



Key Products and Services Offered by Finance / Leasing Companies and Related Risks

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Discussion Overview

- Overview of the Banking and non-banking sector
- Overview of Finance and Leasing Companies in the financial sector
- Key products offered by such Companies and the associated risk

Overview of the Banking and non-banking sector - 2012

- Improved liquidity and comfortable capital adequacy position
- Increase in asset base even in a high interest regime
- Slight deterioration of asset quality and increase in absolute NPL's
- Comparatively high growth rate shown by Finance Companies

Source : *Financial System Stability Review 2012*, CBSL

Overview of the Banking and non-banking sector – 2012 (Cont.) – Asset base

Institution	2011		2012 (Sept)		2011 vs 2012 Growth %
	Total Assets (Rs' Bn)	Share	Total Assets (Rs' Bn)	Share	
Licensed Commercial Banks	3,579	76%	4,207	77%	18%
Licensed Specialised Banks	674	14%	709	13%	5%
Licensed Finance Companies	352	7%	428	8%	22%
Specialised Leasing Companies	138	3%	136	2%	-2%
Total	4,742	100%	5,480	100%	16%

Source : *Financial System Stability Review 2012*, CBSL

Overview of the Banking and non-banking sector – 2012 (Cont.) – Deposit Base

Institution	2011		2012 (Sept)		2011 vs 2012 Growth %
	Total Deposits (Rs' Bn)	Share	Total Deposits (Rs' Bn)	Share	
Licensed Commercial Banks	2,559	79%	2,927	79%	14%
Licensed Specialised Banks	514	16%	539	15%	5%
Licensed Finance Companies	186	5%	232	6%	25%
Total	3,259	100%	3,699	100%	14%

Source : *Financial System Stability Review 2012*, CBSL

Overview of Finance and Leasing Companies in the Financial Sector – financial summary

- The sector as a whole showed positive year on year results in terms of profitability, liquidity and capital adequacy

Indicators	As at end Sep. (Rs. Bn.)		% Change (Y-O-Y)	
	2011	2012 (a)	2011	2012 (a)
Total Assets (Gross)	454.9	564.0	29.6	24.0
Total Accommodations (Gross)	356.1	451.0	48.3	26.6
Total Deposits Liabilities	181.6	233.6	31.4	28.6
Total Borrowings	156.7	171.6	32.3	9.5
Total Capital Funds	59.2	83.9	41.0	41.7
Risk Weighted Assets	357.1	436.3	37.4	22.2
Profit After Tax (b)	15.1	11.9	208.0	(20.9)
Performance Ratios (%)			% Change	
Net Interest Margin	6.6	7.1	0.9	0.5
Gross NPA Ratio	5.5	5.0	(4.2)	(0.5)
Net NPA Ratio	1.9	1.6	(2.9)	(0.3)
Total Provision Coverage Ratio	57.0	55.7	4.3	(1.2)
Total CAR	14.2	17.4	9.0	3.2
Return on Assets (ROA)	5.9	4.0	2.1	(1.9)
Return on Equity (ROE)	33.9	18.9	16.3	(15.0)

Source : *Financial System Stability Review 2012*, CBSL

Overview of Finance and Leasing Companies in the Financial Sector – Funding

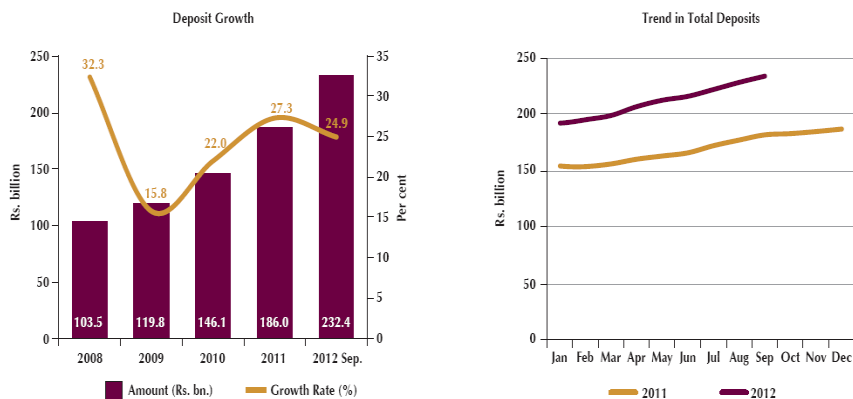
- Deposits from customers was the main funding source (40%) followed by borrowings (30%)

Item	As at end of September 2011		As at end of September 2012 (a)		Growth % during the first nine months of the year	
	Amount (Rs. bn.)	% of share	Amount (Rs. bn.)	% of Share	2011	2012
Capital Element	63.6	14.0	91.8	16.3	32.2	19.2
Deposits	180.8	39.7	232.4	41.2	23.8	24.9
Borrowings	156.7	34.4	171.6	30.4	12.8	0.0
Other Liabilities	54.0	11.9	68.4	12.1	(1.3)	23.7
Total Liabilities	455.1	100.0	564.2	100.0	17.3	15.2

Source : *Financial System Stability Review 2012*. CBSL

Overview of Finance and Leasing Companies in the Financial Sector – Deposits Growth

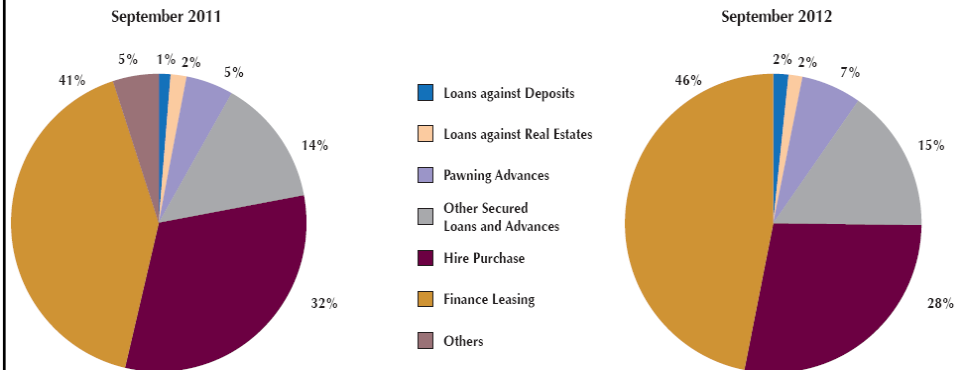
- Customer deposits in the LFC sector showed strong growth year on year confirming customer confidence in the industry



Source : *Financial System Stability Review 2012*. CBSL

Overview of Finance and Leasing Companies in the Financial Sector – Product portfolio

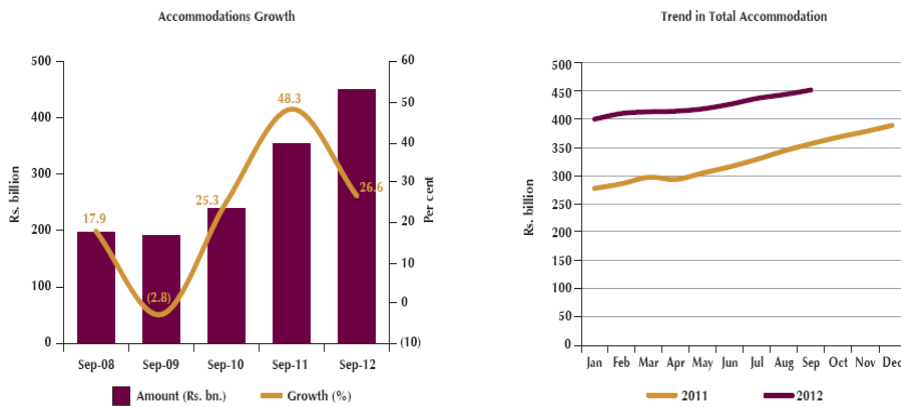
Leases and HP is currently the major product offered while loans are gaining ground



Source : *Financial System Stability Review 2012*, CBSL

Overview of Finance and Leasing Companies in the Financial Sector – NPL's

Though the NPL ratio shows decline, the total NPL's shows a growth in absolute amount.



Source : *Financial System Stability Review 2012*, CBSL

Key products offered by NBFIs

- ❑ **Lending**
 - Leases
 - Hire purchase
 - Loans
 - Fixed term
 - Revolving
 - Top up loans
 - Pawning
- ❑ **Deposits**
 - Fixed deposits
 - Savings deposits
 - Foreign currency deposits
 - Islamic deposits
- ❑ **Other services**
 - Remittances
 - Foreign currency encashment

Key products offered by NBFIs and Associated risks

- ❑ **Liquidity risk**
 - Arising from maturity mismatch of assets (long term) and liabilities (short term)
 - Long term foreign borrowing comes at higher cost
 - Excess liquidity also poses a threat on profitability
- ❑ **Credit risk**
 - Increased competition within the sector and from the banks could push the industry to take higher risk in granting credit elevating the risk of NPL's
 - Effect of security value dropping
- ❑ **Concentration risk**
 - Facilities being granted to a particular sector / industry / borrower

Key products offered by NBFIs and Associated risks (Cont.)

- ❑ Anti-money laundering (AML) policies
 - Requirement to perform effective KYC / CDD
 - Effective monitoring mechanisms on transactions
 - Establishing awareness among front end staff on AML requirements

- ❑ Technological changes
 - Adopting advances technological solutions comes with inherent risk of over reliance



THANK YOU!