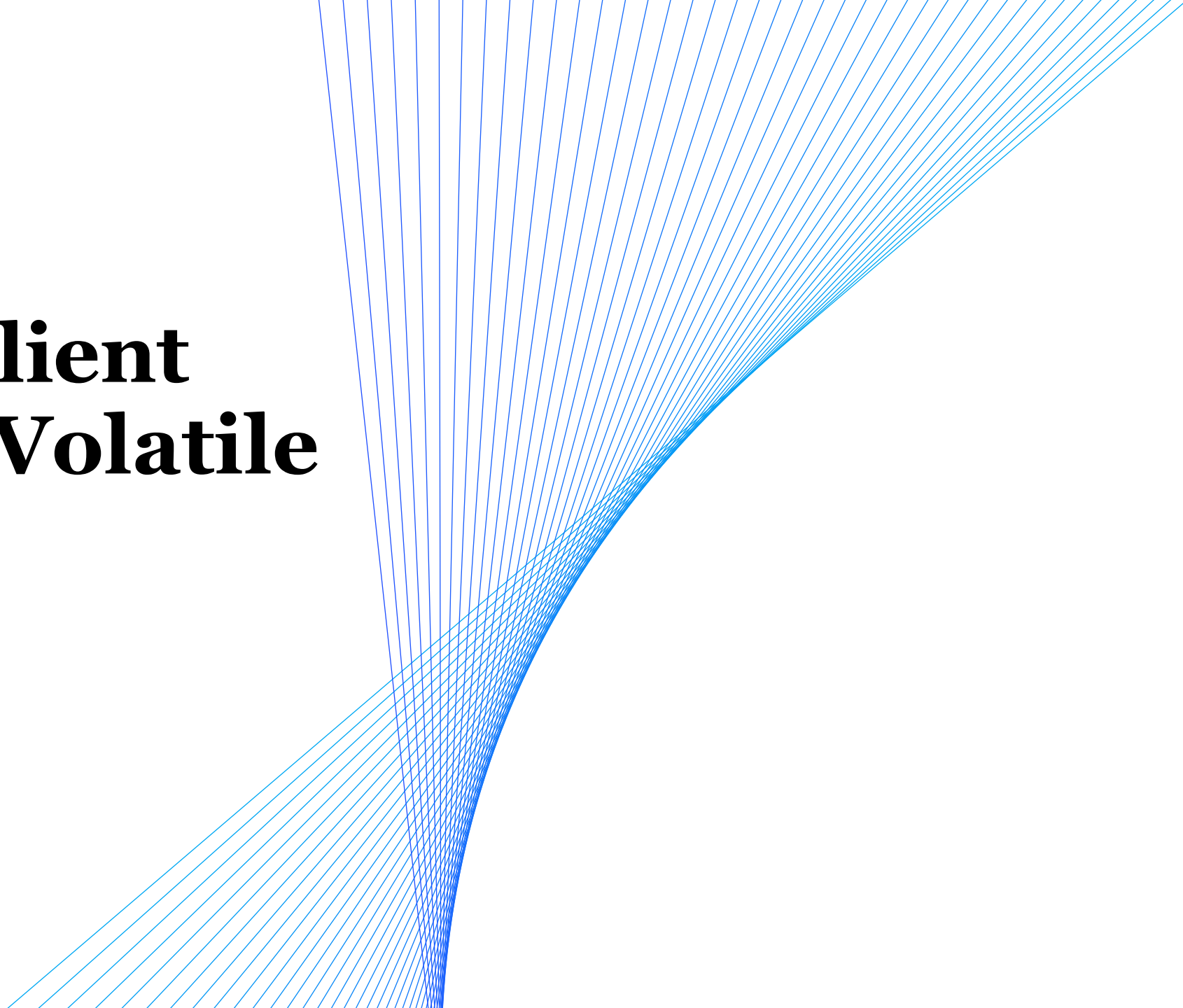


McKinsey
& Company

Driving Resilient Growth in a Volatile World

20th February 2026

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Agenda

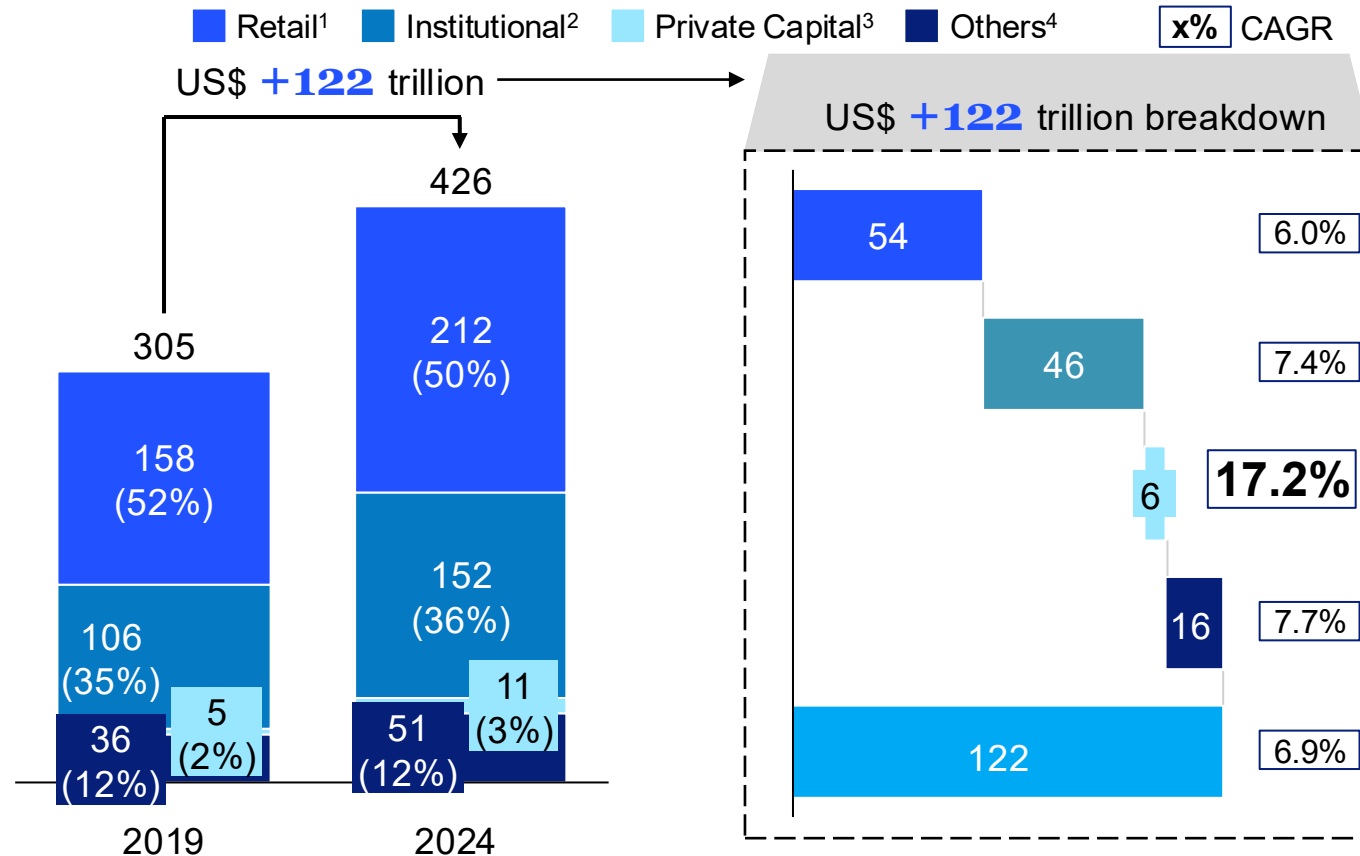
Banking Industry Pulse Check: Performance & Structural Challenges

The Road Ahead: Strategic Imperatives for Future-Ready Banks

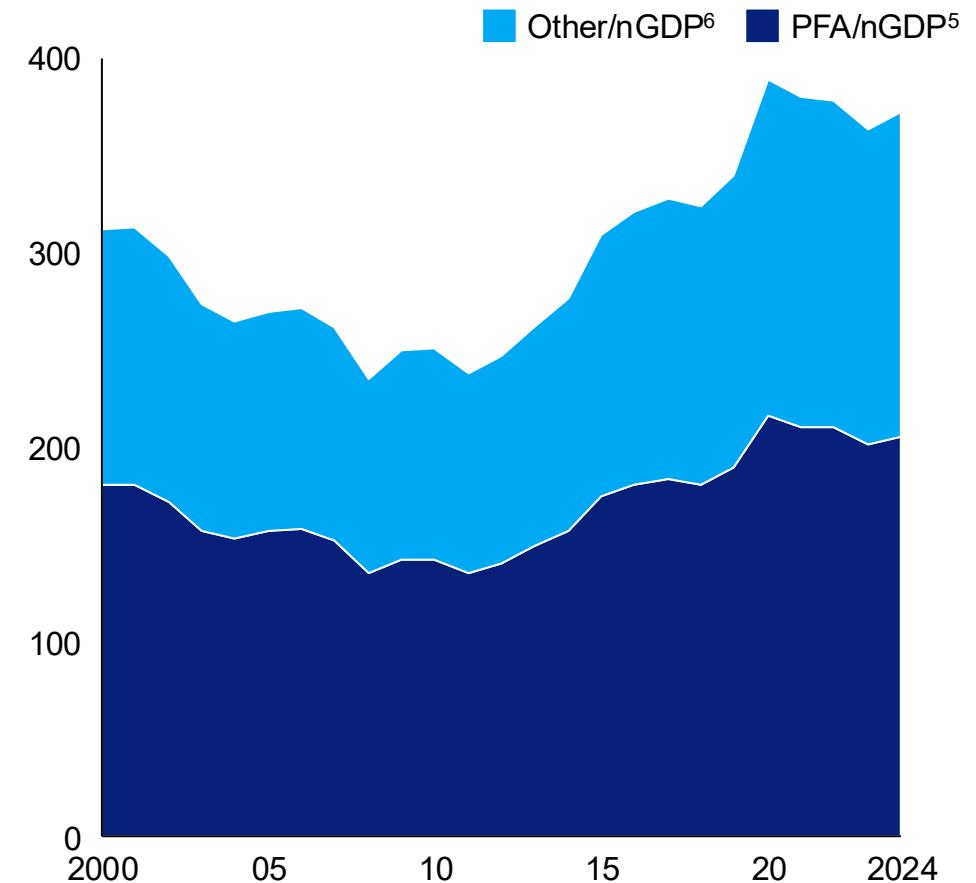
Winning strategies for banking sector in Sri Lanka

Cyclical high tailwinds for Financial services, with intermediated funds volume growing almost 2 p.p. faster than global GDP and cyclical peak in financial penetration

Share of total intermediated funds, Global, US\$ trillion



Total global wealth to nominal GDP, Global, %



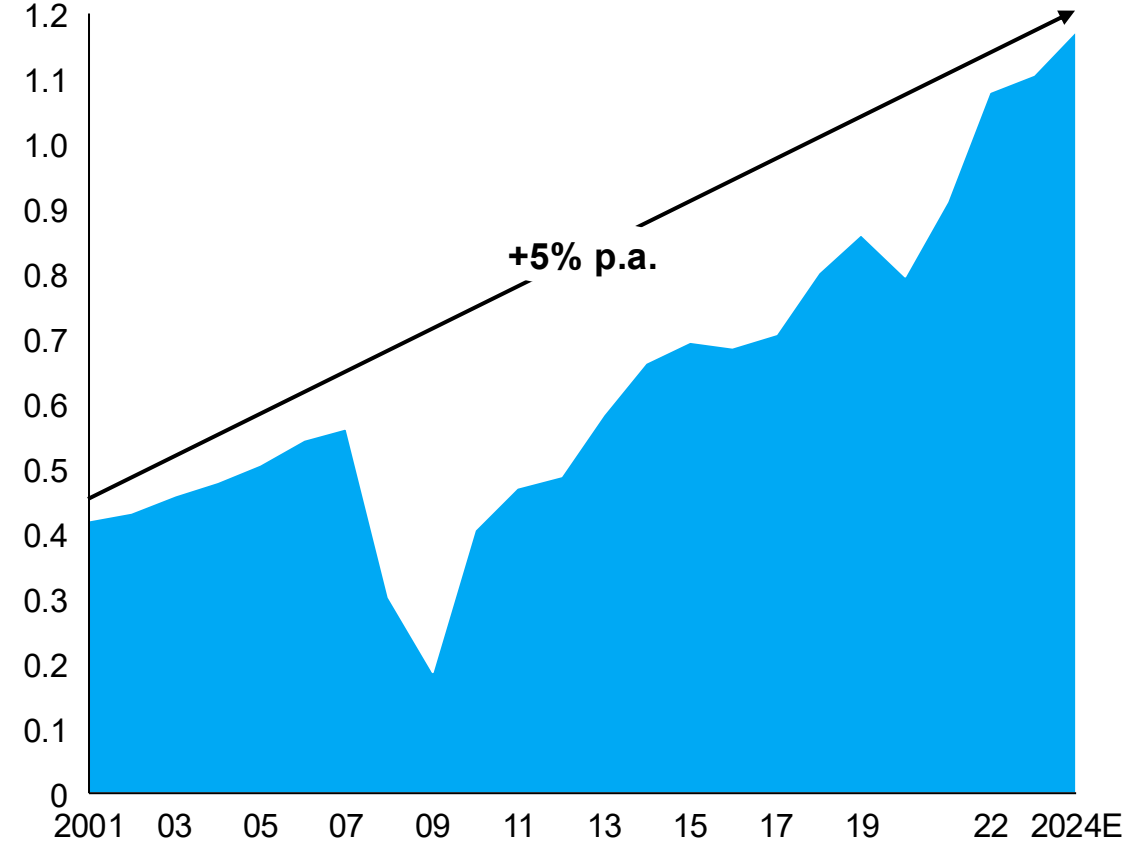
1. Includes retail deposits, insurance and pension AuM, and securities and derivative, mutual funds AuM held by households
2. Includes banks' bonds, and other equity; corporate deposits, corporate investments
3. Includes private capital and private debt
4. Includes SWF, public pension funds and other alternatives like hedge funds, real estate funds
5. Includes: retail deposits, pensions, insurance, retail investments, and household cash
6. Includes: corporate deposit and retail and institutional AM

Source: McKinsey Panorama, Global Banking Pools, S&P Capital IQ

This all leads to peak profitability and spike cash flow generation, but does it result in future-proofing the business model?

Net Income¹

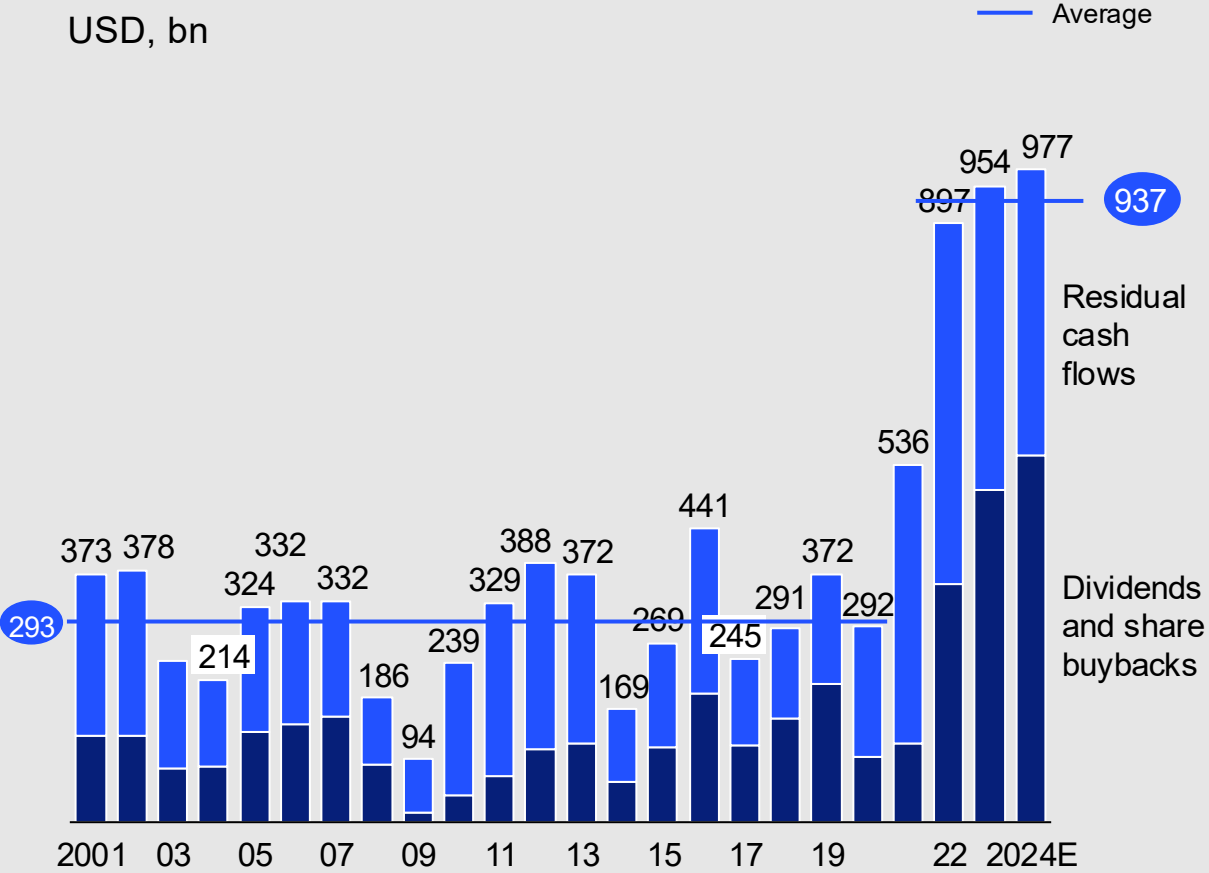
USD tn, Global



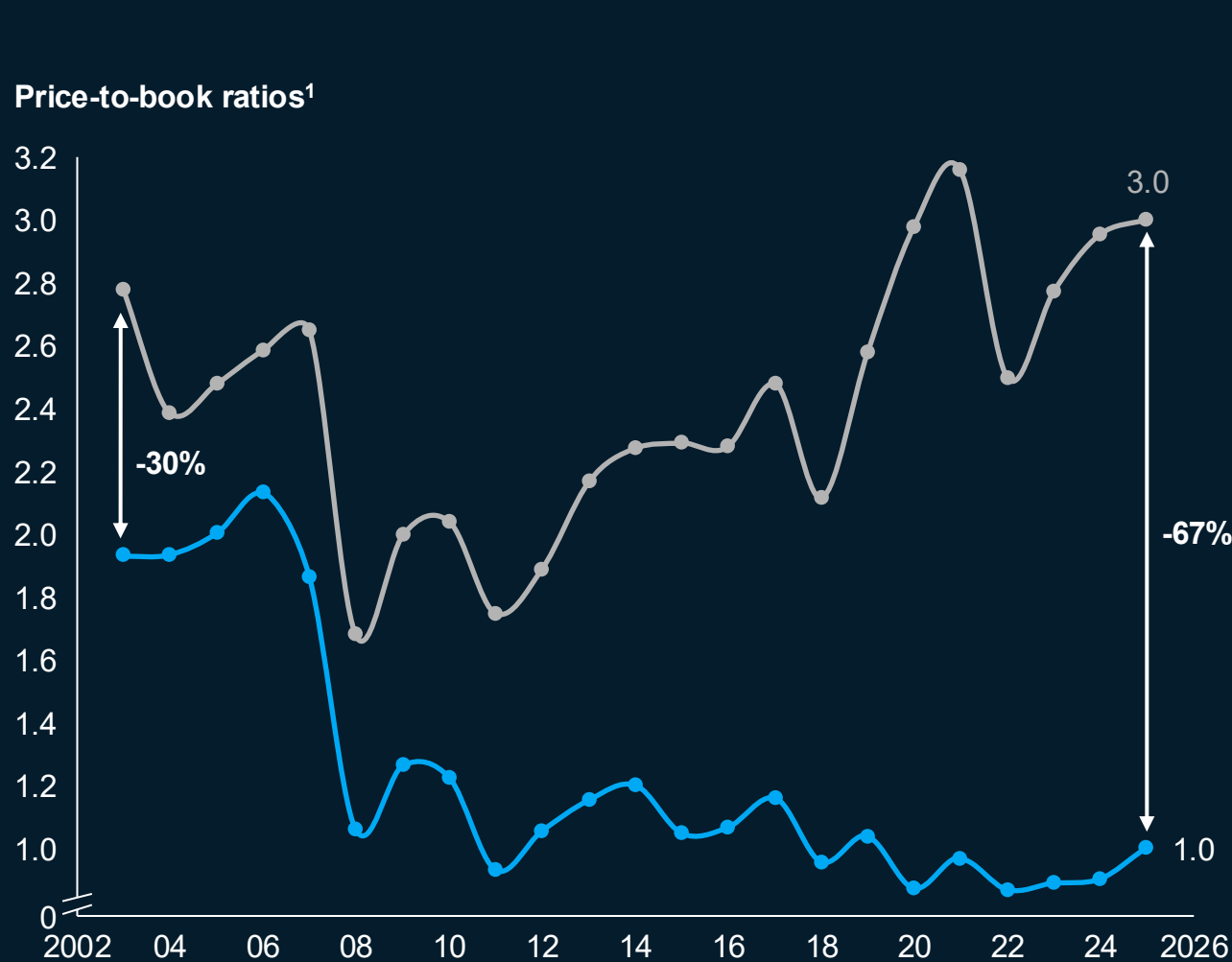
1. 2 year moving average
 2. Calculated as Net Income – Delta Minimum Tier 1 Capital, 2 year moving average

Cash Flows² generated

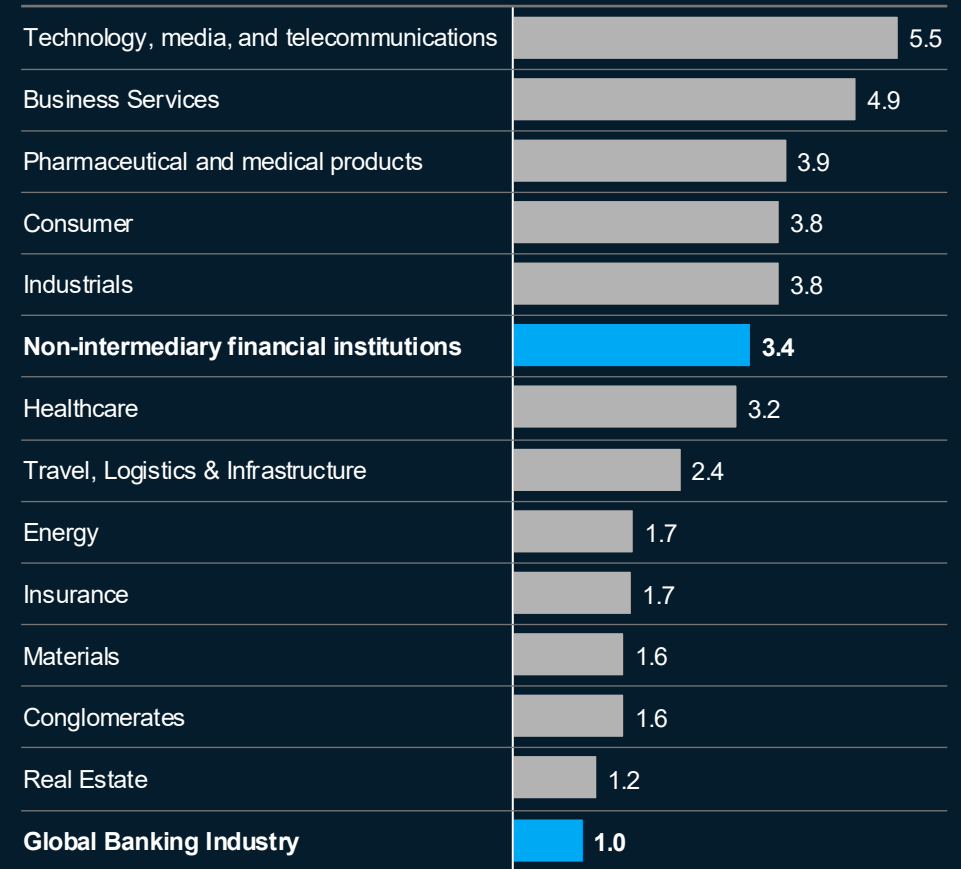
USD, bn



Forward looking valuation also seems to question sustainability of peak cash flow and performance



Price-to-book ratio by industry², 2025



1. Average excluding outliers and firms with a negative price-to-book ratio. Based on ~15k publicly traded companies

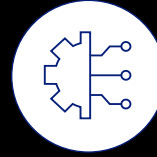
2. Based on data from companies that have that have reported financial results for first half of 2025

Investors see three key challenges for the near-term performance of the industry



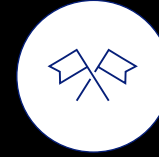
1. Macro-economic pressures

Strengthening macro pressure from declining interest rates and margins, tariff and tax outcomes, heightened stock market volatility, geopolitical uncertainty, and unpredictable risk costs



2. Technology & customer behavior changes

Uncertainty of how GenAI and other emerging new technologies (e.g., agentic AI, stablecoins) will play out for banks, reshaping operations and customer servicing, as well as potentially changing the competitive landscape



3. Intensifying competition

Competition from fintechs, specialty banks, and big tech companies is disrupting traditional banking by targeting high-margin areas with innovative solutions, leading to faster revenue growth for these new entrants

Agenda

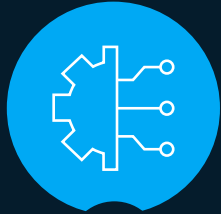
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In this new era, banks need to revamp with precision their strategy across 5 key dimensions

The precision toolbox



1

Technology

Focusing surgically on technologies with the greatest impact, even in agentic and gen AI, while scaling back investments that don't improve workflows, customer engagement, or business models



2

The new consumer

Moving beyond broad segmentation to individualization (a "customer segment of one"), delivering hyperpersonalized, data-driven access to products and services that win trust in an era of fading loyalty



3

Uncertainty Management

Shifting from sweeping reallocations to micro-level balance sheet discipline to free up trapped capital with precision and put it to work fight commoditization



4

Supply-chain disruptions

Assessing key industries with highest risk exposure or potential and actively drive investment and focus on capturing the best opportunity



5

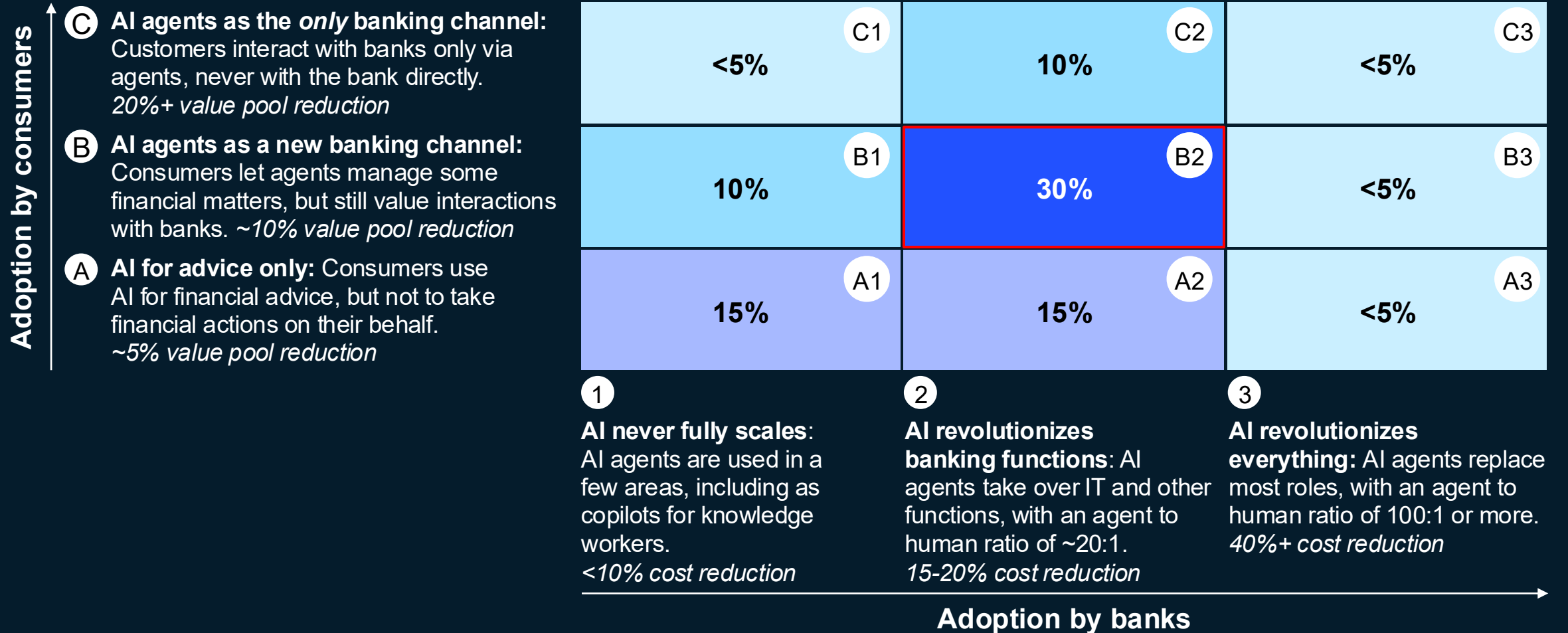
Cyber-tech resilience

Invest in scalable and secure technologies, with a regular governance mechanism to ensure preparedness and operational resilience

1. Technology & AI | Our current hypothesis is, that both banking functions and consumer behavior are substantially reshaped by AI

Likelihood of scenarios playing out, %

 Most likely scenario



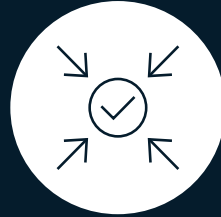
2. New consumer| Banks that develop a more precise understanding of their customers are likely to outperform

Examples of specific customer segmentation strategies



Map and understand the customer base

Utilize data and analytics to segment customers based on common and less typical attributes, understanding their differentiating characteristics and growth potential.



Defining focus and making the right choices

Define starting positions, assess market share, and future aspirations for each segment, making strategic choices based on value, growth potential, and overall strategy fit.



Creating a tailored value proposition

Customize products and services to meet each segment's unique needs, using hook products to build relationships and offering services beyond banking to enhance value and avoid commoditization.



Hyperpersonalizing delivery

Use AI to parse customer data, personalize and differentiate in marketing, distribution, and pricing, ensuring the right message reaches the right segment at the right moment.

3. Uncertainty Management| There are two main drivers of geopolitics: trade & economics and security

Geopolitical shifts can be distilled down to 10 core levers, each with heightened activity

Trade and economics



Trade agreements (e.g., free, preferential) and international pacts



Tariffs and other trade barriers



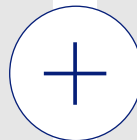
Domestic industrial policies (e.g., subsidies, tax breaks, grants)



Domestic environmental policies and labor / immigration policies



Import / export and capital controls



Security

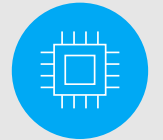
Foreign investment restrictions (e.g., sensitive technologies)



Sanctions, embargos, and additions to restricted lists



Technology, IP, and cybersecurity controls



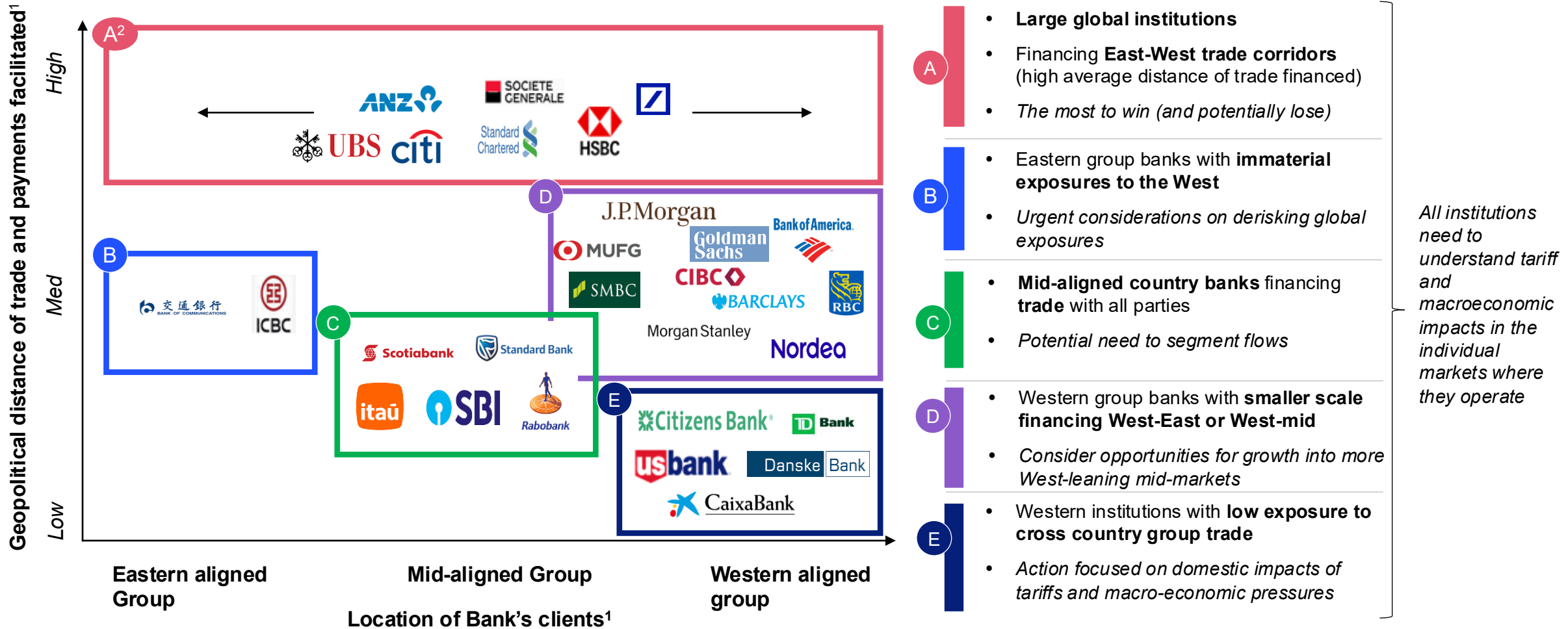
Conflict



Multilateral cooperation and alliances



3. Uncertainty Management | Nature and degree of impact will vary significantly by bank



1. Geographic location of the bank clients linked to the Eastern / Western / Mid-aligned geopolitical blocks. Geopolitical distance of trade and flows defined as a weighted average, considering geopolitical positioning of each country (see MGI source material for more detail)

2. Bucketing of institutions is based on a qualitative outside-in assessment, and represents a breadth of different levels of exposure

Source: McKinsey Global Institute, "Geopolitics and the Geometry of Global Trade"

3. Uncertainty Management | Approach banks can take to respond to evolving landscape

Preliminary

I Prepare: Ensure organizational readiness

- 1. Establish or build on existing nerve center** to monitor country actions, sector and customer activities, and any required shifts to models
- 2. Flag areas of risk management in need of fortification** (e.g., model overlays, ability to integrate diverse macroeconomic scenarios)



II Identify and Assess: Continuously identify and assess risks and opportunities

- 3 Identify differential tariff impact on sectors and firms and set actions:**
 - Identify immediate new product needs (e.g., guarantees and export financing solutions)
 - Assess elevated risk exposure by segment (e.g., textiles) or sub-business (e.g., subprime credit card)
- 4 Stress test P&L and balance sheet under tariff-macroeconomic scenarios** to identify areas of stress and potential for capital reallocation
- 5. Analyze implications for most exposed clients** to identify risks and opportunities

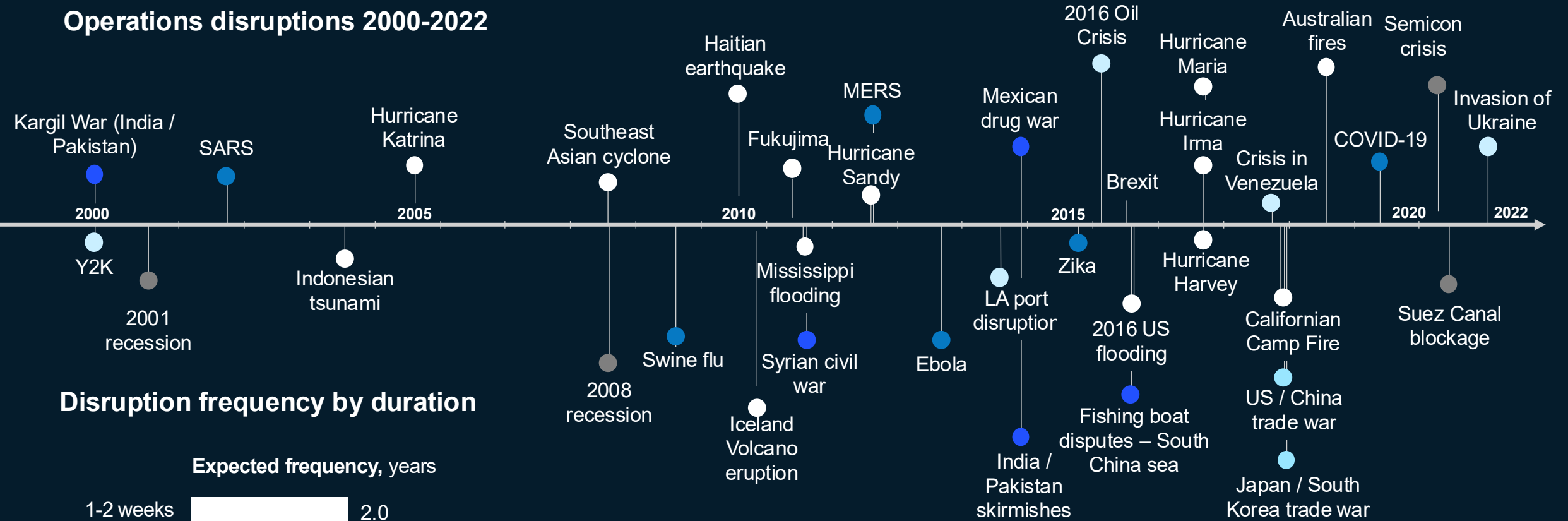


III Act: Identify no regret moves to manage uncertainty while preparing for the long-term

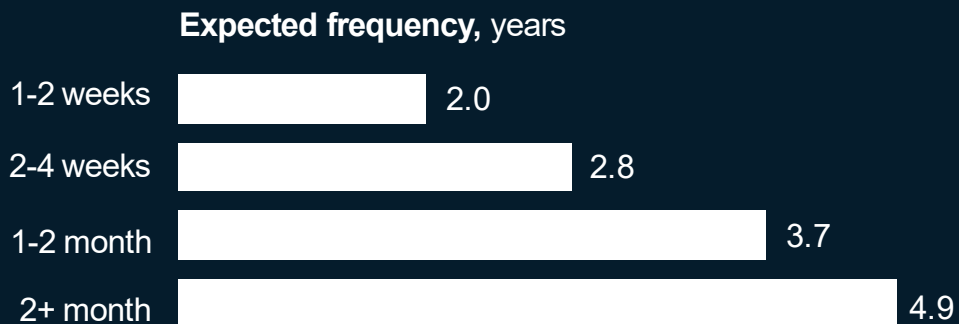
- Identify no regret moves*
- 6 Prepare front-line** to have informed discussions (e.g., on trade landscape today and the business implications of shifts)
 - 7. Reconsider client offerings amid ongoing volatility** (e.g., expand working capital lines of credit)
- Prepare for the long-term*
- 8 Refresh existing strategy** given scenarios:
 - Growth ambitions: Scale and adjust across BUs and segments to reflect risks and opportunities
 - Investment strategy: Make strategic bets to capture opportunities (e.g., new trade flow corridors) and manage downside risks
 - Footprint: Integrate tariff implications and scenarios into planning and resource allocation

4. Supply Chain Disruptions | Disruptions are becoming more frequent and severe, creating pressure on supply chains globally

Operations disruptions 2000-2022







Disruption frequency by duration



- Natural disasters
- Armed conflicts
- Pandemics
- Political crisis
- Trade wars
- Economic crises

4. Supply Chain Disruptions | Identify longer-term considerations and priority actions

PRELIMINARY

	Potential impact	Longer-term opportunities and risks	Priority actions (not exhaustive)
Commercial Banking		<p>Potential pockets of strategic opportunity – e.g., agriculture exports</p> <p>Macro economic slow down would cause:</p> <ul style="list-style-type: none"> ▪ Increase NPLs and provisions ▪ Reduced borrowing (esp. on long-term loans) 	<ul style="list-style-type: none"> • Adapt loan terms and collateral strategies to account for shifting trade routes and supply chains, reassessing collateral types and adjusting covenants, ensuring flexibility and better risk management • Increase Corporate exposure to high-growth/low-leverage domestic sectors
Payments		<p>Continued evolution of trade flows as supply chains reconfigure, with resulting changes in FX, liquidity needs for higher margin consumer and SME</p>	<ul style="list-style-type: none"> • Build data infrastructure for real-time transaction-level insights (e.g., implement payment data lakes and AI-driven anomaly detection for payment behavior)
Retail Banking		<p>Potential for pockets of opportunity in areas that are countercyclical and less impacted (e.g., used cars)</p> <p>Macro economic downturn would cause:</p> <ul style="list-style-type: none"> ▪ Reduced loan originations across products ▪ Increase delinquencies and charge-offs 	<ul style="list-style-type: none"> • Reinvent credit-decisioning frameworks through sector analysis and high-frequency analytics using a data-driven and client-level approach (e.g., pressure testing individual clients' financial ratios and indicators under different tariff-macroeconomic scenarios)
Wealth and AM		<p>Wide band of forward outlooks from long-term reduction in asset prices to rebound resulting from productive investments across geographies to manage new trade flows</p>	<ul style="list-style-type: none"> • Increase offerings of products focused on hedging against inflation or economic uncertainty (e.g., commodity funds)

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Sri Lanka's economic landscape is evolving amid shifting domestic dynamics and rapidly changing global environment



Shift from twin deficit to twin surplus

Fiscal (Only primary) and current account surplus in 2025 led by government fiscal prudence and IMF tightening

Transition strengthening external buffers, rebuilds reserves, and enhances macro credibility — laying foundation for more sustainable, investment-led growth rather than debt-fueled expansion



Cyclical Consumer Compression, Structural Recovery Ahead

Consumption remains subdued due to austerity and income pressure, but this is cyclical

As stability returns, middle-class demand and pent-up spending could drive a strong rebound



SOE Reform & Private Capital Unlock

SOE restructuring is unlocking space for private capital, efficiency gains, and labour reallocation — creating new avenues for productivity-led growth

33 non-operational and loss-making State-Owned Enterprises (SOEs) to be wind-down



Remittance Resilience & FX Normalization

More stable and formalized remittance inflows are strengthening FX liquidity, cushioning trade deficits, and enhancing external resilience

Worker remittances recovered from USD ~3.8bn (2022) to USD 8bn+ annually post-normalization (2025)

Amid recovery and global uncertainty, banks in Sri Lanka can adopt winning strategies across 5 themes

Technology	<ul style="list-style-type: none">• Modernize Data & Technology infrastructure to ensure scalability and future-Readiness — build cloud-enabled, API-first, modular architectures with unified data platforms• Embed Advanced Analytics & Gen-AI into the core strategy, move beyond experimentation to enterprise-wide adoption to unlock new growth frontiers, risk management, and operational efficiency.
The new consumer	<ul style="list-style-type: none">• Become The Banker of Choice for the emerging middle class and HNIs to capture the rebound in consumer demand through product innovation, hyper-personalization and life-cycle based banking• Re-imagine Digital Banking as the defining competitive edge by leading the next wave of digitization in Sri Lanka—delivering seamless, intuitive, and tech-forward experiences
Uncertainty Management	<ul style="list-style-type: none">• Establish a dynamic Risk Nerve Center to continuously monitor portfolio exposures, simulate multi-scenario stress impacts, and activate proactive mitigation strategies• Build AA-led collections and recovery stack to transform debt recovery, strengthen EWS systems, and manage NPAs through data-driven prioritization, predictive outreach, and optimized recovery strategies
Supply-chain disruptions	<ul style="list-style-type: none">• Position as the anchor trade and transaction bank for priority sectors benefiting from supply chain disruptions — delivering tailored credit and non-credit solutions to SMEs and Corporates• Reimagine regional trade integration as a resilience lever by deepening partnerships across South Asia and RCEP markets to co-finance strategic trade corridors
Cyber-tech resilience	<ul style="list-style-type: none">• Setup Resiliency Operations Center (ROC) to proactively manage and address issues across applications in an integrated manner• Institutionalize Enterprise-Wide Cyber Crisis Simulations that actively involve CXOs and crisis management teams, rigorously test incident response and recovery playbooks

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