

## EXECUTIVE SUMMARY

Leasing industry had been always a lucrative business for both banking and non-banking institutions. Therefore, the competition that is existing in financial institutions for leasing businesses is also high. Significant portion of loans and advances portfolio of banks and non-banks consist of leasing facilities. Leasing facilities are mostly granted to purchase vehicles for both personal and business uses. In the context of Sri Lanka, vehicle population had been ever increasing year on year and currently the vehicle population of the country stands at 8.3 Mn and continues to grow. And therefore, the leasing books of financial institutions also are growing with steady momentum. However, in Sri Lanka context personal vehicle ownership stands as low as 4.09% whereas this figure in developed countries is between 70% to 80%. Hence there is still more potential for financial institutions in Sri Lanka to unaddressed this gap.

Although leasing industry had been always delivering promising returns to financial industries, the industry is inherited with many risks aspects as well and the main risk being high default possibility. On this context, in Seylan Bank PLC (hereinafter referred as SBK or The Bank), even though significant growth can be seen in leasing portfolio, NPA volume and ratio are increasing rapidly year on year. This poses a serious question on the soundness/health of the leasing advances portfolio of the Bank. Currently, total of leasing NPA of the bank stands at LKR 2.43 Bn and as a percentage this is 9.7% whereas the industry average is only 6.5%.

By this study report, author identifies key components: marketing activities, facility evaluation and leasing recovery process together with external factors in combination of many root causes under each element contributing towards aggravating the NPA issue in SBK. Some of the key root causes identified this way were target pressure from top management, complexity in documentation, complicated system, minimalistic evaluation requirements and lack of training and development which need being addressed urgently toward improving asset quality of leasing portfolio.

To understand and then to address the root causes, author embarked on an extensive literature review through which author identified robust techniques and solutions that can address the issue of NPA in SBK permanently. Some of the techniques identified this way were introduction of a comprehensive check list, introduction of a 360-degree evaluation process, introduction of a pre-approved facility limits for professionals, revamping of target setting process, simplifying security documentations, development of leasing system and revamping of training and development. These techniques identified are supported with elaborative annexes given in this report which will assist in implementing such techniques proposed. Further, a detailed cost estimate was also done to assess the total cost of the project. To maintain the cost estimate realistic, several quotations were obtained by the author from different vendors and service providers to support the quoted costs under different techniques/ solutions. To assess the financial viability of the project, a benefit-cost analysis was then done and by doing so the main project and the project components were linked logically to project objectives, outputs and outcomes emphasizing the feasibility and the viability of the project.

Finally, findings related to the outcome and the components were discussed in detail and recommendations were provided with specific emphasis on critical consideration in implementing all identified techniques/ solutions. Expected timeframes were also defined under each recommended solution in order to complete the project in a time bound manner. The main objective of this project is to achieve an overall reduction of NPA ratio by 0.5% in leasing NPA within one year from implementing date of this project and in the meantime also achieving several other sub objectives set under different components.