



# COUNTRY PRESENTATION : SRI LANKA

## The Journey of Islamic Finance

*Faizal Salieh*  
*MD/CEO*  
*Amana Bank*

It's *Your* Bank

**Amāna Bank**



- How we started, nurtured and grew Islamic Finance **without an Enabling Environment** in a Muslim minority country [1997-2005]
- The problems we faced and how we dealt with them
- How we created a limited Enabling Environment [2005] and started an Islamic bank [2011]
- The Opportunities & Challenges Ahead

# Sri Lanka : Fact File

**Island of 65,000 sq.km**  
**20M people**  
**65% Buddhists**  
**1.6M Muslims**  
**mainly traders**



**Well known for Tea,  
Apparels, Spices, Blue  
Sapphires and Cricket**



# Economic Snapshot



- **Size:** USD 49bn; per capita GDP USD 2,800 [2011]  
'middle income country' status | Target USD 4000 [2015]
- **GDP Share by Sector:** Services (55%), Industry (29%), Agriculture (13%)
- 70% of the economy is private sector driven | SME's contribute 50% of GDP
- **Growth rate:** 6.5% [2012 forecast]
- **Inflation:** 7%
- **Country Risk:** BB- Stable Sovereign Rating (Fitch); recent USD 1 bn Sovereign bond issue 10.5 x oversubscribed | no history of default
- **Positioning:** Services and Trading Hub' in the region; Main exports apparels (40%), tea (14%) | worker remittances, tourism
- **Workforce:** 92% literacy; 63% in private sector; 34% women; unemployment 5%

# Financial Sector



- 24 Commercial Banks [12 foreign; 2 State-owned; 1 Islamic]
- 9 Specialised Banks
- 44 Finance | Leasing Companies
- 4 Islamic banking windows | 3 Islamic NBFI windows



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சம்பத் வங்கி  
*SampathBank*



PEOPLE'S  
BANK  
THE PULSE OF THE PEOPLE



Your Family Savings Bank



Total banking assets USD 37 bn (58% of total Financial Sector); Islamic banking assets < 3%; NPA 4%; CAR 14%; Interest Spread 4%; Cost/Income Ratio 74%; ROE 20%; TB rate 13.3% p.a.

# The Milestones

1985

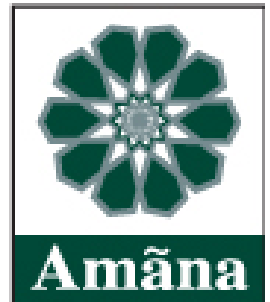
*passion  
to  
succeed*

- First Brainwave
- Idea germinates
- Initial support group formed
- Testing the waters; regulator's pulse
- Unfriendly regulatory framework | negative response

1997

*Building  
credibility;  
taking  
risks*

- No Enabling Environment
- Amana Investments formed | unregulated , unlisted company
- Engaged in basic deposit taking & financing activities; limited 3 products | work-around loopholes in laws
- E&Y appointed auditors





# The Milestones

**1998**

*Strategy  
to attract  
customers*

- Major drive for the concept by all mosque Imams; Clarion call at Friday sermons for Muslims to move away from Riba
- Sheik Taqi Usmani and key local scholars join Sharia Council
- Awareness programs across untapped market segments
- Formal application for Islamic banking licence prepared by E&Y

**2000 -  
2004**

*Adding  
external  
support  
and  
credibility*

- Strategic Alliance with BIMB (10% equity + technical knowledge transfer)
- Lobbying for banking licence begins supported by BIMB's Malaysian experience
- New product additions by work-arounds : Rapid growth
- Mixed signals from CBSL | slow progress | political resistance by ethnic groups & conventional banks
- 2001 AAOIFI membership
- 2002 Amana Takaful (supported by BIMB's insurance subsidiary) gets license to do insurance business under conventional framework

# The Milestones

**2004**

*Change of  
Strategy*



- Change of guard at Amana
- Formidable challenges from both within and without
- Change of approach to regulators from **faith-based** mandate to the **UVP of Islamic banking**
- Personal credibility | clearing external perceptions
- Further product additions | back-door arrangements with other banks to service our customers

**2005**



- Banking Act is amended: *deposit taking & lending on PLS basis*
- Amana Investments becomes instantly illegal!
- Islamic Banking Windows open | competition begins
- First Regulatory inspection : “company not ready for licensing”
- Threat of forced regulatory closure



# The Milestones

**2005 -  
2008**

*Courage &  
Strategic  
Moves*

- Challenge was to put our house in order; strategically grow the business to a formidable size; build credibility with CBSL
- By **2008** branch network increased from 6 to 14 across the country
- Achieved 95% growth in deposits and 81% growth in advances
- Cleared most of the regulatory concerns
- Negotiated way out of the historical reputation to form Amana Bank as separate new entity.
- **31 Oct 2008** : CBSL issues Provisional Licence under the Banking Act to form Amana Bank subject to certain conditions

**2009 -  
2010**

*Hurdles &  
Challenges*

- Raising capital against the global financial crisis; ethnic war | country rating below investment grade; limited enabling environment
- **2009 End of Terrorism**: Dramatic and timely change in ground situation
- **Gearing up** : Migrating from an unregulated company to an Islamic banking operation under conventional regulations

**Aug 2011**

**Amāna Bank**



First licensed commercial bank on Islamic banking principles opens for business

# The Islamic Finance Space Today

**Potential :**  
**USD 1.5 bn +**

**1**

**full-fledged  
Islamic  
Commercial  
Bank**

**Amāna Bank**



**Total Assets LKR 15.7 bn**

**4**

**Banking  
Windows**



**AN-NOOR**



**العدالة  
AL ADALAH**

**HNB Al-Najah**

**Total Assets LKR 31.3 bn**

**Total Assets LKR 5.2 bn**

**3**

**Finance/Leasing  
Company  
Windows**



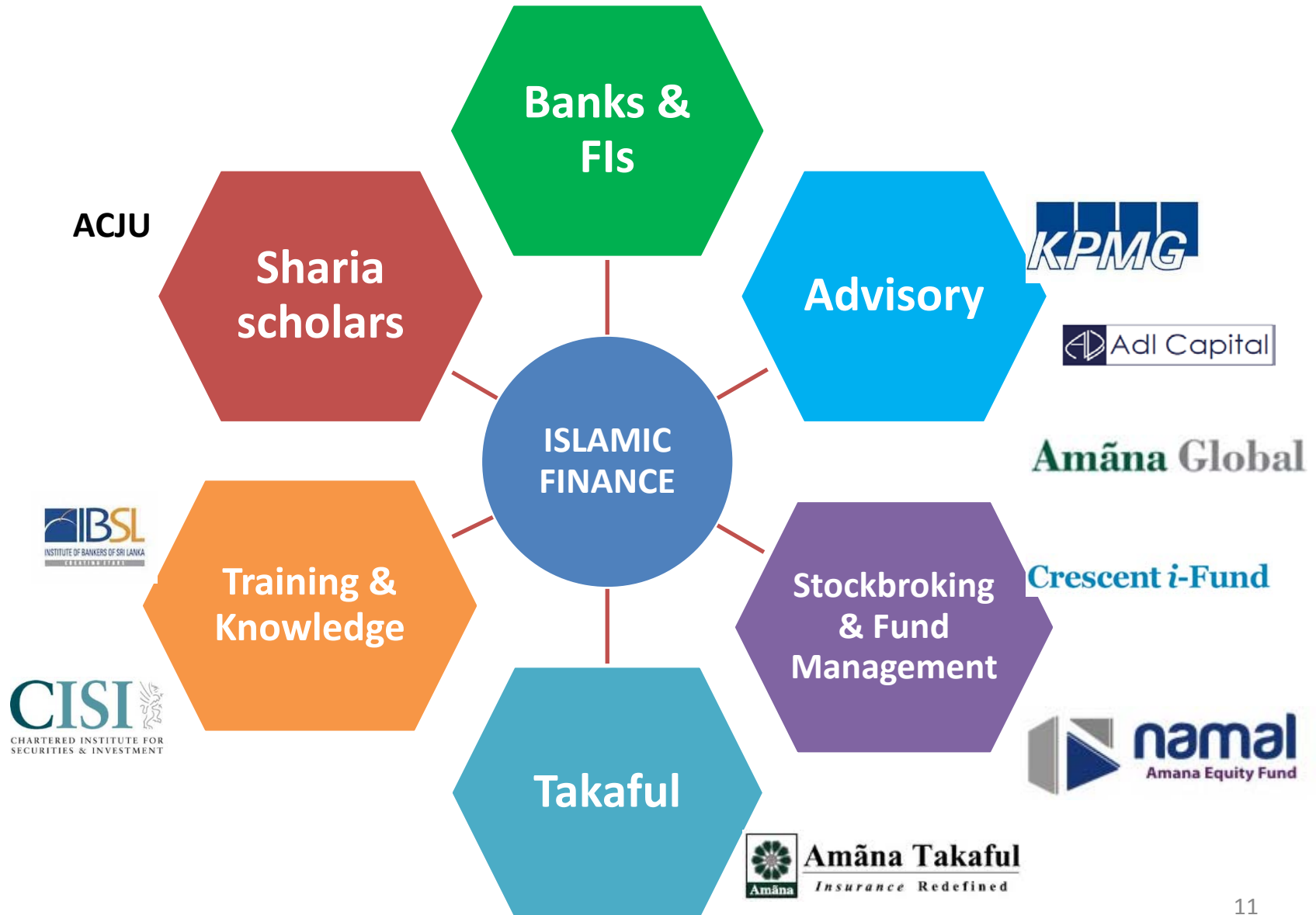
**LB FINANCE  
السلمة  
المستدامة**



**الصفاة  
Inspired by Shari'ah**

**Total Assets LKR 10.4 bn**

# The Islamic Finance Eco-System



# Sri Lanka : Opportunities



**Revival after a 30 year civil war**



- Political stability
- Emerging economy; poised for growth and development
- Geographic positioning for Islamic investment flows ME to FE [triangular connection]
- Regulatory acceptance of business model
- Engagement for further appropriate changes in Regulatory, Legal and Fiscal frameworks
- Growing awareness beyond Islamic market segment

# Opportunities

- **Low market penetration allows scope for capturing both existing users of conventional finance and untapped market segments**
- **More banks considering opening Islamic windows**
- **Govt's infrastructure development budget > USD 20bn offers scope for Sovereign Sukuks**
- **New regulatory policy requirements on NBFIs to strengthen capital and liquidity offers scope for raising long term funding through Sukuks**
- **Leasing industry which is over-reliant on short term bank finance offers opportunity for long term financing [Sukuks and Islamic securitisation]. Recent changes to the Leasing Act allows transfer of lease asset ownership to an SPV**
- **An under-developed capital market offers tremendous scope for Islamic capital market instruments**
- **The small scale diversities in agricultural and live stock breeding offer scope for Islamic microfinance**
- **Low penetration of insurance offers opportunity for new Takaful companies**

# The Challenges Ahead

- **Certainty in the enabling environment : How swiftly would the Regulators respond to the call of the industry for a competitive regulatory, legal and tax environment?**
- **Need to build capacity at the Regulatory level**
- **HR Training & Education at Market level**
- **Liquidity management**
- **Islamic Finance must integrate with the country's growing Halal industry – food, cosmetics, tourism**
- **Narrow pool of Sharia scholars entails governance risks, conflicts of interest | competency issues**
- **Standardisation of Contracts | Central Sharia Council**
- **Good Governance at the institutional level**
- **Product R&D to meet the changing needs of the Y generation**
- **The Market, both Islamic and non-Islamic, is unlikely to be swayed simply by an Islamic brand but will demand more value for money. Consumers will not simply choose their bank on religious grounds but will look for Economic Value and Commercial Reason.**
- **To become an Islamic Financial Hub : industry will be driven to be more skewed towards the Commercial. Industry needs to build scale and reach critical mass; and connect with IF markets overseas to mobilise cross-border transactions.**
- **Sharia-based institutions Vs Sharia-compliant institutions**