

ACAP | Equity Research

BANKING INDUSTRY REPORT

An Analysis on the Sri Lankan Commercial Banking Industry for Equity Investments

August 2026

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STOCK BROKERS
Historically the Banking Finance & Insurance Sector generated decent return opportunities to both the local and foreign equity investors in CSE

Main Recommendation

We issue **BUY recommendations on selected listed commercial banks in Sri Lanka, with Nations Trust Bank and Sampath Bank presenting both short-term and long-term opportunities, while Commercial Bank, HNB, and Seylan Bank are recommended for medium to long term investments**. The sector offers a balanced combination of capital appreciation and dividend income. Historically, the BFI Sector has outperformed the broader CSE market, supported by its higly positive correlation with the economic growth. The future outlook on the sector is strengthened by Sri Lanka's ongoing economic growth potential. Technological advances in the sector and financial deepening in the economy. Company specific parameters such as NIM, CASA ratio, asset quality, portfolio growth and level of impairment provisions will influence the business profitability and returns to shareholders. Contrarian strategy with Buy & Hold capacity can ensure improved returns to the bankings sector investors.

Investment Conclusion

Nations Trust Bank PLC
NTB.N0000
BUY
Short Term & Long Term
Market Price as at 31st August: Rs. 312.25
Target Price : 510.79

Sampath Bank PLC
SAMP.N0000
BUY
Short Term & Long Term
Market Price as at 31st August: Rs. 138.75
Target Price : 166.69

Commercial Bank PLC
COMB.N0000
BUY
Long term
Market Price as at 31st August: Rs. 203.50
Target Price : 231.37

Hatton National Bank PLC
HNB.N0000
BUY
Long term
Market Price as at 31st August: Rs. 380.25
Target Price : 414.48

Seylan Bank PLC
SEYB.N0000
BUY
Long term
Market Price as at 31st August: Rs. 97.10
Target Price : 104.74

- The following sections set out the key sector, company-specific, and valuation factors supporting this investment conclusion.

Returns to a Local Investor from the BFI Sector in CSE

Period	Opening TRI	Closing TRI	No. of Years in the period	Gross CAGR for the period
Jan 2005 - Dec 2019	2,771	23,276	15	15.2%
April 2009 - Dec 2019	3,938	23,276	9.75	20.0%
July 2012 - Dec 2019	13,554	23,276	6.5	8.7%
April 2009 - Feb 2011	3,938	22,173	2	137.3%
April 2009 - August 2015	3,938	27,808	15.4	13.5%
May 2020 - Dec 2025	658	2,348	5.8	24.5%
May 2020 - Jan 2022	658	2,012	1.75	89.4%
Jan 2005 - Dec 2025	**2,771**	**67,564***	**21**	**16.4%**

** Index constituents were adjusted by CSE from Jan 1, 2020. However, the index value has been readjusted for the comparable basis for return computation.*

Data Source : CSE

Returns for a purely passive buy & hold investor in the long run.

- Long run gross returns for the period from Jan 2005 to Dec 2025 stood at 16.4% on a compounded basis which is a decent rate of return in the long-term for a local investor with a Passive Buy & Hold Investment strategy (Period : Jan 2005 to Dec 2025).

Evidence of possible better returns with market timing

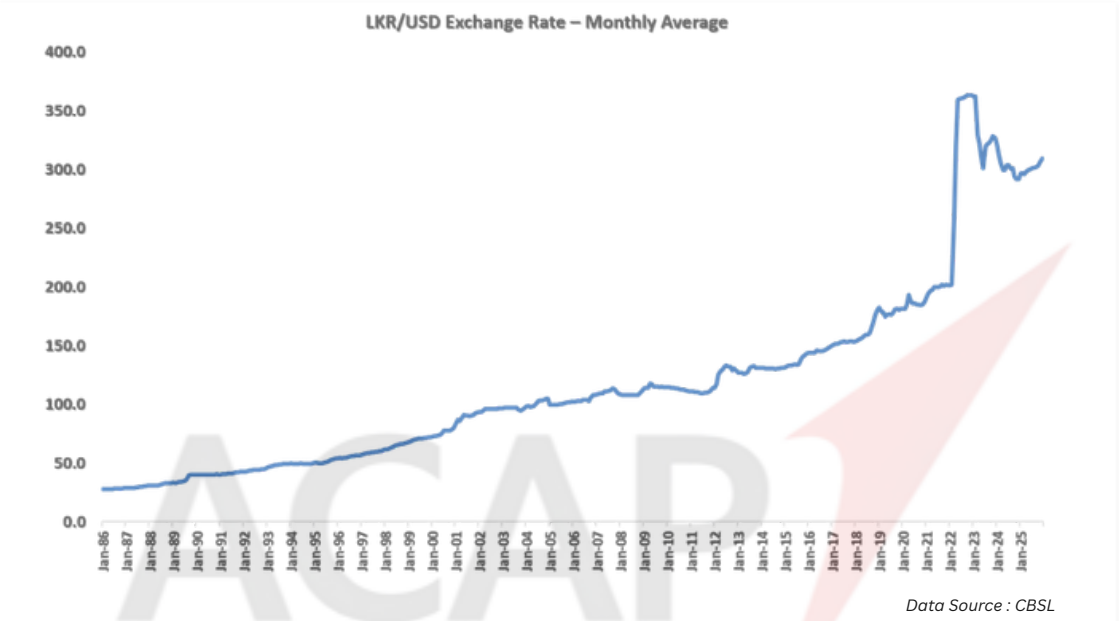
- In between such a decent rate of return in the long run of 21 years, an investor could have earned better returns while managing the risk through proper market timing in the sector investments.

Contrarian approach for investing could give improved returns

- If the investor took an equity position in the sector in the middle of the COVID hit by May 2020, on average he could have exposure to a CAGR of 24.5% approximately for a 6-year investment time horizon by Dec 2025.
- Similar opportunities for increased returns are evidenced given that the investor took a “Contrarian Approach” for investing which means the investor buys shared at discounted values during the periods when the majority of the participants sell for shifting out from the market.

Returns to a Foreign Investor from the BFI Sector in CSE

The most inevitable non-diversifiable risk factor for a foreign investor in the CSE, is the currency risk.



Data Source : CBSL

Item	LKR/USD
Exchange rate in Jan 1986	27.51
Exchange rate in Dec 2019	181.3
Exchange rate in Dec 2023	326.74
Annual average depreciation rate(On a compounded basis) from Jan 1986 to Dec 2019	5.7%
Annual average depreciation rate(On a compounded basis) from Dec 2020 to Dec 2023	15.9%

- In the long run, LKR depreciated at a compounded annual average rate of 5.7% which is in line with the long run average currency depreciation rate explained by interest rate differential between LKR and USD (As per Interest rate parity theory).
- However, during the period from Jan 2020 to Dec 2023 which covers both the COVID pandemic and the economic crisis in Sri Lanka, exchange rate overshot marking and above average depreciation rate of 16% p a.

Returns to a Foreign Investor from the BFI Sector in CSE

The sector has generated adequately high return opportunities for the foreign investors also after adjusting for LKR depreciation.

Period	Opening TRI adjusted for exchange rate	Closing TRI adjusted for exchange rate	No. of Years in the period	Gross CAGR for the period
Jan 2005 - Dec 2019	27.8	129.2	15	10.8%
April 2009 - Dec 2019	33.6	129.2	9.75	14.8%
July 2012 - Dec 2019	102.0	129.2	6.5	3.7%
April 2009 - Feb 2011	33.6	199.8	2	144.0%
April 2009 - August 2015	33.6	207.7	15.4	12.6%
May 2020 - Dec 2025	3.5	7.6	5.8	14.3%
May 2020 - Jan 2022	3.5	10.0	1.75	82.0%
Jan 2005 - Dec 2025	**27.8**	**218.5***	**21**	**10.3%**

** Index constituents were adjusted by CSE from Jan 1, 2020. However, the index value has been readjusted for the comparable basis for return computation.*

- The gross possible returns to the foreign investors for the particular investment periods are lower in general due to the downward impact from LKR depreciation.
- However, the possible gross rate of return to the foreign investors for the period from April 2009 to Feb 2011 was higher than the possible returns to the local investors as a result of LKR appreciation for the period.

Investment Strategy in the BFI Sector in CSE

Average index returns vs Returns through Security Selection

- The annualized gross rates of returns were available for investors with the sector indexing strategy which implies that the investor spreads his equity investments across the shares in all the sector index constituents based on the weighted market capitalization in the index
- However, the investors could cherry-pick the most feasible investments in the sector through security analysis. This could explore opportunities with the better risk-return combination in CSE.

The analysis on the historical return opportunities in the BFI sector of CSE indicates,

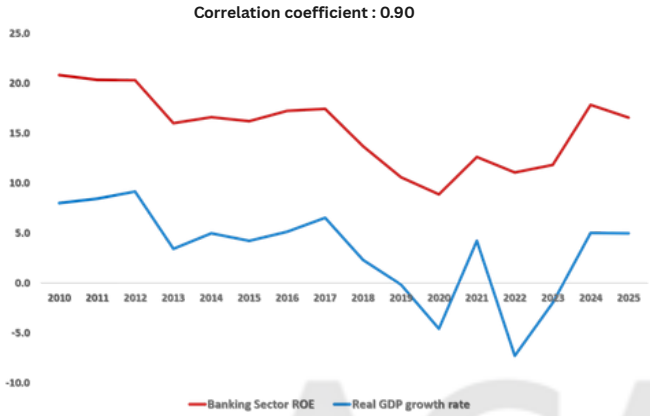
- The BFI Sector overperformed the overall market systematically.
- Long run Buy & Hold Passive investing has generated decent gross returns to the equity investors in the BFI sector.
- Within the long run passive investing, “Contrarian Strategy” for market timing could make best investment opportunities in the sector.
- Macro economic/market turbulences give best investment opportunities in the share market for smart investors with patience and capacity for buy & hold until the macro economic/market corrections.
- Security selection within the index constituents will give opportunities for more feasible return-risk ratio.

It is advisable to adopt these two investment strategies/styles on fundamentally sound shares with backing from proper equity research.

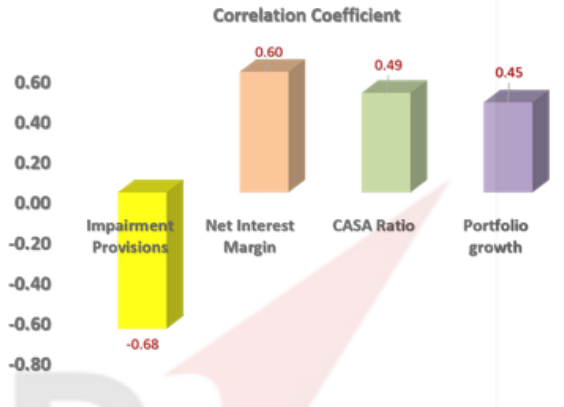
Profitability in the Commercial Banking Sector and Influencing Parameters

Real GDP Growth is the Most influencing parameter to the Banking sector profitability

- Commercial Banking sector ROE and Real GDP growth rate shows a near perfectly positive correlation. Real GDP growth will bring highest positive influence to the change in profitability of the sector.



Data Source : CBSL



Data Source : CBSL

- **Impairment provisions brings the highest negative impact to the profitability of the Commercial Banking Sector with a negative correlation coefficient of 0.68 while NIM, CASA Ratio and Portfolio growth contributes positively to the sector profitability.**

Sector specific influencing parameters for profitability

%

Parameter	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Equity (ROE) - After Tax	20.3	16.0	16.6	16.2	17.2	17.4	13.7	10.6	8.8	12.6	11.0	11.8	17.8	16.5
Gross NPL Ratio/Impairmant Ratio	5.7	7.7	6.2	4.9	4.1	3.8	4.7	6.2	6.6	7.6	11.9	13.0	12.7	9.7
Impairment to Total Income Ratio	2.5	3.9	3.4	3.7	2.3	2.6	4.0	5.3	10.9	13.0	21.8	6.6	(8.3)	2.6
Net Interest Margin	4.1	3.5	3.5	3.6	3.6	3.5	3.7	3.6	3.2	3.4	4.1	3.8	4.3	4.2
Growth in Earnings assets	21.4	16.3	12.7	25.2	11.1	15.4	17.1	6.8	20.6	14.7	13.0	6.4	13.2	14.1

Data Source : CBSL

Provisioning impact and equity investment strategy in the sector

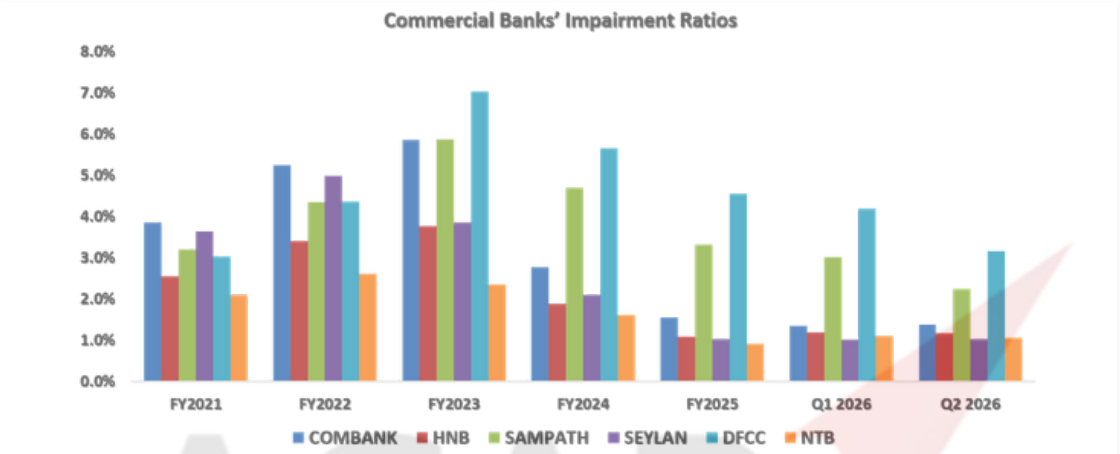
- The sector recorded above average Provisions as a result of COVID pandemic and Economic crisis. A net provisions reversal was enjoyed by the Sector in 2024.
- Heavy provisioning made as per the standards will hit the profitability of the banking sector during a macro turbulence. However, a considerable portion of provisions is subject for reversal subsequently after the recovery in the macro condition which will boost the profitability of the sector. The level of impact from provisions in such a scenario will depend on the asset quality of the particular bank.
- **The behavior of this key influencing parameter for the sector profitability and share price performance can confirm our recommendation for "Contrarian Strategy" for equity investing.**

Asset quality, NIM and Portfolio Growth

- Asset quality of a bank is influenced by its business strategy and risk management approach. More focus on portfolio growth and NIM could compromise asset quality.

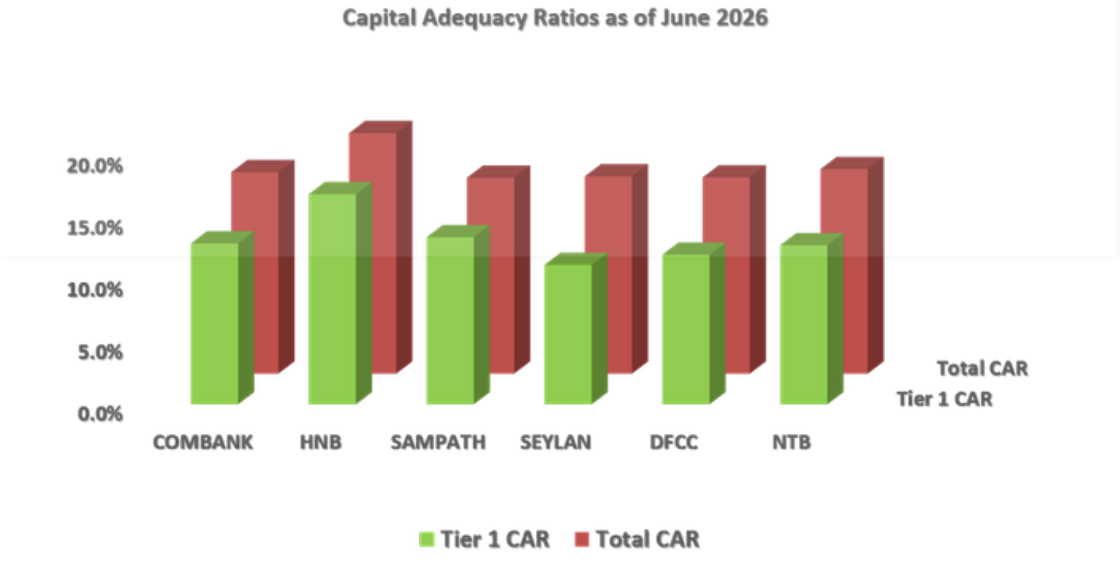
Comparative Analysis within the Commercial Banking Sector in Sri Lanka

Asset Quality and Risk Capital Flexibility for Portfolio Growth



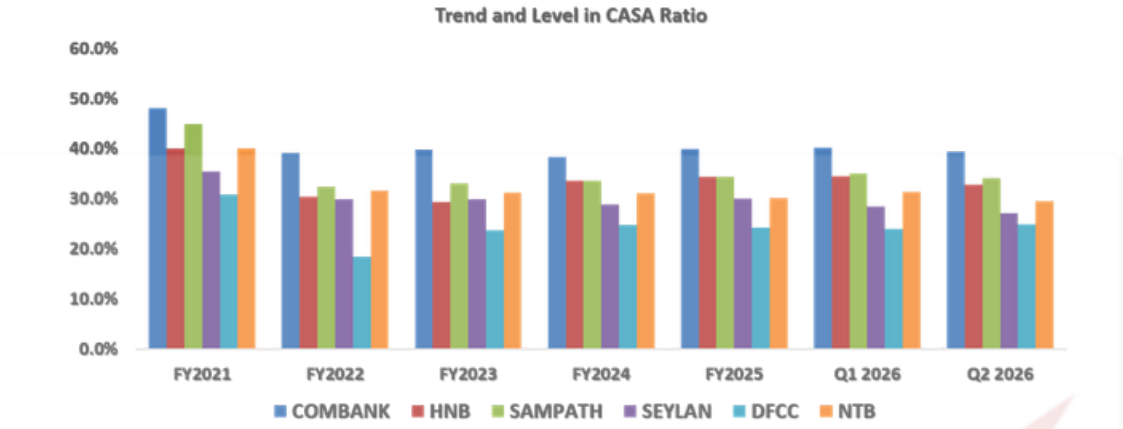
Data Source : Banks' Annual and quarterly reports.

- Through last 5 ½ years, NTB maintains high asset quality while SEYLAN's asset quality improved considerably from 2024 to be at par with NTB. COMBANK and HNB also maintain quality portfolios with low impairment ratios but slightly more than NTB and SEYLAN.
- All banks maintain adequate balance sheet strength with and flexibility for portfolio growth with high CARs.
- HNB maintains the highest capital adequacy both in Tier 1 and Total risk capital. This gives the capital flexibility for HNB to capture future portfolio growth without resorting to additional risk capital.
- However, ROE is suppressed by extra capital until optimal utilization is achieved through the lending portfolio growth.



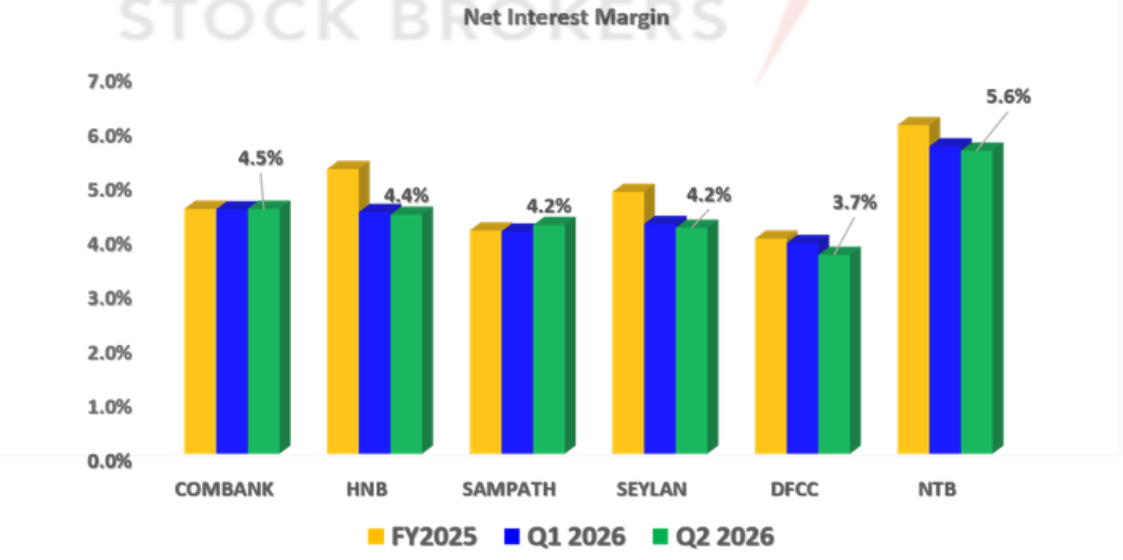
Data Source : Banks' Annual and quarterly reports.

CASA and NIM for Profitability



Data Source : Banks' Annual and quarterly reports.

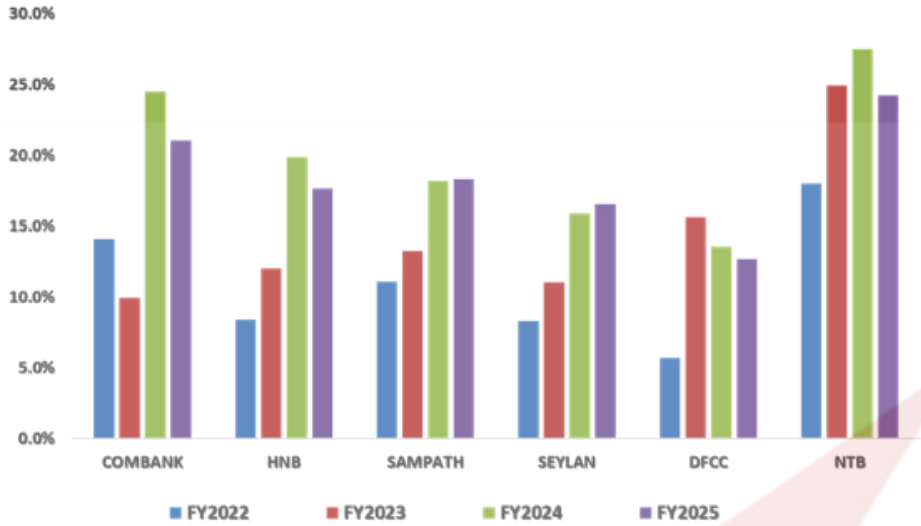
- Higher CASA ratio contributes to relatively higher Net Interest Margin as a result of lower cost of funds.
- COMBANK could maintained the highest CASA Ratio throughout the evaluation period at around 40%. HNB and SAMPATH also are stronger in CASA maintenance second to COMBANK with a ratio of around 35%.
- Extremely high NIMs enjoyed by the banks have moderated towards 2025 towards a ration of around 4.4% with NTB maintaining the highest level of NIM still at 5.6% by June 2026. four other banks are at average while DFCC marks below 4%, currently.



Data Source : Banks' Annual and quarterly reports.

Return On Equity as Banking Business Profitability

Return on Equity



Data Source : Banks' Annual and quarterly reports.

- NTB has recorded the highest ROE among the selected banks from FY 2022. COMBANK records a ROE of above 20% for last two years.

EPS					Rs
Bank	FY2021	FY2022	FY2023	FY2024	FY2025
COMBANK	19.41	18.13	15.37	37.94	36.86
HNB	36.18	28.62	40.68	76.14	83.23
SAMPATH	12.11	11.99	15.28	24.48	27.77
SEYLAN	7.44	7.66	10.17	15.91	19.40
DFCC	11.17	7.88	20.3	22.71	26.00
NTB	20.9	22.61	35.17	50.82	57.76

Data Source : Banks' Annual and quarterly reports.

- All the banks more than doubled their EPS by 2025 compared to EPS recorded in 2022. the highest increase came from DFCC while the second highest was marked by HNB at a point-to-point increase of 191% by 2025.

EPS Growth From 2022 to 2025

Bank	EPS Growth - 3 year point-to-point
COMBANK	103%
HNB	191%
SAMPATH	132%
SEYLAN	153%
DFCC	230%
NTB	155%

Returns to Shareholders : Earnings Yield and Dividend Yields

Earnings Yield					
Bank	FY2021	FY2022	FY2023	FY2024	FY2025
COMBANK	24.5%	36.1%	16.1%	26.2%	18.4%
HNB	26.8%	36.3%	24.0%	23.8%	20.9%
SAMPATH	23.2%	35.1%	21.7%	20.7%	19.0%
SEYLAN	16.9%	24.2%	23.2%	20.4%	18.5%
DFCC	18.6%	24.6%	25.5%	20.0%	17.6%
NTB	38.0%	48.9%	32.7%	27.2%	18.5%

Data Source : Banks' Annual and quarterly reports.

- Irrespective of EPS of all the banks in the group more than doubled by 2025 from 2022, the Earnings Yield Ratios became reached down to the long run average. This was due to the correction of the share values by 2025 from the deep-discounted prices prevailed during the economic crisis.

"Contrarian Strategy" for investing with buy & Hold Capacity will place the equity investing in the profit path.

DPS						Rs
	FY2021	FY2022	FY2023	FY2024	FY2025	Estimated dividends for FY 2026
COMBANK	7.50	4.50	6.50	9.50	10.50	8.83
HNB	9.00	5.00	8.00	15.00	20.00	14.33
SAMPATH	4.25	4.60	5.85	9.35	10.30	8.50
SEYLAN	3.00	2.00	2.50	3.50	4.00	3.33
DFCC	3.00	2.00	5.00	6.00	7.50	6.17
NTB	3.50	4.00	5.00	6.50	7.00	6.17

Data Source : Banks' Annual and ACAP Research

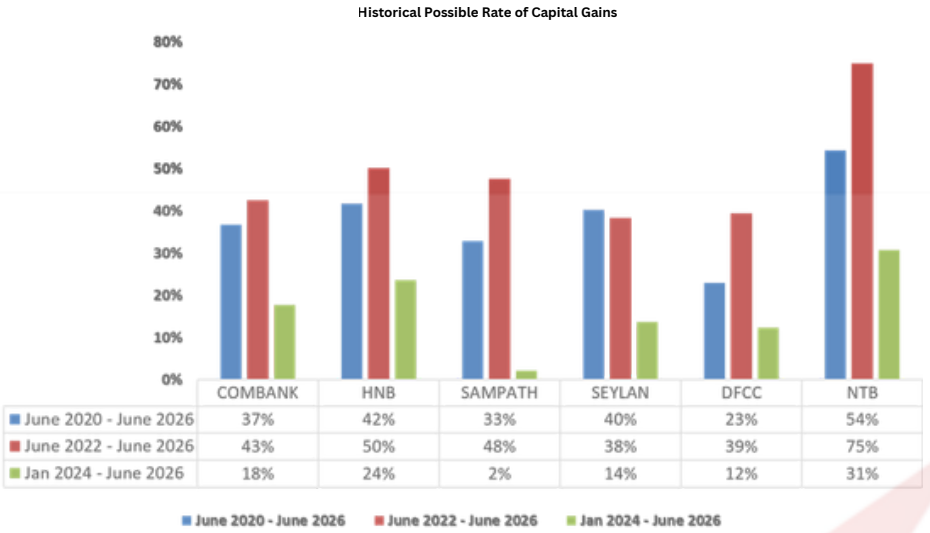
- Highest DPS has been maintained by HNB during the period. Dividend estimation is done as the average dividends for last three years.
- A decent dividend yield is estimated for this group of banks.

Dividend Yield						
	FY2021	FY2022	FY2023	FY2024	FY2025	Estimated Dividend Yield for FY 2026*
COMBANK	9.5%	9.0%	6.8%	6.6%	5.2%	4.3%
HNB	6.7%	6.3%	4.7%	4.7%	5.0%	3.8%
SAMPATH	8.2%	13.5%	8.3%	7.9%	7.0%	6.1%
SEYLAN	6.8%	6.3%	5.7%	4.5%	3.8%	3.4%
DFCC	5.0%	6.3%	6.3%	5.3%	5.1%	4.8%
NTB	6.4%	8.7%	4.7%	3.5%	2.2%	2.0%

** Based on market prices as at 31 Aug 2026.*

Data Source : Banks' Annual and ACAP Research

Historical Returns to Shareholders : Capital Gains Possible Historically



	COMBANK	HNB	SAMPATH	SEYLAN	DFCC	NTB
June 2020 - June 2026	37%	42%	33%	40%	23%	54%
June 2022 - June 2026	43%	50%	48%	38%	39%	75%
Jan 2024 - June 2026	18%	24%	2%	14%	12%	31%

Data Source : Banks' Annual and ACAP Research

Analysis on capital gains reveal that,

- NTB has given opportunities for the highest rate of capital gains in each period upto June 2026.
- Investors who took the contrarian approach during COVID and Economic crisis could realize highest returns.
- A turbulence situation is a "BUY" opportunity for long term buy and hold investments.
- If you have already invested, a turbulence situation is an opportunity for "RUPEE COST AVERAGE" which means buy more at discounted prices to bring down your total average cost per share.

Commercial Banking Sector Valuation : Prevailing Valuation

Price Earning Ratio					
	FY2021	FY2022	FY2023	FY2024	FY2025
COMBANK	4.09	2.77	6.21	3.82	5.45
HNB	3.73	2.76	4.16	4.20	4.79
SAMPATH	4.30	2.85	4.61	4.83	5.28
SEYLAN	5.91	4.13	4.32	4.90	5.41
DFCC	5.37	4.06	3.92	5.01	5.69
NTB	2.63	2.04	3.06	3.67	5.42
Group Average PEI	**4.34**	**3.10**	**4.38**	**4.40**	**5.34**

Data Source : Banks' Annual and ACAP Research

- The period from 2021 to 2024, is a period of crisis or recovery from crisis. PER can be unduly influenced by pessimism created through loss of wealth in the market or phycological resistance through historical loss experience.

PER of 5.34X prevailed in the market values as at end December 2025 is considered as the proxy PER for the share value based on the future profitability estimations.

ROE				
	FY2022	FY2023	FY2024	FY2025
COMBANK	14.0%	9.9%	24.5%	21.0%
HNB	8.4%	12.0%	19.8%	17.6%
SAMPATH	11.1%	13.2%	18.2%	18.3%
SEYLAN	8.3%	11.0%	15.9%	16.5%
DFCC	5.7%	15.6%	13.5%	12.7%
NTB	18.0%	24.9%	27.5%	24.2%

Data Source : Banks' Annual and quarterly reports.

- ROE in 2022 and 2023 was low due to adverse impact from high provisioning requirements while ROE for 024 and 2025 was high due to provisions reversals or low impairment provisions.
- Boost to EPS will not be available provisions reversals or low impairment provisions in 2026.

Provisions/Gross Income				
	FY2022	FY2023	FY2024	FY2025
COMBANK	25.7%	11.4%	-22.9%	6.3%
HNB	33.9%	12.6%	-34.1%	-2.8%
SAMPATH	30.5%	8.5%	-5.7%	-0.3%
SEYLAN	27.3%	14.6%	1.6%	0.8%
DFCC	23.2%	13.0%	5.2%	5.1%
NTB	21.4%	9.2%	-4.3%	-0.1%

Data Source : Banks' Annual and ACAP Research

Short Term Value Estimation

Estimated EPS for FY 2026

Bank	EPS - First Half of FY	EPS - First Half of FY 2026	Actual for FY 2025	Estimated for FY 2026
COMBANK	18.87	21.14	36.86	43.34
HNB	39.25	37.87	83.23	77.63
SAMPATH	13.33	15.23	27.77	31.22
SEYLAN	8.56	9.57	19.40	19.62
DFCC	13.26	9.09	26.00	18.63
NTB	26.59	46.67	57.76	95.67

Data Source : Banks' Annual reports and ACAP Research

- Estimated EPS for HNB for FY 2026 is downsized compared to FY 2025 as impairment provisions will be at normal range from FY 2026. HNB's higher EPS was considerably contributed by provisions reversal in FY 2024 and FY 2025.
- Our valuation estimates a short term value increase in 5 out of 6 banks shares in our analysis but in different magnitudes.

NTB is estimated to show the highest additional value compared to the current market price

Short term share price estimation under PER method

Bank	Estimated EPS for FY 2026	Average PER for the Group by Dec 2025	PE based share price valuation	Market price at 31 Aug 2026
COMBANK	43.34	5.34	231.37	203.50
HNB	77.63	5.34	414.48	380.25
SAMPATH	31.22	5.34	166.69	138.75
SEYLAN	19.62	5.34	104.74	97.10
DFCC	18.63	5.34	99.49	128.00
NTB	95.67	5.34	510.79	312.25

Data Source : Banks' Annual reports and ACAP Research

Return Estimation and Investment Recommendation

Estimated total return from capital gains and dividend yield for FY 2026

Bank	PE based share price valuation	Market price at 31 Aug 2026	Estimated short term gross capital gains	Estimated dividends yield for FY 2026 at current prices	Estimated total return in the short term at current prices
COMBANK	231.37	203.50	13.7%	4.3%	18.0%
HNB	414.48	380.25	9.0%	3.8%	12.8%
SAMPATH	166.69	138.75	20.1%	6.1%	26.3%
SEYLAN	104.74	97.10	7.9%	3.4%	11.3%
DFCC	99.49	128.00	-22.3%	4.8%	-17.5%
NTB	510.79	312.25	63.6%	2.0%	65.6%

Data Source : Banks' Annual and ACAP Research.

Highest estimated returns are demonstrated by NTB and SAMPATH based on our valuation.

Investment Recommendation



Nations Trust Bank PLC

NTB.N0000

BUY

Short Term & Long Term

Market Price as at 31st August: Rs. 312.25

Target Price : 510.79



Sampath Bank PLC

SAMP.N0000

BUY

Short Term & Long Term

Market Price as at 31st August: Rs. 138.75

Target Price : 166.69



Commercial Bank PLC

COMB.N0000

BUY

Long term

Market Price as at 31st August: Rs. 203.50

Target Price : 231.37



Hatton National Bank PLC

HNB.N0000

BUY

Long Term

Market Price as at 31st August: Rs. 380.25

Target Price : 414.48



Seylan Bank PLC

SEYB.N0000

BUY

Long Term

Market Price as at 31st August: Rs. 97.10

Target Price : 104.74

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