

10 Sep 2019 | Affirmation

Fitch Affirms Sampath Bank at 'A+(lka)'; Outlook Stable

Fitch Ratings-Colombo-10 September 2019:

Fitch Ratings (Lanka) Limited has affirmed the National Long-Term Rating of Sampath Bank PLC at 'A+(lka)'. The Outlook is Stable.

Key Rating Drivers

Sampath's National Long-Term Rating reflects its weakened asset quality and high-risk appetite, which offset benefits from the bank's improved capitalisation.

The weakness in Sampath's asset quality is likely to continue in the medium term following strong loan growth and amid a weak operating environment. Stresses in the bank's books have started to manifest with reported non-performing loan (NPL) ratio rising to 5.7% by end-June 2019, from 3.7% at end-2018 and 1.6% at end-2017. The ratio of restructured loans to total loans in 2018 and 1H19 remained high.

Fitch regards Sampath's risk appetite as high because its loan growth of 21% a year over 2015-2018 exceeded that of the sector and it has high loan concentration in the consumer/retail and SME/mid-sized corporate segments, which are typically more susceptible to economic cycles. We expect loan growth to accelerate after slowing to 2.6% in the first six months of 2019.

Sampath's capital ratios have improved over the last four years supported by regular capital infusions and better profit retention through scrip, rather than cash, dividends. Sampath raised LKR12.5 billion in 2018 and another LKR12 billion in June 2019 through rights issues, shoring up its regulatory Tier 1 ratio to 13.7% by end-June 2019, which was above that of the majority of its peers.

Sampath is the fifth-largest commercial bank in Sri Lanka. It accounted for about 8% of system assets and 8% of system deposits at end-March 2019.

SUBORDINATED DEBT

Sampath's Basel II- and Basel III-compliant Sri Lanka rupee-denominated subordinated debt is rated one notch below its National Long-Term Rating to reflect the subordination to senior unsecured creditors. The Basel III-compliant debentures include a non-viability trigger upon the

occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

RATING SENSITIVITIES

Sustaining capital buffers commensurate with the bank's risk profile while managing asset quality in line with better-rated peers could be positive for Sampath's National Long-Term Rating. Sampath's rating could be downgraded in the event of sustained deterioration in asset quality or aggressive loan growth that dents the bank's capitalisation.

The bank's subordinated debt ratings will move in tandem with the bank's National Long-Term Rating.

Sampath Bank PLC; National Long Term Rating; Affirmed; A+(lka); RO:Sta
---subordinated; National Long Term Rating; Affirmed; A(lka)

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

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