SEYLAN BANK PLC [SEYB.N0000]

MAINTAIN BUY

"ROBUST EARNINGS GROWTH AMID EVOLVING MACRO BACKDROP"

Fair Value: 2026E - LKR 130.0 [+37%] **2027E - LKR 150.0 [+58%]**

Total Return with DPS: 2026E - 41% [AER 204%] *2027E - 62% [AER 45%]*

SEYB registered a Net Profit of LKR 3.2Bn in 2Q2026, representing a 16.3%YoY (+14.4%QoQ) increase, slightly exceeding FCR's quarterly expectation. With this, the 1H2026 earnings rose by 10.7%YoY to LKR 6.0Bn. This performance was underpinned by higher trading income, particularly in 2Q2026, along with the continuation of credit expansion momentum in term loan facilities, pawning, and international and domestic trade-related lending. However, the expansion in Net Loans moderated to 31.6%YoY (+3.6%QoQ) in 2Q2026, compared to 33.9%YoY (+4.7%QoQ) in 1Q2026. Net Interest Income (NII) grew by 7.0%YoY during the quarter, despite a 33.3%YoY increase in interest expenses, bringing the Net Interest Margin (NIM) to 4.16%. Net Fee and Commission Income also recorded a notable 17.7%YoY growth, primarily due to the fee income from cards, remittances, trade, loans and other financial services. Profitability was partly negated due to a sharp 227.3%YoY rise in impairment charges and 9.5%YoY increase in operating expenses. VAT and SSCL expenses also increased by 9.9%YoY in 2Q2026. SEYB's Capital Adequacy and Liquidity Coverage Ratios remained above minimum regulatory requirements, besides the CET1 and Total Tier 1 Capital Ratios of 10.91% and Total Capital Ratio of 15.56%, attributing a strong capital position. Accordingly, FCR maintains its 2026E and 2027E earnings forecasts at LKR 13.5Bn and LKR 15.3Bn respectively. FCR maintains FV for 2026E at LKR 130.00 (SEYB.X: LKR 90.00) and FV for 2027E at LKR 150.00 (SEYB.X: LKR 110.00), denoting 204% and 45% AER for 2026E and 2027E respectively. MAINTAIN BUY.

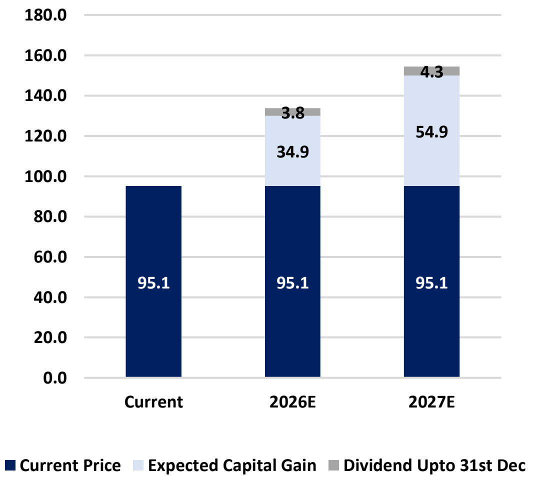
LKR (Mn)	2Q2025	2Q2026	YoY	1H2025	1H2026	YoY
Earnings (LKR 'Mn)						
NII	9,269	9,921	+7%	17,951	19,753	+10%
Total Operating Income	11,654	13,286	+14%	22,642	25,654	+13%
Net Operating Income	11,460	12,654	+10%	22,224	24,921	+12%
Pre Tax Profit	4,315	4,826	+12%	8,467	9,312	+10%
Net Profit (equity share holders)	2,764	3,214	+16%	5,443	6,024	+11%
Balance Sheet (LKR 'Mn)						
Loans	494,035	650,365	+32%	494,035	650,365	+32%
Shareholders' Equity	77,542	86,603	+12%	77,542	86,603	+12%
NAVPS	122.0	136.2		122.0	136.2	

Bottom line improves with a strong 16.3%YoY growth in 2Q2026

During the quarter, SEYB's bottom line increased by 16.3%YoY to LKR 3.2Bn, largely supported by higher trading income of LKR 1.0Bn (+158.7%YoY), bringing the Net Profit for 1H2026 to LKR 6.0Bn (+10.7%YoY). Foreign exchange gains emanating from higher trade volumes accelerated the growth in trading income, however it was partially offset by the decline in mark-to-market gains on government securities and equity investments. Despite higher interest expenses, NII grew by 7.0%YoY, fueled by the rise in market interest rates due to CBSL's 100bps increase in Overnight Policy Rate in May-26. Growth in Net Fee and Commission Income (+17.7%YoY) also contributed to the improvement in bottom line. Nonetheless, impairment charges increased by 227.3%YoY, while operating expenses rose by 9.5%YoY due to higher consumables prices and service costs. Credit growth moderated in 2Q2026 with Net Loans expanding by 31.6%YoY (+3.6%QoQ), compared to 33.9%YoY (+4.7%QoQ) in 1Q2026. Growth in term loan facilities, pawning, and international and domestic trade-related lending were the major contributors to 2Q2026 loan expansion. On the other hand, SEYB's deposit base grew by 15.1%YoY (+3.8%QoQ), led predominantly by growth in local currency fixed deposits, resulting in a CASA ratio of 27.0% at end-2Q2026 compared to 30% recorded at end-2Q2025. Against this backdrop, the Net Interest Margin (NIM) for 1H2026 moderated to 4.16% from 4.52% in 1H2025.

Expansion in loan book eases on a QoQ basis

SEYB's loan book grew by 31.6%YoY (+3.6%QoQ) in 2Q2026, reflecting a moderation compared to the increase of 33.9%YoY (+4.7%QoQ) in 1Q2026, mirroring the impact of higher market interest rates fueled by the CBSL's policy rate hike. The Average Weighted Lending Rate (AWLR) increased to 12.2% in Jun-26 from 11.6% in Jun-25, prompting higher borrowing costs and lower credit demand. However, the increase in international trade activity, coupled with the uptick in gold prices particularly during early 2Q2026, chiefly contributed to the expansion in loan book compared to the corresponding period in the previous year. Weighing on higher market interest rates and relatively tighter liquidity, we maintain our projection on SEYB's gross loan growth at 15.0% in 2026E and 12.0% in 2027E. Meanwhile, the bank's deposit base grew by 15.1%YoY (+3.8%QoQ), up from 14.7%YoY (+1.3%QoQ) in 1Q2026, mainly due to the growth in margin accounts by 10.4%QoQ, amid a slight moderation in CASA ratio to 27.0% compared to 28.0% in 1Q2026 and 30.0% in 2Q2025. Accordingly, NIM moderated to 4.16% from 4.50% in 1H2025.



FIRST CAPITAL RESEARCH

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Price movement of SEYB vs ASPI and past recommendations

Source: CSE

Minimum Return for BUY:

Buy Below for 2027E [AER of 18% with DPS]: LKR 124.14

SEYB categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of SEYB during the five trading days prior to the issuance of this document.

Proactive provisioning enhances SEYB's risk resilience

The Bank recorded a higher impairment charge of LKR 632.4Mn in 2Q2026, marking an increase of 227.3%YoY (+531.5%QoQ), to prudently reflect the impact of both global and domestic macroeconomic changes, customer credit risk profiles, and the overall credit quality of the Bank's loan portfolio. Through this, SEYB exhibits the effectiveness of its risk management and recovery strategies. Asset quality ratios remain sound, with the Impaired Loans Ratio remaining anchored at 1.03% compared to a year earlier, despite a slight deterioration compared to 1.01% in the preceding quarter. The Stage 3 Provision Cover Ratio stood at 85.26%, mildly easing from 86.23% in 1Q2026, yet standing as one of the highest in the banking industry.

Moderation in capital buffers suggests capital enhancement measures

As at end-2Q2026, SEYB remained adequately capitalized, with the Bank's Capital Adequacy Ratios standing above the minimum regulatory thresholds. In 2Q2026, both the Common Equity Tier 1 (CET 1) Capital Ratio and the Total Tier 1 Capital Ratio were 10.91% (Minimum CET 1 Capital Ratio requirement: 7.00% and Minimum Total Tier 1 Capital Ratio requirement: 8.50%), while the Total Capital Ratio stood at 15.56% (Minimum Total Capital Ratio requirement: 12.50%), providing an adequate buffer above the regulatory minimums. However, based on the moderation in adequacy ratios, we believe the bank may take initiatives to strengthen its capital buffers in the near term, thereby enhancing its lending capacity. Meanwhile, the Bank continued to maintain robust liquidity buffers, with the Liquidity Coverage Ratio (LCR) remaining well in excess of statutory requirements. The All-Currency LCR stood at a strong 187.03%, while the Rupee LCR stood at 175.88%, underscoring the Bank's prudent liquidity management and resilient balance sheet position.

FV maintained at LKR 130.00 for 2026E and LKR 150.00 for 2027E – MAINTAIN BUY

SEYB's strong fee income generation, higher trading volumes, targeted cost optimizations and prudent balance sheet management, continue to support a compelling outlook. The Bank's 2Q2026 earnings came in at nearly the same level as FCR's quarterly forecast. FCR expects earnings momentum to improve in the forthcoming quarters, supported by sustained credit expansion and a gradually stabilizing operating cost outlook. Accordingly, FCR maintains its 2026E earnings projection unchanged at LKR 13.5Bn, while reiterating 2026E fair values of LKR 130.00 for SEYB.N and LKR 90.00 for SEYB.X. Moreover, FCR maintains its 2027E fair value at LKR 150.00 for SEYB.N and LKR 110.00 for SEYB.X, with an AER of 204% for 2026E and 45% for 2027E.

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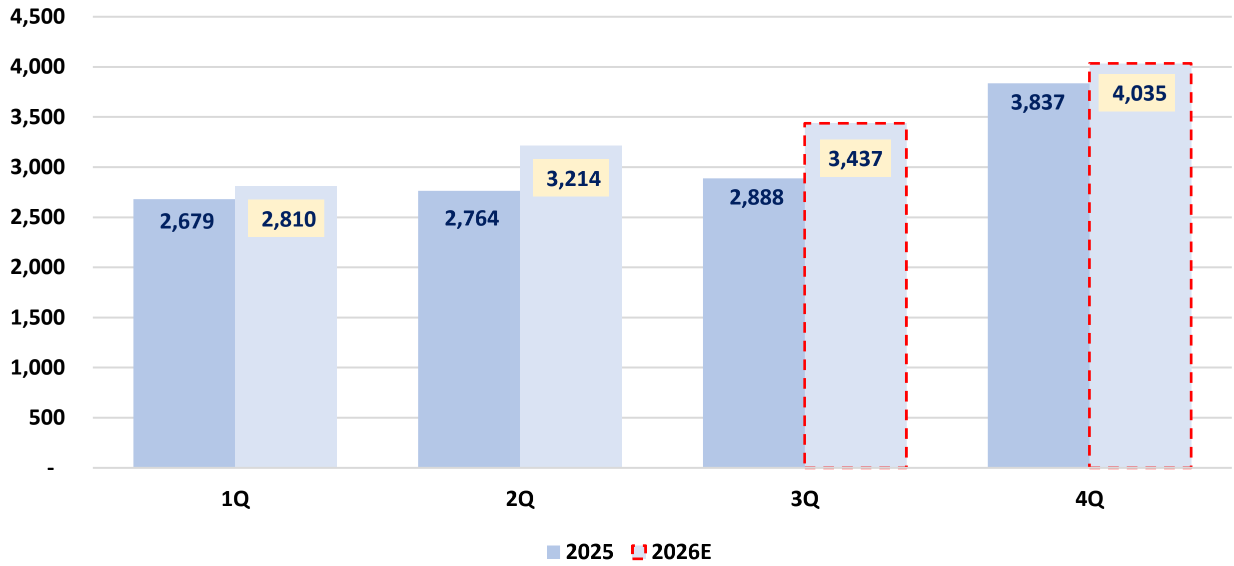
Quarterly Earnings



Estimate Revision

In LKR Mn	2026E - O	2026E - R	% Change	2027E - O	2027E - R	% Change
Earnings Estimate						
Net Interest Income	42,948	42,948	0%	48,355	48,355	0%
Total Operating Income	55,327	55,327	0%	62,491	62,491	0%
Net Operating Income	52,448	52,448	0%	58,481	58,481	0%
Pre Tax Profit	29,073	29,073	0%	24,838	24,838	0%
Net Profit	13,496	13,496	0%	15,264	15,264	0%
Adjusted EPS	21.2	21.2		24.0	24.0	
Growth YoY	11%	11%		13%	13%	
Balance Sheet Estimate						
Shareholders' Equity	93,983	93,983	0%	106,499	106,499	0%
Adjusted NAVPS	**147.9**	**147.9**		**167.5**	**167.5**	
Ratio Estimate						
ROE (%)	***15.2%***	***15.2%***		***15.2%***	***15.2%***	
PER (x)	***4.5***	***4.5***		***4.0***	***4.0***	
PBV (x)	***0.6***	***0.6***		***0.6***	***0.6***	

Valuation Table

Y/E 31 December	2022	2023	2024	2025	2026E	2027E	2028E
Estimates (LKR 'Mn)							
Net Interest Income	40,887	40,452	37,090	38,634	42,948	48,355	54,732
Total Operating Income	51,379	49,845	44,132	48,529	55,327	62,491	70,135
Net Profit	**4,574**	**6,321**	**10,113**	**12,168**	**13,496**	**15,264**	**17,476**
Net Recurring Profits	**4,574**	**6,321**	**6,710**	**12,168**	**13,496**	**15,264**	**17,476**
Adjusted EPS (LKR)	7.2	9.9	10.6	19.1	21.2	24.0	27.5
YoY Growth (%)	-1.7%	38.2%	6.2%	81.3%	10.9%	13.1%	14.5%
Valuations							
PER (x)	13.2x	9.6x	9.0x	5.0x	4.5x	4.0x	3.5x
PBV (x)	1.0x	0.9x	0.8x	0.7x	0.6x	0.6x	0.5x
DPS (LKR)	2.0	1.9	2.4	3.5	3.8	4.3	4.9
Dividend Payout	25.5%	18.3%	15.2%	18.3%	18.0%	18.0%	18.0%
DY (%)	2.1%	3.2%	4.2%	3.2%	4.0%	4.5%	5.2%
NAVPS	97.3	101.4	114.2	132.3	147.9	167.5	190.1

Ratio Analysis

		2022	2023	2024	2025	2026E	2027E	2028E
Growth	Asset	10.6%	6.7%	8.6%	18.1%	7.5%	9.7%	11.4%
	Deposit	12.0%	8.1%	9.3%	13.3%	8.0%	10.0%	12.0%
	Net Loans	5.3%	1.4%	5.6%	26.4%	15.0%	12.0%	9.0%
Profitability	Return on Equity	8.3%	10.7%	15.0%	15.5%	15.2%	15.2%	15.4%
	Return on Average Assets	0.7%	0.9%	1.4%	1.4%	1.4%	1.5%	1.5%
	Net Interest Spread	6.7%	6.3%	5.1%	4.4%	4.2%	4.3%	4.5%
	Net Interest Margin	8.4%	8.2%	7.1%	6.2%	5.7%	5.7%	5.9%
Funding & Liquidity	Loan/ Deposits	81.2%	74.0%	71.6%	81.8%	90.9%	92.1%	89.6%
	Loan/ Assets	66.0%	60.9%	59.3%	65.1%	72.7%	73.8%	72.2%
	Deposit/ Liabilities	88.9%	90.4%	91.6%	87.7%	88.5%	89.0%	89.7%
	CASA	23.8%	25.1%	25.1%	29.9%	28.0%	27.0%	25.0%

Valuation Summary

Expected SEYB price for	2026E	2027E
Justified PBV based target price	133.0	155.0
PER Valuation based target price	127.4	144.1
RI Valuation based target price	132.2	147.8
Average Target Price	130.9	149.0
Target Price after Rounding off	130.0	150.0

Return	2026E	2027E
Target Price	130.0	150.0
Current Price	95.1	95.1
Capital Gain (LKR)	34.9	54.9
Dividends upto 31st Dec (LKR)	3.8	4.3
Capital Gain %	37%	58%
Dividend Yield %	4%	5%
Total Return %	41%	62%
Annualized Return %	204%	45%

Residual Income Valuation

Residual Income based Valuation	2026E	2027E
PV of Residual Income	-111.2	-106.2
No. of Shares ('Mn)	636	636
RI per Share	-0.2	-19.7
Opening Book value per Share	132.3	147.9
Value per Share	132.2	147.8

COE	2026E	2027E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
β	1.0	1.0
Ke=Rf+β(Rm-Rf)	19.6%	19.6%

Justified PBV Valuation

Justified PBV based Valuation	2026E	2027E
ROAE	15.2%	15.2%
Growth	3.0%	3.0%
COE	19.6%	19.6%
PBV	0.9	0.9
NAVPS	147.9	167.5
Target Price	133.0	155.0

PER Valuation

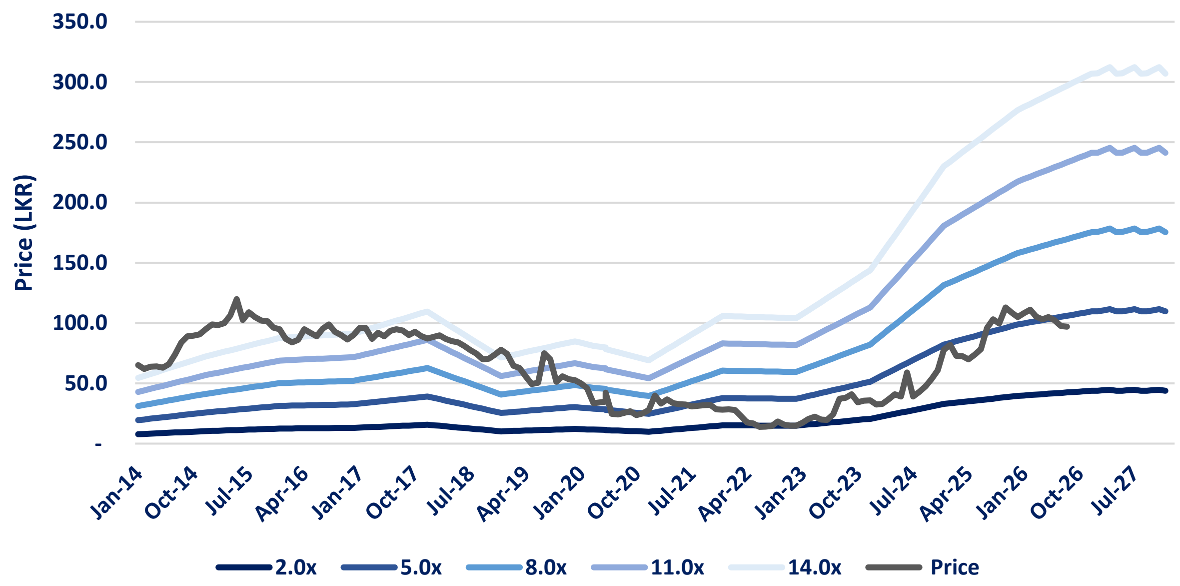
PER based Valuation	2026E	2027E
Earnings (LKR 'Mn)	13,496	15,264
No. of Shares ('Mn)	636	636
EPS	21.2	24.0
Expected PER	6x	6x
Price at 6.0x Earnings	127.4	144.1

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2021	2022	2023	2024	2025	2026E	2027E	2028E
Interest Income	46,781	86,106	107,168	84,363	82,428	92,631	104,332	119,612
Less : Interest Expenses	22,877	45,219	66,717	47,273	43,794	49,684	55,976	64,880
Net Interest Income	**23,904**	**40,887**	**40,452**	**37,090**	**38,634**	**42,948**	**48,355**	**54,732**
Fee & Other Income	7,826	10,492	9,393	7,042	9,896	12,379	14,135	15,403
Total Operating Income	**31,729**	**51,379**	**49,845**	**44,132**	**48,529**	**55,327**	**62,491**	**70,135**
Impairment (Charges)/ Reversal	-10,422	-26,433	-17,005	-1,749	-750	-2,879	-4,009	-4,370
Net Operating Income	**21,308**	**24,946**	**32,840**	**42,382**	**47,780**	**52,448**	**58,481**	**65,765**
Less : Operating expenses								
Staff Cost	6,946	8,007	9,194	10,242	11,304	12,999	14,819	16,745
Depreciation of PPE	1,479	1,416	1,348	1,366	1,465	1,002	823	826
Other Operating Expenses	4,763	5,951	8,093	9,161	8,843	9,374	9,936	10,532
Total Operating Expenses	**13,188**	**15,375**	**18,635**	**20,768**	**21,612**	**23,375**	**25,578**	**28,104**
Operating Profit Before Taxes	**8,119**	**9,571**	**14,205**	**21,614**	**26,168**	**29,073**	**32,904**	**37,661**
VAT, NBT & DRL	1,935	2,774	3,935	5,379	6,331	7,110	8,065	9,195
Profit Before Tax	**6,185**	**6,797**	**10,269**	**16,235**	**19,837**	**21,963**	**24,838**	**28,467**
Income Tax Expense	1,449	2,219	3,869	6,082	7,610	8,426	9,529	10,921
Profit for the Year	**4,736**	**4,578**	**6,401**	**10,153**	**12,227**	**13,537**	**15,309**	**17,546**
Less : Non-Controlling Interest	83	3	80	39	59	41	46	70
Profit attributable to Equity Holders	**4,653**	**4,574**	**6,321**	**10,113**	**12,168**	**13,496**	**15,264**	**17,476**
EPS	**7.6**	**7.4**	**9.9**	**15.9**	**19.1**	**21.2**	**24.0**	**27.5**

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2021	2022	2023	2024	2025	2026E	2027E	2028E
Assets								
Cash and Cash Equivalents	16,079	40,255	48,322	17,384	18,203	17,001	15,807	33,519
Balances with Central Bank of Sri Lanka	8,726	16,784	7,028	8,719	11,218	6,966	7,663	8,582
Placements with Banks and Finance Companies	13,507	20,120	50,436	71,627	47,166	43,682	48,052	56,739
Loans and Advances to Customers	441,977	444,220	437,532	462,951	599,802	719,794	801,894	874,065
Financial Assets	107,322	123,616	144,913	192,931	213,657	174,151	182,859	204,802
Property, Plant and Equipment	7,064	6,463	6,627	7,923	8,503	8,086	7,855	8,223
Other Assets	13,416	21,378	23,135	18,531	22,362	20,173	22,207	24,244
Total Assets	**608,090**	**672,835**	**717,993**	**780,067**	**920,910**	**989,905**	**1,086,388**	**1,210,226**
Liabilities								
Due to Banks	24,722	13,065	12,129	8,143	23,905	27,001	29,701	32,687
Due to Customers	488,653	547,316	591,623	646,817	732,960	791,597	870,757	975,248
Other Borrowings	24,287	33,569	26,847	26,614	45,351	46,629	47,370	48,022
Tax Liabilities	2,194	7,434	2,720	1,980	8,634	4,002	4,430	4,803
Other Liabilities	12,947	13,985	20,977	22,838	24,843	25,340	26,100	26,883
Total Liabilities	**552,803**	**615,369**	**654,295**	**706,391**	**835,694**	**894,569**	**978,359**	**1,087,642**
Shareholders Funds								
Stated Capital	18,324	19,926	20,909	21,693	21,693	21,693	21,693	21,693
Statutory Reserve Fund	2,333	2,568	2,881	3,384	3,989	4,693	5,489	6,401
Retained Earnings	29,967	31,698	35,541	42,361	52,133	61,146	71,340	83,010
Other Reserves	3,334	2,010	3,051	5,167	6,301	6,450	7,977	9,724
Shareholders Funds	**53,958**	**56,202**	**62,382**	**72,605**	**84,116**	**93,983**	**106,499**	**120,829**
Minority Interest	**1,329**	**1,264**	**1,316**	**1,071**	**1,100**	**1,354**	**1,531**	**1,755**
	55,287	**57,466**	**63,698**	**73,676**	**85,216**	**95,336**	**108,030**	**122,583**
Total Liabilities & Shareholders' Funds	**608,090**	**672,835**	**717,993**	**780,067**	**920,910**	**989,905**	**1,086,388**	**1,210,226**
NAVPS	**101.1**	**97.3**	**101.4**	**114.2**	**132.3**	**147.9**	**167.5**	**190.1**

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BRANCHES

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