Sampath Bank successfully navigates the challenging economic environment



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Backed by its solid capital base and prudent risk fundamentals, Sampath Bank proves that it is well equipped to navigate the challenging economic environment.

Sampath Bank’s well-diversified investment portfolio, coupled with its increased vigilance and proactive risk management measures, has enabled the Bank to

remain resilient and prioritize stakeholder interests above all other interests in negative economic headwinds.

Sampath Bank registered a profit before tax (PBT) of 6.5 billion rupees and a profit after tax (PAT) of 4.7 billion rupees for the three months ended 31st March 2022. This indicates a marginal growth of 5.3 percent and 2.9 percent, respectively, from the figures reported in Q1 2021, despite substantial impairment provision on loans and investments.

Sampath Bank recorded a total interest income of 24.9 billion rupees in Q1 2022, reflecting a 20 percent growth year-on-year. The increase is attributed to the higher interest income from loans and investments resulting from the upward trend in interest rates in Q1 2022 compared to the corresponding period in the previous year.

Despite the interest rate hikes observed in recent months, Sampath Bank benefited from the lower cost of funds thanks to the higher concentration of CASA in its deposit portfolio. As a result, Sampath Bank recorded a marginal drop of 1.6 percent in interest expenses during Q1 2022 compared to the first quarter of 2021.

The Bank’s interest expenses for the first three months of 2022 were 11.3 billion rupees compared to 11.5 billion rupees reported for the same period in the previous year.

Net interest income increased by 47 percent in the first quarter of 2022 due to the aforementioned factors.

Net interest Margin was also reported at 4.54 percent, healthy growth of 93 bps compared to the figures reported at the end of 2021. Sampath Bank reported a strong increase in Net fee and commission income (NFCI) in Q1 2022 over the figure tabled in the corresponding period of the previous year. NFCI comprises income from various sources such as loans and advances, credit cards, trade, and electronic channels.

The significant growth recorded during Q1 2022 was attributed to the higher volumes generated from card-related business and increased fee and commission income derived from trade-related activities.

Net other operating income also increased significantly by 223 percent in the first

quarter of 2022 compared to the corresponding period in the previous year. This resulted from higher realized exchange income attributed to the sharp depreciation of the Sri Lankan Rupee against the US Dollar by 47 percent.

During the first three months of 2022, Sampath Bank recorded 8.7 billion rupees as net other operating income compared to 2.7 billion rupees reported in Q1 2021. The Bank recorded a net trading loss of 381 million rupees for the period under review. Sampath Bank's net exchange income from foreign exchange transactions amounted to eight billion rupees for review.

The Bank recognized a total impairment charge of 11.8 billion for Q1 2022 compared to 1.2 billion rupees reported in the corresponding period of last year, representing an 897 percent increase.

The impairment charge for Q1 2022 comprises 4.9 billion rupees for loans and advances and 6.7 billion rupees for other financial instruments. Further, an impairment charge of 209 million rupees was recorded against commitments and contingencies.

The Bank increased the impairment provision on loans and advances to capture the impact of emerging global and local economic challenges. Continuing with the impairment models used in 2021, the Bank made necessary adjustments to account for the severity of the prevailing economic outlook.

These impairment models use probability weightages to consider the dominant economic scenarios in the local and global context to assist the Bank in determining the appropriate amount of loan loss allowance for a given reporting period.

On this basis, Sampath Bank increased the weightages for worst-case economic scenarios by considering the recent shifts in the country's economic outlook. It used the latest economic data to calculate the impairment allowance for Q1 2022.

Accordingly, given the heightened economic uncertainty during the period under review, the impairment provision for the first quarter of 2022 increased significantly.

It should be noted that the impairment provision for the corresponding period in the previous year was comparatively low owing to the improved business confidence and positive economic outlook during that time.

The first quarter of 2022 impairment charge against loans and advances stood at 4.9 billion rupees compared to one billion rupees recorded in the first three months of 2021, indicating a 404 percent increase year-on-year.

During Q1 2022, the Bank has recognized 6.3 billion rupees of impairment provision against the foreign currency-denominated government instruments. Two reasons prompted this decision; the downgrade of Sri Lanka's sovereign rating in April 2022 and the announcement by the Government of Sri Lanka (GoSL) that it is considering a consensual restructuring of the Country's external debts through an economic adjustment program supported by the IMF.

Operating expenses for Q1 2022 were 6.5 billion rupees, up by 17.5 percent. Higher inflation prevailed during the first three months of 2022 was the main reason for this increase. The Bank reported an 86.3 percent increase in total operating income in Q1 2022. As a result, the Bank's cost to income ratio (CIR) declined significantly during the reporting period. CIR for Q1 2022 was 24.5 percent compared to 38.9 percent in the first quarter of 2021. However, CIR excluding growth in the exchange income was 31.3 percent for Q1 2022.

The Return on Average Shareholders' Equity (after-tax) increased to 15.95 percent as of 31st March 2022. Return on Average Assets (before tax) stood at 2.13 percent as of 31st March 2022.

Sampath Bank maintained its capital ratios well above the minimum regulatory requirements throughout Q1 2022. As of 31st March 2022, the Bank's CET 1, Tier 1, and total capital ratios were at 11.44 percent, 11.44 percent, and 14.20 percent. The change in the total capital ratio during the reporting period is based on the increase in risk-weighted assets and the distribution of retained earnings to pay a cash dividend worth 4,864 billion rupees.

The Bank is well-positioned to maintain its capital ratios at prudent levels with sufficient buffers to absorb the shocks from economic uncertainties.

The Sampath Bank's total assets reached 1.29 trillion rupees at the end of 31st March 2022, up by 93.5 billion rupees (annualized growth of 31.6 percent).

Total Advances grew by 34.6 percent (annualized) in the first three months of 2022 to reach 883 billion rupees at the end of the reporting period from the 813 billion rupees reported at the end of December 2021. LKR loan book grew by 15.5 percent

(annualized) during the period.

Sampath Bank’s total deposit book grew by 78 billion rupees as of 31st March 2022, from 978 billion rupees reported at the end of 31st December 2021, with an annualized growth of 32 percent. However, the LKR deposit book grew only by 6.9 percent (annualized) during the reporting period. The total CASA ratio stood at 45.8 percent in 1Q 2022.