

Sampath Bank navigates the current economic crisis with confidence backed by strong capital and liquidity positions

Sampath Bank showed positive growth during the first half of 2022.



Harsha Amarasekera, Chairman, Sampath Bank (left) and Nanda Fernando, Managing Director, Sampath Bank (right).

Sampath Bank maintained a solid capital base and stable liquidity profile in the first half of 2022, notwithstanding multiple economic challenges. The Bank remains vigilant in identifying the current economic issues and has proactively implemented the required countermeasures, clearly demonstrating its strength and stability. In line with that objective and to improve the foreign currency liquidity position, the Bank continues to focus and promote inward remittances and encourage the inflow of export proceeds.

Despite the prevailing economic turmoil, the Bank posted a commendable PAT of 7.1 billion rupees and PBT of nine billion rupees for the period ended June 30, 2022, reflecting a minor increase of 0.3 percent and a slight decrease of 5.5 percent, respectively, compared to the figures declared in 1H 2021. In the meantime, the Group reported a PAT of 7.4 billion rupees and PBT of 9.6 billion rupees, denoting a decline of 2 percent and 5.5 percent, respectively, over the first half of 2021. Total interest income increased by 41.1 percent yearly to 59.2 billion rupees in the first half of 2022. This significant increase in interest income is due to the upward trend in interest rates in the first half of 2022. The AWPLR at the end of the reporting period reached 22.62 percent, which is 1,711 bps higher than the rate reported on June 30, 2021. Furthermore, the current AWPLR surpassed the end 2021 figure by 1,401 bps. At the same time, the interest rate on a one-year treasury bill climbed by 1,861 bps from the treasury bill rate reported at the end of June 30, 2021, and stood at 23.84 percent at the end of June 30, 2022.

The Bank recorded a significant increase of 69.9 percent in its net fee and commission income (NFCI) in 1H 2022. NFCI comprises income from various sources, including loans and advances, credit cards, trade, and electronic channels. In the period under review, there was significant growth in card-related business volumes and fee and commission income from trade- related activities.

During the first half of 2022, net other operating income increased to 16 billion rupees, an unprecedented 378 percent increase compared to 3.4 billion rupees recorded in the corresponding period of the previous year. This was mainly due to the 80 percent depreciation of LKR against the US Dollar. Meanwhile, the Bank posted a net trading loss of 2.5 billion rupees, compared to the gain of 46 million rupees reported during the previous financial year. Total exchange income for the first six months of 2022 was 13 billion rupees compared to three billion rupees registered in 1H 2021.

A sizable provision was made under Economic Factor Adjustment for the period

under review as the Bank continued to increase the probability weightage used in the computation of impairment to reflect the deteriorating macroeconomic conditions. During the second quarter of 2022, the probability weightage allocated to the worst-case scenario increased further. The economic factor adjustment methodology was continuously refined to reflect the heightened economic vulnerabilities and captured the latest data about all significant economic variables. This was done by ensuring adequate impairment provisions were made to address the potential credit risk associated with the current economic challenges.

To absorb the possible losses, the Bank decided to increase the allowance for overlay against the tourism sector customers and retain impairment provisions against the customers who exited the moratorium at the end of 2021. As a result, cumulative impairment provision against stage 1 and stage 2 loans reported a sizable increase of 27.3 percent and 63.5 percent, respectively, compared to December 31, 2021.

Operating expenses for the first half of 2022 amounted to 13.7 billion, a 24.3 percent increase from the 11 billion rupees recorded for the first half of 2021. The primary reason for the increased operating expenses was the inflation rate, which rose significantly during the first six months of 2022. Despite the growth in operating expenses, the Bank's cost-to-income ratio (CIR) dropped significantly by 1,406 bps and stood at 25.45 percent compared to 39.51 percent reported in 2021. This decline in CIR was primarily triggered by an increase in total operating income greater than the increase in operating expenses. The Return on Average Shareholders' Equity (after tax) increased to 12.06 percent as of June 30, 2022, compared to 11.05 percent reported at the end of 2021. Return on Average Assets (before tax) stood at 1.43 percent as of June 30, 2022, against the 1.44 percent reported for 2021. Throughout 1H 2022, the Bank maintained all of its capital ratios well above the minimum regulatory requirements. The Bank's CET 1, Tier 1, and total capital ratios on June 30, 2022 were 11.3 percent, 11.3 percent, and 13.82 percent, respectively. 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, the payment of cash dividends, and surcharge tax.

The Bank maintained a strong position regarding its capital ratios with sufficient buffers to absorb any shocks resulting from economic uncertainties.

At the end of June 2022, Sampath Bank's total assets surpassed 1.3 trillion rupees denoting an increase of 122 billion rupees (annualized growth of 20.2 percent) from

1.2 trillion rupees as of December 31, 2021. Increases in net loans and advances and cash & cash equivalents have contributed to the above. Devaluation of the local currency in 1H 2022 has increased the Rupee value of foreign currency-denominated assets, a primary reason for the balance sheet growth. If the impact of the currency fluctuation is eliminated, the Bank would have recorded an annualized growth of approximately five percent. Total advances grew by 29.7 percent (annualized) in 1H 2022 to reach 933 billion rupees as of June 30, 2022, up from 813 billion at the end of December 2021. The LKR loan book expanded by 13.6 percent (annualized). Following the LKR depreciation of 160.25 rupees against USD during the period, the value of foreign currency-denominated loans increased significantly. If currency rate fluctuations were eliminated, the Bank's total loans and advances would have increased by 9.8 percent (annualized).

Further, the Bank transferred Treasury Bonds worth 33 billion rupees classified under FVOCI to Amortized Cost during the reporting period as permitted by the SoAT on Reclassification of Debt Portfolio issued by CA Sri Lanka. The LKR deposit portfolio contracted by 9.24 percent compared to the figure reported at the end of 2021. This was because the Bank had adequate liquidity throughout the period, so deposit mobilization activities were not actively pursued in 1H 2022. After the first half of 2022, the Bank's CASA ratio stood at 40.6 percent. However, the Bank resumed deposit mobilization in July 2022 by offering products under new tenors at competitive market rates.

As per the Surcharge Tax Act No. 14 of 2022, the Bank is liable for the surcharge tax of 2,671 million rupees out of the taxable income of 10,682 million rupees of the year of assessment 2020/21. Further, the Group is liable for the surcharge tax of 3,233 million rupees. According to said Act, the surcharge tax shall be deemed an expenditure in the financial statements commenced on 1st January 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the surcharge tax expense has been accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka. Accordingly, the liability to the Surcharge Tax has been recognized as an adjustment to the opening retained earnings as of 1st January 2022, during the quarter that ended June 30, 2022.