

Sampath Bank Moves Ahead Steadily to Prove its Ability to Withstand Strong Headwinds

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Amidst widespread economic uncertainty during 2022, Sampath Bank maintained a strong capital base and a steady liquidity profile. Proactive efforts to identify challenges and implement appropriate strategies have further reinforced the Bank's strength and stability. The Bank has also continued to lead by example in demonstrating its commitment to the national growth agenda by promoting inward remittances and encouraging the inflow of export proceeds to the country while

assisting all stakeholders to manage the current economic crisis.

The Bank reported a PAT of 7.2 billion and PBT of 9.3 billion rupees for the period ended September 30, 2022, reflecting a decline of 19.8 percent and 24.4 percent, respectively, from the figures reported for the corresponding period in 2021, which is a reflection of the current economic turmoil in the Country. As of September 30, 2022, the Group reported PAT and PBT of 7.7 billion and 10.2 billion rupees, a drop of 21.6 percent and 24.3 percent, respectively, compared to the corresponding period, 2021.

Total interest income increased by 67.7 percent YoY during the nine months ended September 30, 2022, reaching 106 billion rupees from the 63 billion rupees reported in the corresponding period of the previous year. This was primarily due to the hike in interest rates reported in 2022, which saw the AWPLR reaching 25.95 percent as of September 30, 2022, denoting a 1,953 bps increase from September 30, 2021, and 1,734 bps increase compared to the year-end 2021. Driven by the rising market interest rates, the Bank's interest expense increased by 57.3 percent. Prudent asset and liability management ensured that net interest income increased by 79.4 percent.

During the reporting period, the Bank's Net Fee and Commission Income (NFCI) increased substantially by 69.5 percent compared to the same period in the prior year. NFCI, which comprises revenue from numerous sources, such as loans and advances, credit cards, trade, and electronic channels, increased significantly, led by the card-related businesses and fee and commission income derived from trade-related activities.

The net other operating income for the nine months ended September 30, 2022 was 18 billion rupees. This 320 percent YoY increase was attributed to a 164.75 rupees drop in the value of the LKR against the USD. In 2022, the Bank reported a net trading loss of three billion rupees against the 98 million rupees loss reported during the previous year. Total foreign exchange income for the reporting period was 14.5 billion rupees, up from the 3.8 billion rupees recorded last year.

The Bank has recognized a total impairment charge of 48.8 billion rupees for the nine months ended September 30, 2022. This is a 396 percent increase from the 9.8 billion rupees charge reported in the previous year. Of this, the impairment charge for loans and advances amounted to 37.7 billion rupees, while 10.3 billion

rupees was on account of other financial instruments. In addition, an impairment charge totaling 839 million rupees was booked against other commitments and contingencies.

To reflect the deterioration of the country's economic environment, the Bank increased the probability weightage allocated to a worst economic scenario and revisited the EFA model, which led to the recognition of a significantly higher impairment provision during the reporting period. Industries considered under elevated risk were further expanded to capture a broader range of industry-specific stress factors. The potential impact of rising inflation, higher interest charges, and increased taxes on the retail segment were other factors that were considered in recognizing impairment provisions.

The Bank reviewed the adequacy of the impairment provision in respect of customers in tourism and other similarly affected industries, whereby necessary and adequate impairment provisions were recognized under individually significant loan impairment. The Bank also continued to recognize impairment provisions against the customers who exited the moratorium at the end of December 2021 and June 2022 as some customers have requested further concessions given the current economic outlook. In addition, steps were taken to shift customers from Stage 1 to Stage 2 based on their ability to withstand the adverse effects caused by the economic downturn.

A culmination of these efforts has ensured a higher overall provision cover of 9.8 percent at the end of September 30, 2022, deemed adequate to support the Bank in absorbing potential losses arising from severe macroeconomic conditions.

The Bank provided 9,040 million against SLISBs and 935 million rupees against SLDBs as of September 30, 2022. This decision was influenced by two key factors- the downgrade in Sri Lanka's sovereign rating in May 2022 to RD from C by Fitch Ratings and the current debt restructuring actions taken by the Government. The Bank's cumulative impairment provision for SLDBs and SLISBs stood at 21.6 billion rupees at the end of the reporting period. Meanwhile, the Bank significantly reduced the exposure to FCY instruments by converting the matured SLDBs to LKR instruments during the reporting period.

Total operating income for the period increased by 40 billion. However, the

impairment charge increased by 39 billion rupees, restricting net operating income growth to 3.7 percent.

Operating expenses during the reporting period amounted to 20.5 billion rupees, a 23.6 percent increase from 16.6 billion rupees recorded during last year. Rising inflation and the LKR depreciation were the main contributors to this increase. Despite the growth in operating expenses, the Bank's cost-to-income ratio (CIR) dropped significantly by 1,460 bps and stood at 25 percent compared to the 39.6 percent reported in 2021. This drop in CIR was predominantly due to the increase in total operating income surpassing the rise in total operating costs.

Despite the 17.6 percent drop in profit before VAT, the VAT on Financial Services increased by 9.3 percent owing to the upward movement in the VAT rate from 15 to 18 percent with effect from January 1, 2022.

As of September 30, 2022, the Bank maintained all its capital ratios well above the minimum regulatory requirements. Bank's CET 1, Tier 1, and total capital ratios on September 30, 2022, were 11.31, 11.31, and 13.72 percent, respectively, compared with 13.95, 13.95, and 17.02 percent at the end of 2021. The ratio decline during the reporting period is due to the combined impact of the increase in risk-weighted assets resulting from the LKR depreciation, cash dividends, and payment of surcharge tax.

Sampath Bank's total assets exceeded 1.3 trillion rupees by the end of September 2022, an increase of 113 billion rupees (annualized growth of 12.6 percent) from the December 31, 2021 position of 1.2 trillion rupees. Increases in cash and cash equivalents and net loans and advances have contributed to the abovementioned growth. One of the primary causes of the balance sheet expansion can be attributed to the devaluation of the local currency during the year.

During the third quarter of 2022, the LKR deposit base grew by 44.4 billion rupees due to deposit mobilization initiatives promoted by the Bank. Nevertheless, growth in the LKR deposit base was restricted to 0.8 percent compared to the year-end of 2021.