Loans

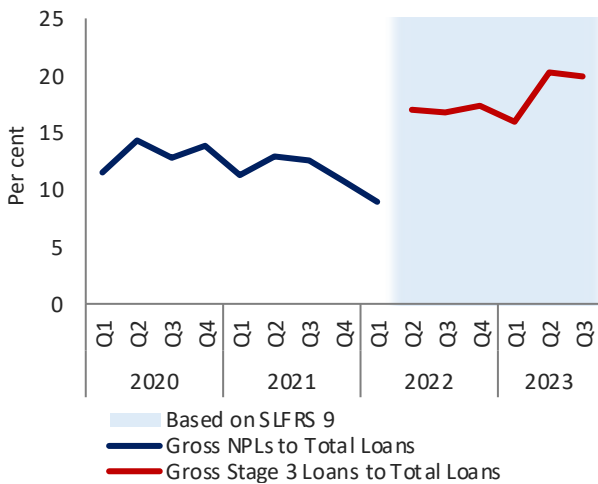


Chart 42 Stage 3 Impairment Coverage

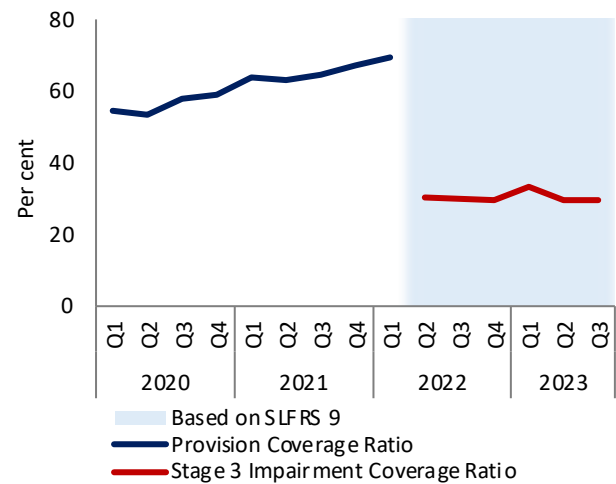


Chart 43 Net Stage 3 Loans to Capital

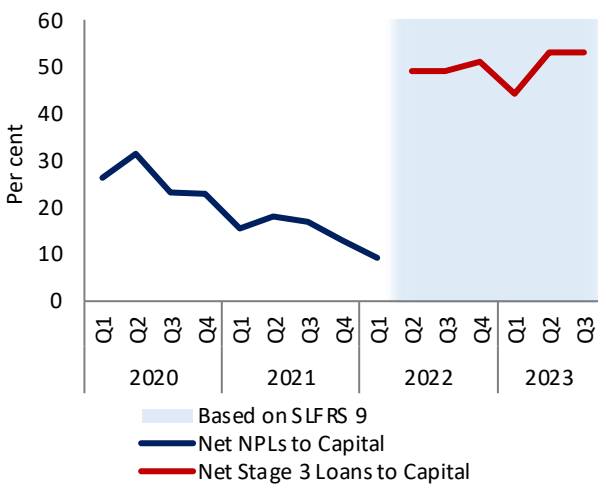
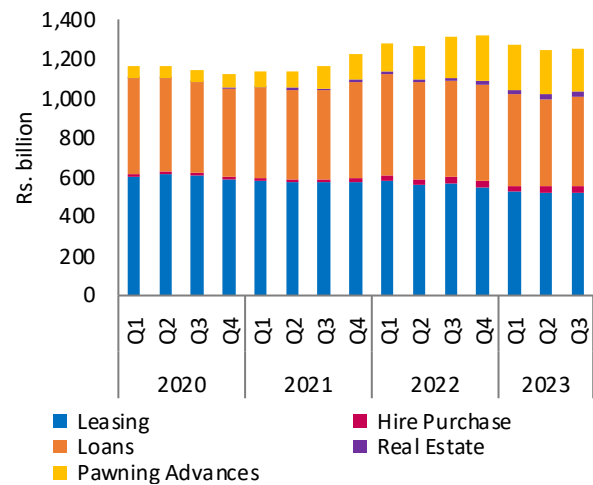


Chart 44 Loan Concentration by Product



* 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

Profitability indicators, ROA and ROE of the sector increased in Q3 of 2023 compared to the previous quarter.

Table 12 Earnings & Profitability (Rs. billion)

Indicators	2022 Q3	2023 Q3	% Change (Y-o-Y)
Net Interest Income	57.4	63.4	10.4
Gross Income ^(f)	77.7	86.9	11.8
Profit Before Tax	21.8	28.6	31.4
Profit After Tax	13.0	16.3	26.0

Chart 45 Return on Assets (before tax)

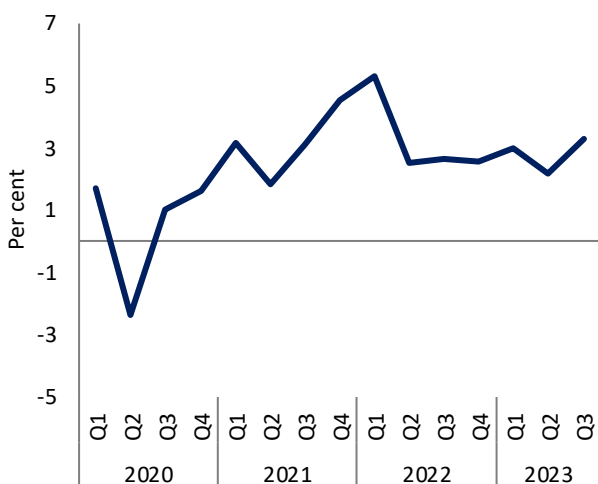


Chart 46 Return on Equity (after tax)

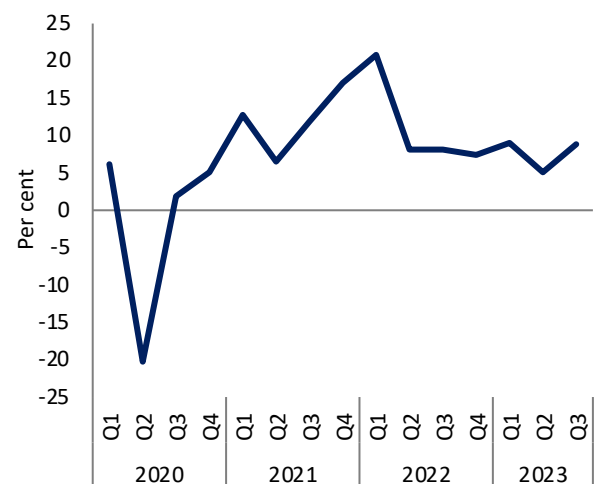


Chart 47 Net Interest Income to Gross Income

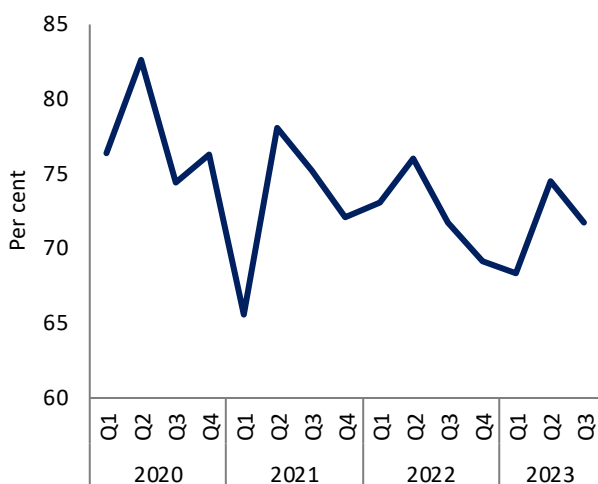
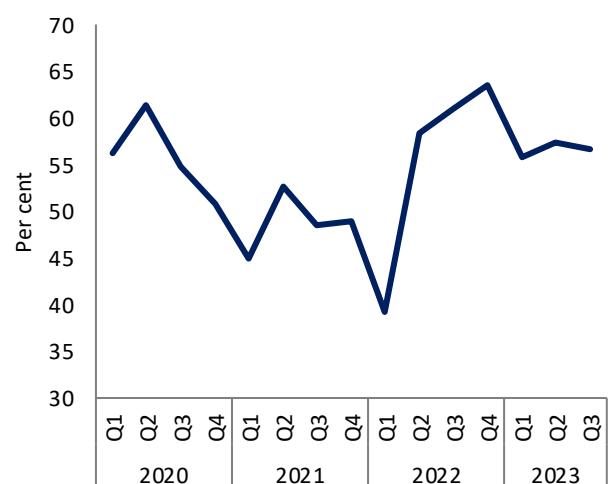


Chart 48 Non-interest Expenses to Gross Income



(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 due to increased investments in Government securities.

Table 13 Liquidity (Per cent)

Indicators	2022 Q3	2023 Q3
Liquid Assets to Total Assets Ratio	9.2	14.4
Credit to Deposit Ratio	143.2	121.8
Liquid Assets to Deposits & Borrowings	13.3	21.5

Chart 49 Liquid Assets

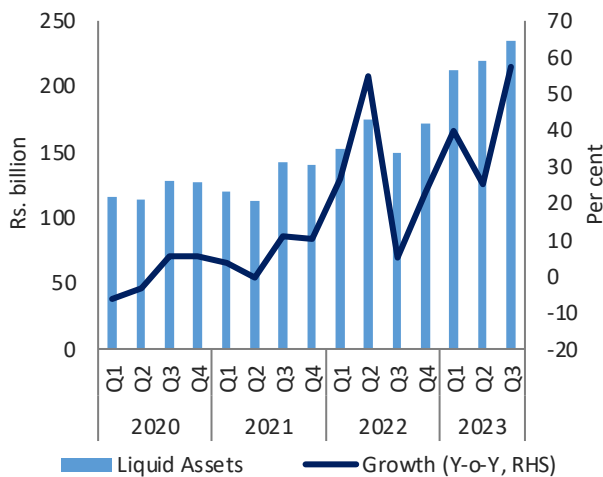


Chart 50 Liquid Assets to Total Assets Ratio

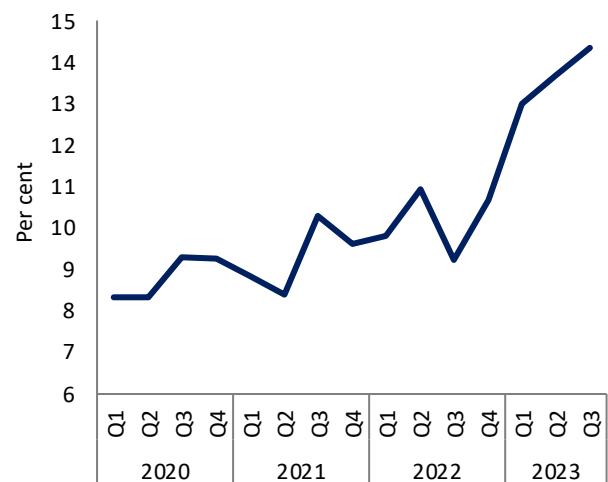


Chart 51 Liquid Assets to Deposits & Borrowings

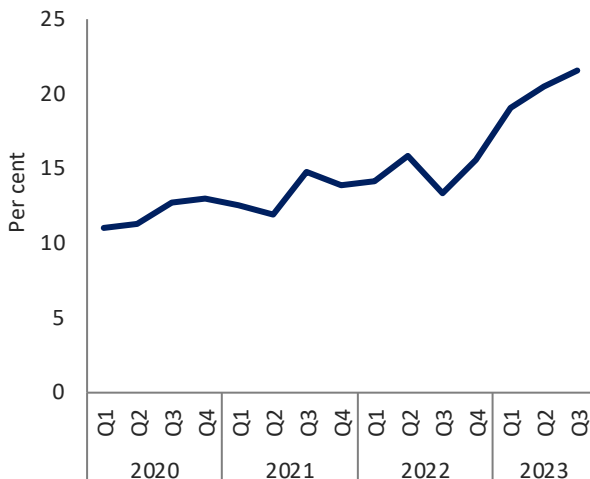


Chart 52 Credit to Deposits Ratio

