



FLASH NOTE | Impact of Policy Rate Hike on Listed Companies

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Background to CBSL's policy rate hike by 100 bps

Central Bank of Sri Lanka (CBSL) increase its Overnight Policy Rate (OPR) by 100bps to 8.75%. This was primarily driven by;

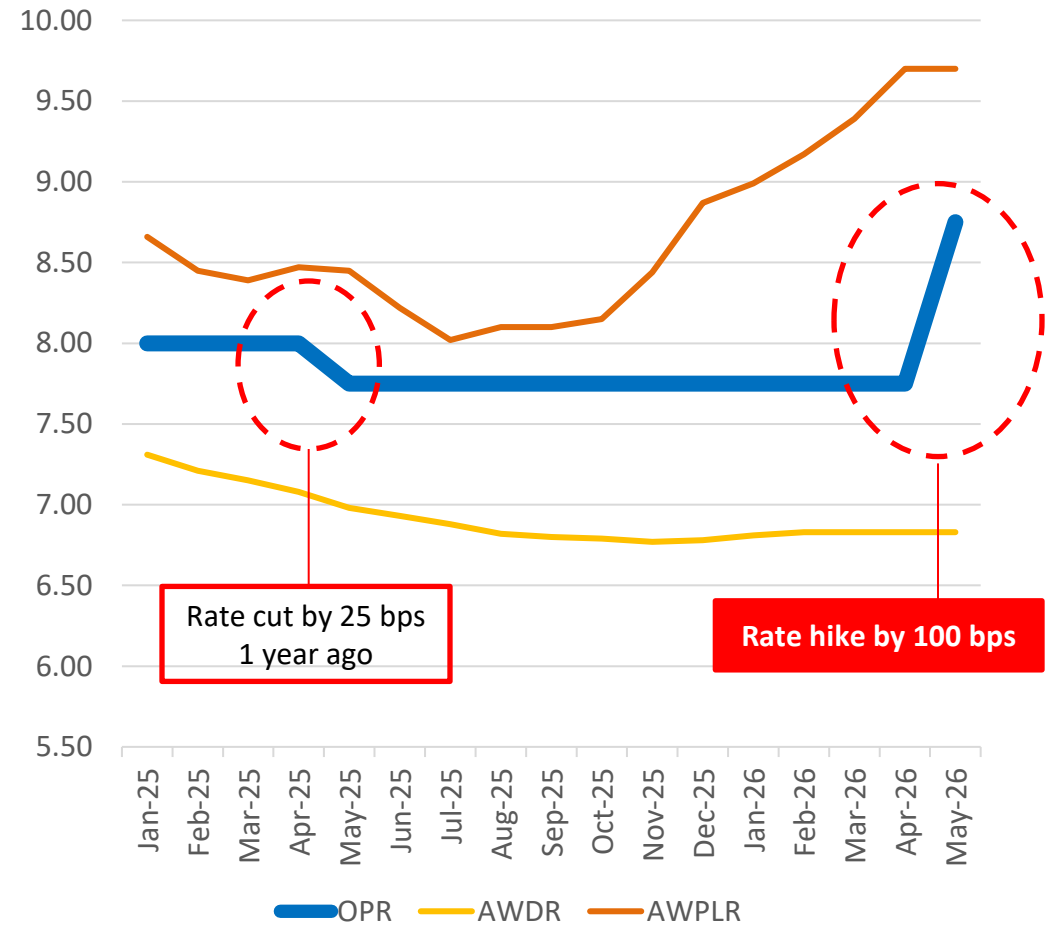
Heightened Middle East crisis that lead to rising fuel and commodity prices

Domestic inflation rising to 5.4% and credit driven imports

Widening trade deficit amidst higher fuel import cost and tourism slowdown

Foreign reserves (which have declined to USD 6.8 billion) stability concern

Interest rate movemnt



Global Central Bank responses to the Middle East crisis

While Australia and Pakistan have raised policy rates, most other major Central Banks have held rates steady. However, potential rate hikes are on the horizon.

Country	Rate response	Current policy rate	Outlook
Australia	Increased cash rate by 25 bps in May 2026	4.35%	Further policy tightening likely as annual inflation is above target 2.5%
Pakistan	Increased 100 bps in Apr 2026	11.5%	Cautious outlook dependent on inflation and crude oil prices
US Fed	Maintained rates in Apr 2026	3.5% - 3.75%	Possible increase if inflation stays elevated
UK	Maintained rates in Apr 2026	3.75%	Possible hike while gilt yields have spiked
India	Maintained the rate in Apr 2026	5.25%	Possible hike of 25 - 30 bps in June meeting
Turkey	Maintained rates in Apr 2026	37%	Possible increase to 40%
China	Maintained rates in May 2026	3% - 3.5%	Likely to be maintained
Japan	Maintained rates in May 2026	0.75%	Possible rate hike

Banking sector impact: banks with higher CASA ratios to gain

~80% of Licensed Commercial Bank (LCB's) total assets represent deposits

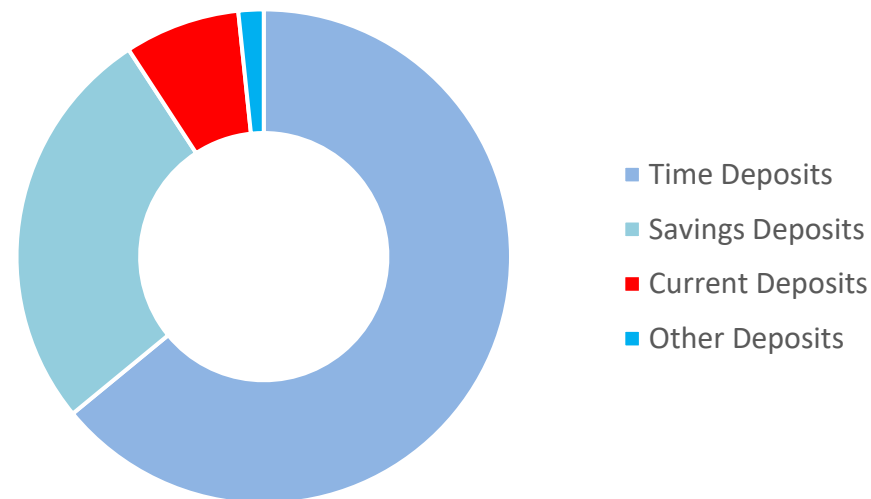
~78% of LCB* deposits are LKR deposits while only 22% are forex based, exposing them to domestic interest rate movements

Higher CASA** ratios indicate a greater share of low or non-interest-bearing deposits (current and savings accounts), resulting in a structurally lower cost of funds for the bank.

Banks with higher CASA will benefit by a smaller impact from rising deposit interest cost

Banks	Ticker	CASA ratio
Amana Bank PLC	ABL.N	45.0%
Commercial Bank of Ceylon PLC	COMB.N	39.7%
Hatton National Bank PLC	HNB.N	35.3%
Sampath Bank PLC	SAMP.N	33.9%
Nations Trust Bank PLC	NTB.N	30.0%
Seylan Bank PLC	SEYB.N	29.9%
DFCC Bank PLC	DFCC.N	24.5%
Union Bank of Colombo PLC	UBC.N	24.4%
National Development Bank PLC	NDB.N	23.9%
Cargills Bank Limited	CBNK.N	20.3%
Pan Asia Banking Corporation PLC	PABC.N	20.0%

Deposit structure of LCBs



*LCB = Licensed Commercial Banks

**CASA = Current Accounts and Savings Accounts ratio

Sources: CBSL, Company reports

Banking sector NIMs to benefit in the short term

~77% of the LCB's gross income represents net interest income

When interest rates rise, loans get repriced faster than deposits

Therefore bank's loan interest income increase faster than its deposit interest cost, enhancing NIMs*

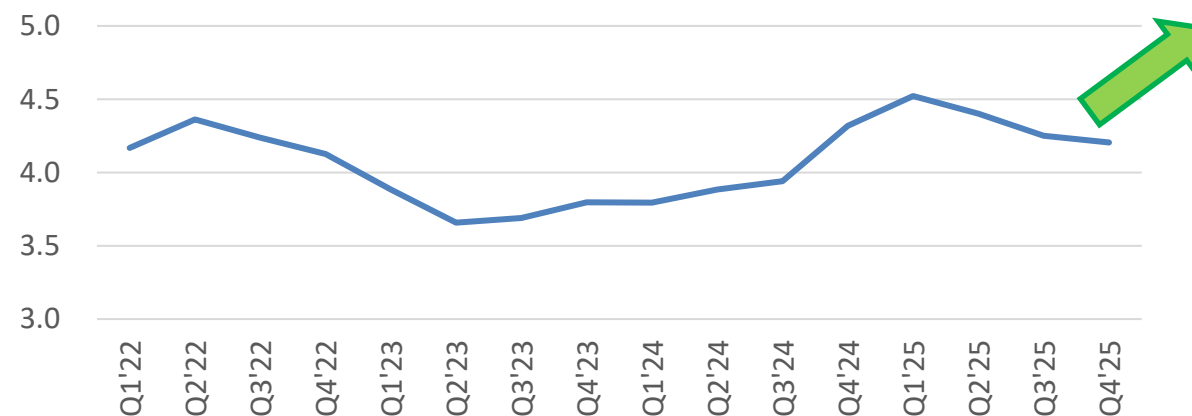
Banks with a higher loan to deposit ratio will also tend to benefit from rising interest rates with widening NIMs

*NIM = Net Interest Margin

Sources: CBSL, Company reports

Banks	Ticker	NIM	Loan to Deposit	NPL
Nations Trust Bank PLC	NTB.N	6.05%	87.40%	3.85%
Hatton National Bank PLC	HNB.N	5.24%	80.62%	1.09%
Pan Asia Banking Corporation PLC	PABC.N	4.55%	97.51%	1.73%
Commercial Bank of Ceylon PLC	COMB.N	4.51%	77.73%	1.54%
Seylan Bank PLC	SEYB.N	4.50%	92.30%	1.03%
Cargills Bank Limited	CBNK.N	4.38%	95.36%	6.52%
Amana Bank PLC	ABL.N	4.30%	88.89%	1.20%
Sampath Bank PLC	SAMP.N	4.30%	76.88%	3.31%
National Development Bank PLC	NDB.N	4.03%	91.05%	3.75%
DFCC Bank PLC	DFCC.N	3.96%	87.70%	4.55%
Union Bank of Colombo PLC	UBC.N	3.50%	99.41%	8.10%

Net Interest Margin of LCBs



Loan growth to suffer in the medium term

Higher borrowing costs reduce loan demand in the medium term

Higher lending rates discourage new borrowing, leading to slower loan book growth in retail, SME, and corporate segments.

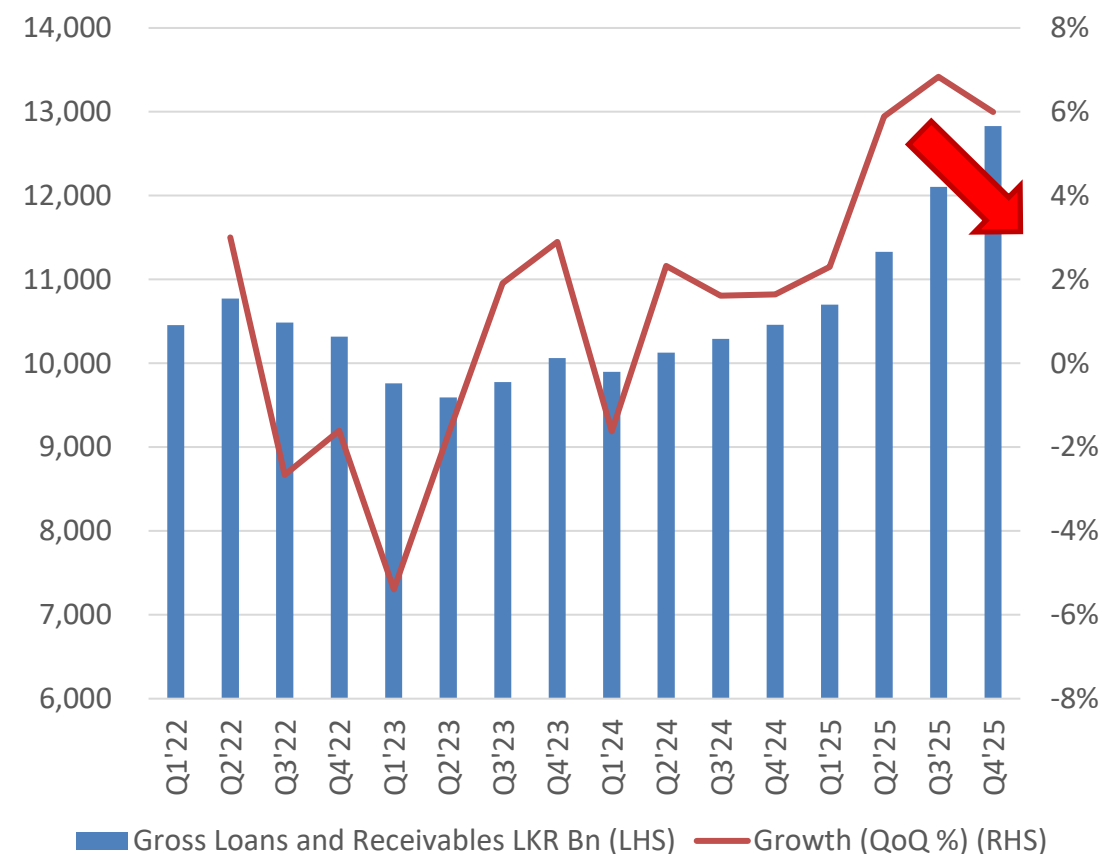
Retail and SME portfolios may see higher NPLs

Construction, real estate, trading, and import-dependent businesses face stronger headwinds due to rate sensitivity and demand slowdown.

*NPL = Non Performing Loans

Sources: CBSL

Gross Loans and Receivables of LCBs



Construction sector to face challenges in the mid to long term

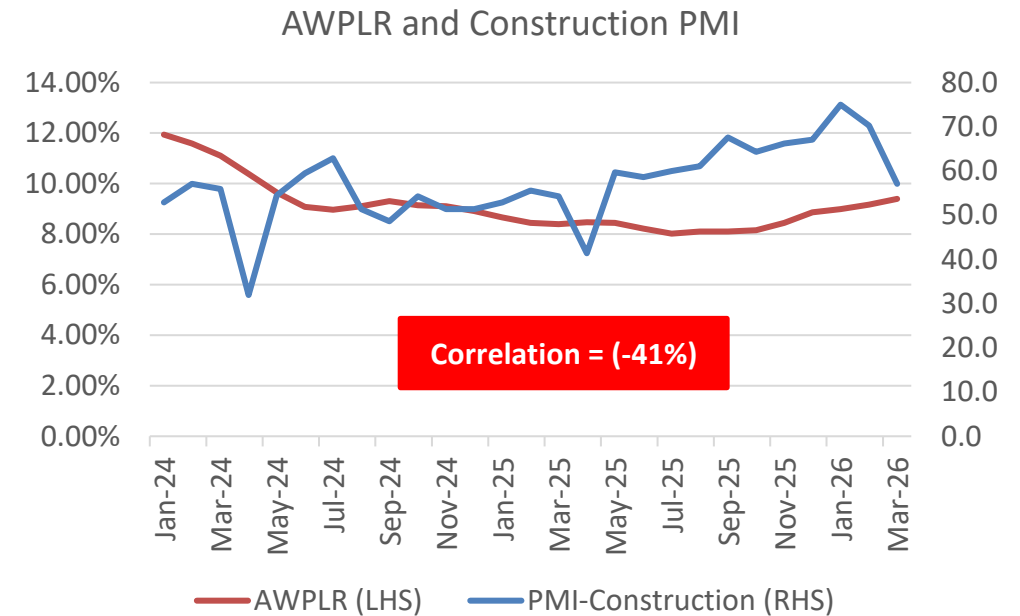
Privately funded construction and housing projects face direct pressure from higher mortgage and development financing costs

E.g. counters such as Prime Land (PLR.N), Tokyo Cement (TKYO.N), Royal Ceramics (RCL.N) may experience slower project expansion and weaker sales momentum as they focus on private projects

Government-funded construction projects may not face an immediate negative impact. However they could face an indirect impact through increased fiscal pressure and tighter budget allocations in the long term

E.g. counters such as Access (AEL.N), which have higher exposure to government-related projects, may experience **longer-term cash flow pressure and working capital strain**

Construction and real estate demand is highly leveraged and sensitive to rising borrowing costs, leading to slower project uptake in a rate hike environment



Note: 3 month lagged

Companies with higher debt will face higher finance cost

Companies with **higher net debt positions** are more exposed to rising interest rates, leading to **higher finance costs and margin pressure**

Highly leveraged firms face **cash flow strain**, as more operating income is absorbed by debt servicing. **Refinancing risk increases**, especially for companies with short-term debt maturities

Companies with high net debt (LKR Mn) excluding banks and NBFIs

Ticker	Name	LT Brrwng LF	ST Brrwng LF	Total debt	C&CE LF	Net debt
JKH SL Equity	JOHN KEELLS HOLDINGS PLC	91,321	174,387	265,708	18,985	246,723
HAYL SL Equity	HAYLEYS PLC	86,627	185,957	272,584	28,113	244,471
BRWN SL Equity	BROWN & CO PLC	62,711	69,221	131,933	18,674	113,258
SINS SL Equity	SINGER SRI LANKA PLC	26,286	62,705	88,991	3,903	85,088
BIL SL Equity	BROWNS INVESTMENTS LTD	37,919	56,912	94,832	17,310	77,522
DIAL SL Equity	DIALOG AXIATA PLC	24,910	62,816	87,726	19,050	68,675
SLTL SL Equity	SRI LANKA TELECOM PLC	58,807	16,852	75,659	9,935	65,724
SPEN SL Equity	AITKEN SPENCE PLC	45,016	32,768	77,784	16,508	61,276
MELS SL Equity	MELSTACORP PLC	49,788	36,841	86,629	25,831	60,798
DIMO SL Equity	DIESEL & MOTOR ENGINEERING	5,350	42,746	48,096	2,985	45,111
CTHR SL Equity	CT HOLDINGS PLC	23,455	25,286	48,741	7,452	41,289
AEL SL Equity	ACCESS ENGINEERING PLC	30,112	13,153	43,265	3,719	39,546
AHUN SL Equity	AITKEN SPENCE HOTEL HOLDINGS	30,627	13,500	44,126	4,669	39,457
CARG SL Equity	CARGILLS (CEYLON) PLC	21,741	24,675	46,416	7,253	39,164
JKHL SL Equity	JOHN KEELLS HOTELS PLC	19,208	17,723	36,931	721	36,210

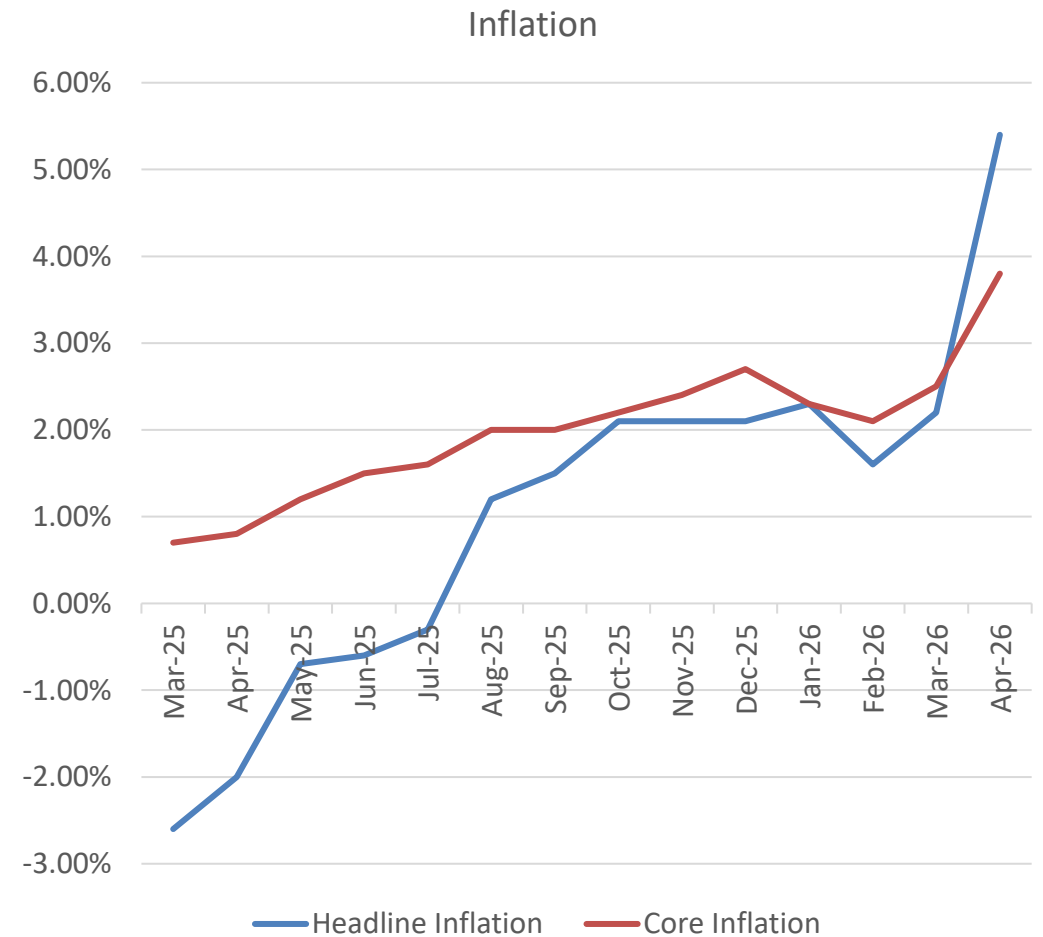
Easing inflationary pressure will benefit corporate earnings

Policy rate hike expected to ease underlying inflationary pressures by reducing excess demand

Current inflation at 5.4% (above 5% target), mainly driven by energy and cost-push factors

Inflation may remain **elevated in May**, but expected to **moderate from June onwards**

September quarter corporate earnings likely to benefit from easing inflation and stabilising costs



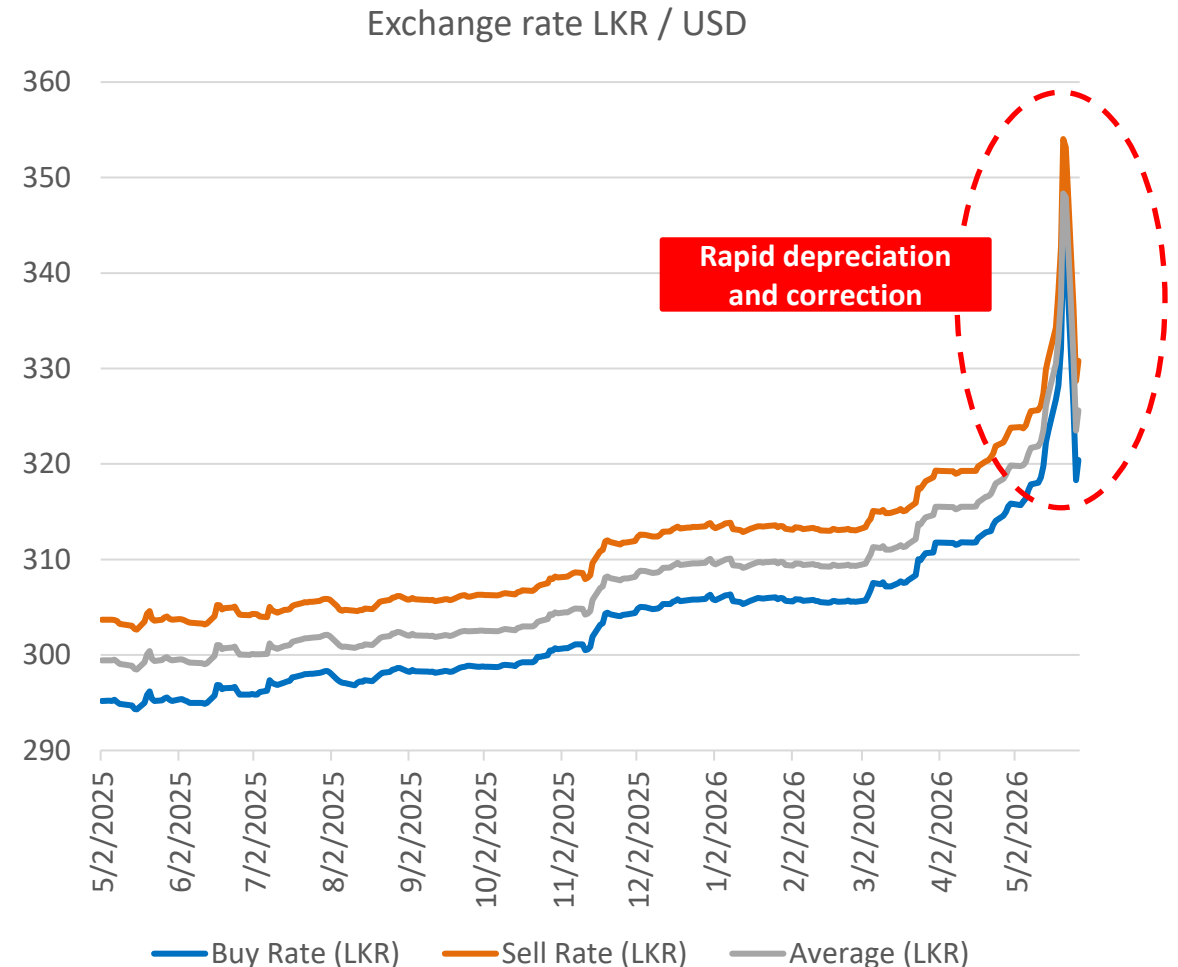
Rupee stabilization to ease cost pressures on importers

LKR saw a rapid depreciation of 12.6% since start of Middle East war in Feb 27th upto 18th May 2026, reaching a peak of LKR/USD 354 (selling rate). Since 18th May upto now the LKR appreciated 6.5% .

The policy rate hike is expected to further stabilize the currency.

Import counters such as Singer Sri Lanka (SINS.N), Lanka IOC (LIOC.N) can benefit from the lower pressure on costs

Exporting counters such as Hayleys (HAYL.N), Hacarb (HAYC.N) Dipped Products (DIPD.N), Richard Pieris Exports (REXP.N) will see limited upside from currency gains



AMBEON SECURITIES (PVT) LIMITED

No: 100/1, 2nd Floor
 Elvitigala Mawatha,
 Colombo 08,
 Sri Lanka.
 T: +94 11 532 8 100
 F: +94 11 532 8 177
 E: research@ambeonsecurities.lk
 W: www.ambeonsecurities.lk



Sales Team

Charith Kamaladasa
 Niranjana Niles
 Romesh Priyadarshana
 Subeeth Perera
 Chinthaka Weeraratna
 Pasindu Yatawara
 Roshan Fernando
 Thushan Perera
 Charaka Weerasinghe
 Kemitha Withanage

Dilusha Gamage

Research Team

Hansinee Beddage
 Kavindu Horadugoda
 Shenindra Senaratne

Director/CEO
 Executive Director
 Vice President
 Vice President
 Manager Investment Advisory
 Manager Investment Advisory
 Manager Retail Sales
 Senior Investment Advisor
 Investment Advisor
 Investment Advisor

AGM - Business Development

Senior Manager – Investment Research
 Investment Research Analyst
 Trainee Investment Research Analyst

charithk@ambeonsecurities.lk
niles@ambeonsecurities.lk
romeshp@ambeonsecurities.lk
subeeth@ambeonsecurities.lk
chinthaka@ambeonsecurities.lk
pasindu@ambeonsecurities.lk
roshanf@ambeonsecurities.lk
thushan@ambeonsecurities.lk
charaka@ambeonsecurities.lk
kemitha@ambeonsecurities.lk

dilusha@ambeonsecurities.lk

hansinee@ambeonsecurities.lk
kavindu@ambeonsecurities.lk
shenindra@ambeonsecurities.lk

077 321 3344
 077 383 2597
 077 254 8795
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 077 528 6885
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