

# **SEYLAN MERCHANT BANK LIMITED**



## **INTERIM REPORT**

**QUARTER ENDED 30<sup>TH</sup> JUNE 2004**

*If undelivered please return to:*

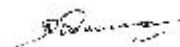
**Seylan Merchant Bank Limited  
Landmark Building,  
385, Galle Road,  
Colombo 3.  
Tel: 011-2573363**

**INCOME STATEMENT**

For the Period Ended 30th June	BANK					
	3 Months Ended 30th June 2004	3 Months Ended 30th June 2003	Change	6 Months Ended 30th June 2004	6 Months Ended 30th June 2003	Change
	Rs.	Rs.	%	Rs.	Rs.	%
<b>Net Income</b>	<b>129,152,075</b>	<b>157,414,605</b>	(18)	<b>255,218,996</b>	<b>280,927,223</b>	(9)
Interest Income	118,275,016	101,142,528	17	232,729,139	200,663,465	16
Interest Expenses	(86,149,788)	(83,632,058)	(3)	(173,204,961)	(163,975,135)	(6)
<b>Net Interest Income</b>	<b>32,125,228</b>	<b>17,510,470</b>	83	<b>59,524,178</b>	<b>36,688,330</b>	62
Other Income	10,877,058	56,272,077	(81)	22,489,857	80,263,759	(72)
	<b>43,002,286</b>	<b>73,782,547</b>	(42)	<b>82,014,035</b>	<b>116,952,089</b>	(30)
<b>Less: Operating Expenses</b>						
Personnel Costs	16,106,831	12,240,731	(32)	29,654,636	25,236,102	(18)
Premises, Equipment & Establishment Expenses	7,080,386	7,474,893	5	13,843,688	15,922,223	13
Provision for Staff Retirement Benefit	540,000	150,000	(260)	840,000	300,000	(180)
Other Overhead Expenses	12,417,190	13,791,967	10	23,833,094	22,155,348	(8)
Write-off of Long-term Investments	-	-	-	-	7,913,700	100
Provision for Long-term Investments	-	33,397,792	100	-	33,397,792	100
	<b>(36,144,407)</b>	<b>(67,055,383)</b>	46	<b>(68,171,418)</b>	<b>(104,925,165)</b>	35
<b>Profit Before Provisions &amp; Taxation</b>	<b>6,857,879</b>	<b>6,727,164</b>	2	<b>13,842,617</b>	<b>12,026,924</b>	15
Loan Loss Provision and Write-off	(4,163,198)	(4,236,151)	2	(8,866,736)	(8,959,677)	1
<b>Operating Profit Before Taxation</b>	<b>2,694,681</b>	<b>2,491,013</b>	8	<b>4,975,881</b>	<b>3,067,247</b>	62
VAT on Profit	(560,990)	-	-	(1,072,016)	-	-
<b>Profit for the Period</b>	<b>2,133,691</b>	<b>2,491,013</b>	(14)	<b>3,903,865</b>	<b>3,067,247</b>	27
Earnings Per Share	0.06	0.07		0.12	0.09	



**R. Renganathan**  
Deputy Chairman




**R. S. W. Senanayake**  
Director/General Manager

**CONSOLIDATED INCOME STATEMENT**

For the Period Ended 30th June	GROUP					
	3 Months Ended 30th June 2004	3 Months Ended 30th June 2003	Change	6 Months Ended 30th June 2004	6 Months Ended 30th June 2003	Change
	Rs.	Rs.	%	Rs.	Rs.	%
<b>Net Income</b>	<b>158,101,688</b>	<b>187,229,446</b>	(16)	<b>307,264,122</b>	<b>335,556,472</b>	(8)
Interest Income	128,814,571	115,652,608	11	252,392,100	228,012,767	11
Interest Expenses	(90,277,898)	(87,569,307)	(3)	(181,002,500)	(171,167,288)	(6)
<b>Net Interest Income</b>	<b>38,536,673</b>	<b>28,083,301</b>	37	<b>71,389,600</b>	<b>56,845,479</b>	26
Other Income	29,287,116	71,576,838	(59)	54,872,022	107,543,705	(49)
	<b>67,823,789</b>	<b>99,660,139</b>	(32)	<b>126,261,622</b>	<b>164,389,184</b>	(23)
<b>Less: Operating Expenses</b>						
Personnel Costs	19,159,202	14,578,446	(31)	35,912,380	29,990,581	(20)
Premises, Equipment & Establishment Expenses	8,588,177	17,970,184	52	17,817,385	27,739,309	36
Provision for Staff Retirement Benefit	540,000	150,000	(260)	840,000	300,000	(180)
Other Overhead Expenses	16,242,459	17,187,435	5	32,751,178	38,651,038	15
Write-off of Long-term Investments	-	-	-	-	7,913,700	100
Provision for Long-term Investments	-	33,397,792	100	-	33,397,792	100
	<b>(44,529,838)</b>	<b>(83,283,857)</b>	47	<b>(87,320,943)</b>	<b>(137,992,420)</b>	37
<b>Profit Before Provisions, Share of Associate Company's Loss &amp; Taxation</b>	<b>23,293,951</b>	<b>16,376,282</b>	42	<b>38,940,679</b>	<b>26,396,764</b>	48
Loan Loss Provision and Write-off	(6,905,235)	(4,897,130)	(41)	(11,643,662)	(9,726,764)	(20)
<b>Operating Profit Before Share of Associate Company's Loss &amp; Taxation</b>	<b>16,388,716</b>	<b>11,479,152</b>	43	<b>27,297,017</b>	<b>16,670,000</b>	64
Share of Associate Company's Loss before Taxation	(796,769)	-	-	(796,769)	-	-
VAT on Profit	(764,590)	(116,012)	(559)	(1,275,616)	(116,012)	(1000)
<b>Profit After Taxation</b>	<b>14,827,357</b>	<b>11,363,140</b>	30	<b>25,224,632</b>	<b>16,553,988</b>	52
Minority Interest	1,001,002	416,239	(140)	1,001,819	736,200	(36)
<b>Profit for the Period</b>	<b>13,826,355</b>	<b>10,946,901</b>	26	<b>24,222,813</b>	<b>15,817,788</b>	53
Earnings Per Share	0.41	0.33		0.73	0.47	

  
R. Renganathan  
Deputy Chairman

  
R. S. W. Senanayake  
Director/General Manager

**BALANCE SHEET**

As At

**ASSETS**

Cash and Short Term Funds	
Government Securities Purchased Under Resale Agreement	
Government and Other Securities Held for Dealing Purposes	
Treasury Bills and Bonds Held as Investments	
Placements with and Loans to Other Banks & Finance Companies	
Other Investment Securities	
Bills of Exchange	
Factored Lease Debtors	
Loans and Advances	
Lease Rentals Receivable	
Investments in Subsidiary Companies	
Investment in Associate Company	
Investment Properties	
Group Balances Receivable	
Property, Plant and Equipment	
Other Assets	
Intangible Assets	

**FINANCED BY :****LIABILITIES**

Borrowings	
Securities Sold Under Repurchase Agreements	
Group Balances Payable	
Other Liabilities	
Debentures	

**SHAREHOLDERS' FUNDS**

Share Capital	
Share Premium Reserve	
Revenue Reserves	
<b>Shareholders' Funds</b>	
Minority Interest	

**Total Liabilities and Shareholders' Funds**

Commitments and Contingencies

Net Asset Value per Ordinary Share

	BANK		GROUP	
	30th June 2004	31st December 2003	30th June 2004	31st December 2003
	Rs.	Rs.	Rs.	Rs.
(132,155,650)	(122,572,120)	(104,235,387)	(121,954,580)	(104,235,387)
44,640,000	174,880,000	174,880,000	44,640,000	174,880,000
297,414,188	601,328	601,328	301,354,981	601,328
14,174,535	15,721,649	-	42,837,902	37,866,773
-	-	2,220,283	2,220,283	-
117,759,282	125,610,968	126,110,968	118,259,282	126,110,968
6,779,890	32,373,309	32,373,309	6,779,890	32,373,309
-	-	9,295,806	4,711,335	9,295,806
797,261,647	658,253,771	620,862,373	771,687,341	620,862,373
1,660,059,605	1,554,556,271	1,756,888,699	1,949,899,019	1,756,888,699
112,016,166	97,100,000	-	-	-
1,200,000	-	403,231	403,231	-
11,189,400	11,189,400	11,189,400	11,189,400	11,189,400
33,544,092	53,392,403	-	-	-
21,191,040	15,811,505	36,298,150	45,236,407	36,298,150
157,488,450	169,132,622	327,320,708	267,744,316	327,320,708
3,945,645	-	3,945,645	3,945,645	-
<u>3,146,508,290</u>	<u>2,786,051,106</u>	<u>3,029,452,127</u>	<u>3,448,954,452</u>	<u>3,029,452,127</u>
1,779,255,156	1,892,594,836	1,988,575,345	1,948,468,414	1,988,575,345
143,300,000	-	-	143,300,000	-
125,500,000	90,300,000	90,300,000	125,500,000	90,300,000
158,848,888	29,493,404	51,985,401	144,822,510	51,985,401
795,815,695	633,778,181	696,355,181	859,402,695	696,355,181
<u>3,002,719,739</u>	<u>2,646,166,421</u>	<u>2,827,215,927</u>	<u>3,221,493,619</u>	<u>2,827,215,927</u>
333,773,400	333,773,400	333,773,400	333,773,400	333,773,400
13,243,644	13,243,644	13,243,644	13,243,644	13,243,644
(203,228,493)	(207,132,359)	(155,540,088)	(131,317,274)	(155,540,088)
143,788,551	139,884,685	191,476,956	215,699,770	191,476,956
-	-	10,759,244	11,761,063	10,759,244
<u>143,788,551</u>	<u>139,884,685</u>	<u>202,236,200</u>	<u>227,460,833</u>	<u>202,236,200</u>
<u>3,146,508,290</u>	<u>2,786,051,106</u>	<u>3,029,452,127</u>	<u>3,448,954,452</u>	<u>3,029,452,127</u>
<u>28,842,477</u>	<u>32,663,985</u>	<u>32,663,985</u>	<u>28,842,477</u>	<u>32,663,985</u>
4.31	4.19	6.06	6.81	6.06



**R. Renganathan**  
Deputy Chairman



**R. S. W. Sumanayake**  
Director/General Manager

**CONSOLIDATED CASH FLOW STATEMENT**

For the Six Months Ended 30th June	GROUP	
	2004 Rs.	2003 Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	227,152,890	213,710,176
Interest Payments	(56,489,753)	(160,022,733)
Fees and Commission Receipts	16,318,273	19,044,666
Receipts from Other Operating Activities	41,158,154	87,837,660
Cash Payments to Employees and Suppliers	(53,729,765)	(90,541,702)
Payments on Other Operating Activities	(27,573,649)	
<b>Net Cash Inflow Before Changes in Operating Assets</b>	<b>146,836,150</b>	<b>70,028,067</b>
Funds Advanced to Customers	(448,856,081)	(155,664,586)
Other Assets	59,576,393	(36,517,220)
<b>Cash Generated from Operations</b>	<b>(242,443,538)</b>	<b>(122,153,739)</b>
Tax Paid	(511,026)	(116,012)
<b>Net Cash Used in Operating Activities</b>	<b>(242,954,564)</b>	<b>(122,269,751)</b>
<b>Cash Flows from Investing Activities</b>		
Dividend Received	34,567	661,379
Investment in Associate Company	(1,200,000)	-
Investment in Subsidiary Companies	-	13,600,000
Net Cash Proceeds from/(Invested in) Dealing Securities	(300,753,653)	127,515,617
Net Cash Proceeds from/(Invested in) Non-Dealing Securities	16,180,093	(133,482,324)
Purchase of Property, Plant & Equipment	(17,512,231)	(3,774,191)
Proceeds from Disposal of Property, Plant & Equipment	3,968,901	786,074
<b>Net Cash Used in Investing Activities</b>	<b>(299,282,323)</b>	<b>(21,893,445)</b>
<b>Cash Flows from Financing Activities</b>		
Increase/(Decrease) in Debentures	163,047,514	108,202,802
Increase/(Decrease) in Other Liabilities	92,837,109	96,093,855
Increase/(Decrease) in Other Borrowings	138,393,071	3,068,295
<b>Net Cash from Financing Activities</b>	<b>394,277,694</b>	<b>207,364,953</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(147,959,193)</b>	<b>63,201,759</b>
Cash and Cash Equivalents at the Beginning of the Period	70,644,613	157,464,829
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>(77,314,580)</b>	<b>220,666,588</b>
<b>Reconciliation of Cash and Cash Equivalents</b>		
Cash and Short Term Funds	(121,954,580)	16,961,237
Government Securities Purchased Under Resale Agreement	44,640,000	203,705,351
	<b>(77,314,580)</b>	<b>220,666,588</b>

STATEMENT OF CHANGES IN EQUITY

**For the 3 Months Ended 30th June 2004**

<u>BANK</u>	<u>Share Capital Rs.</u>	<u>Share Premium Rs.</u>	<u>Retained Earnings Rs.</u>	<u>Total Rs.</u>
Balance as at 1st April 2003	333,773,400	13,243,644	(216,552,462)	130,464,582
Net Profit for the period	-	-	2,491,013	2,491,013
Balance as at 30th June 2003	<u>333,773,400</u>	<u>13,243,644</u>	<u>(214,061,449)</u>	<u>132,955,595</u>
Balance as at 1st April 2004	333,773,400	13,243,644	(205,362,184)	141,654,860
Net Profit for the period	-	-	2,133,691	2,133,691
Balance as at 30th June 2004	<u>333,773,400</u>	<u>13,243,644</u>	<u>(203,228,493)</u>	<u>143,788,551</u>

**For the 3 Months Ended 30th June 2004**

<u>GROUP</u>	<u>Share Capital Rs.</u>	<u>Share Premium Rs.</u>	<u>Retained Earnings Rs.</u>	<u>Total Rs.</u>
Balance as at 1st April 2003	333,773,400	13,243,644	(198,917,244)	148,099,800
Net Profit for the period	-	-	10,946,901	10,946,901
Balance as at 30th June 2003	<u>333,773,400</u>	<u>13,243,644</u>	<u>(187,970,343)</u>	<u>159,046,701</u>
Balance as at 1st April 2004	333,773,400	13,243,644	(145,143,629)	201,873,415
Net Profit for the period	-	-	13,826,355	13,826,355
Balance as at 30th June 2004	<u>333,773,400</u>	<u>13,243,644</u>	<u>(131,317,274)</u>	<u>215,699,770</u>

EXPLANATORY NOTES

1 The above figures are provisional and subject to audit.

2 **General**

There are no changes to the accounting policies and methods of computation since the publication of the annual accounts for the year 2003.

3 **Market Price of Shares**

	<b>For the Quarter Ended 30th June 2004</b>	<b>For the Quarter Ended 30th June 2003</b>
Market Value of Share Closing (Rs)	8.50	6.25
Highest Price per Share for the Period (Rs)	9.00	6.75
Lowest Price per Share for the Period (Rs)	6.00	5.00

4 **Others**

There are no other material events that have taken place subsequent to the date of interim accounts, which require disclosure. The interim financial statements are in compliance with Sri Lanka Accounting Standard 35 - Interim Financial Reporting.

**SEGMENT REPORTING AS AT 30TH JUNE 2004**

GROUP	Banking		Leasing		Treasury		Property		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
3 Months Ended 30th June	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Revenue</b>										
Interest Income	6,440,729	-	105,627,948	96,984,243	5,152,583	11,976,135	11,593,311	6,692,230	128,814,571	115,652,608
Other Income	1,901,835	-	10,332,396	45,197,529	3,960,976	17,192,455	13,091,908	9,186,854	29,287,115	71,576,838
Income from External Customers	<b>8,342,564</b>	-	<b>115,960,344</b>	<b>142,181,772</b>	<b>9,113,559</b>	<b>29,168,590</b>	<b>24,685,219</b>	<b>15,879,084</b>	<b>158,101,687</b>	<b>187,229,446</b>
<b>Total Revenue</b>	8,342,564	-	115,960,344	142,181,772	9,113,559	29,168,590	24,685,219	15,879,084	158,101,687	187,229,446
<b>Less: Expenses</b>										
Depreciation	1,306,614	-	1,815,513	2,217,150	142,685	454,848	386,480	247,615	2,475,291	2,919,613
Interest Expenses	4,513,895	-	74,027,876	73,434,081	3,611,116	9,068,035	8,125,011	5,067,192	90,277,898	87,569,307
Other Operating Expenses	2,583,465	-	35,909,757	64,747,365	2,822,221	13,282,922	7,644,339	7,231,088	48,959,782	85,261,375
Inter Segment Expenses	7,227,974	-	111,753,146	140,398,596	6,576,022	22,805,805	16,155,830	12,545,894	141,712,971	175,750,294
<b>Segment Result</b>	<b>1,114,590</b>	-	<b>4,207,199</b>	<b>1,783,176</b>	<b>2,537,537</b>	<b>6,562,786</b>	<b>8,529,389</b>	<b>3,333,190</b>	<b>16,388,716</b>	<b>11,479,151</b>
Associate Company's Loss Before Taxation									796,769	-
Profit on Ordinary Activities Before Taxation									15,591,947	11,479,151
Taxation									764,590	116,012
<b>Profit on Ordinary Activities After Taxation</b>									<b>14,827,357</b>	<b>11,363,139</b>
Minority Interest									1,001,002	416,238
<b>Profit for the Period</b>									<b>13,826,355</b>	<b>10,946,901</b>
<b>As at 30th June</b>										
<b>Assets</b>										
Segment Assets	13,151,818	-	2,718,081,799	3,197,455,238	504,530,084	576,278,130	12,277,563	13,023,051	3,248,041,264	3,786,756,419
Investment in Associates	403,231	-	-	-	-	-	-	-	403,231	-
Unallocated Corporate Assets	4,480,214	-	169,905,558	162,890,769	7,178,911	19,391,758	18,945,274	11,635,055	200,509,957	193,917,582
<b>Consolidated Total Assets</b>	<b>18,035,263</b>	-	<b>2,887,987,357</b>	<b>3,360,346,007</b>	<b>511,708,995</b>	<b>595,669,888</b>	<b>31,222,837</b>	<b>24,658,106</b>	<b>3,448,954,452</b>	<b>3,980,674,001</b>
<b>Liabilities</b>										
Segment Liabilities	47,170,049	-	148,734,800	495,176,875	2,724,655,247	3,012,318,212	16,584,634	34,168,825	2,937,144,731	3,541,663,911
Unallocated Corporate Liabilities	-	-	246,454,726	226,687,700	10,413,294	27,992,615	27,480,868	15,642,193	284,348,888	270,322,508
<b>Consolidated Total Liabilities</b>	<b>47,170,049</b>	-	<b>395,189,526</b>	<b>721,864,575</b>	<b>2,735,068,541</b>	<b>3,040,310,827</b>	<b>44,065,502</b>	<b>49,811,018</b>	<b>3,221,493,619</b>	<b>3,811,986,419</b>

## ***CORPORATE INFORMATION***

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### **BOARD OF DIRECTORS**

#### **Chairman/ Managing Director**

Deshamanya Dr. J. L. B. Kotelawala  
A.M.Ex.A.(Lond), F.B.I.M., F.I.C.M., F.C.I.C.,  
M.I.C.M.(Lond), R.I.M., H.F.I.B. (Sri Lanka)

#### **Deputy Chairman**

R. Renganathan  
F.C.A.

#### **Directors**

(Mrs) S.P.C. Kotelawala

#### **General Manager**

R.S.W. Senanayake  
A.C.M.A.

#### **Deputy General Manager**

S.M. De Soysa  
B.Sc. (U.S.A.), M.I.M.(T-Bird,U.S.A.)

A. D. Jegasothy  
Attorney-at-Law & Notary Public,  
F.I.C.M., F.C.I.C., M.I.C.M.(Lond)

(Mrs) R.L. Nanayakkara  
B.A.(Hons), Hon.F.I.B. (Sri Lanka),  
Hon.F.I.M. (Sri Lanka)  
(Resigned with effect from 16th August 2004)

Deshamanya Dr.P.R. Anthonis  
D.Sc., F.R.C.S. (Eng), F.I.C.S., F.S.C.S.

J.E.R. Perera  
President's Counsel

### **Registered Office**

No. 69, Janadhipathi Mawatha, Colombo 01

### **Secretaries**

International Consultancy & Corporate Services (Pvt) Ltd.  
Level 7, East Wing, "Ceylinco House",  
No. 69, Janadhipathi Mawatha, Colombo 01

### **Auditors**

M/s. KPMG Ford, Rhodes, Thornton & Co.  
Chartered Accountants, Colombo

### **Lawyers**

M/s. De Livera Associates  
Attorneys-at-Law,  
Solicitors & Notaries Public, Colombo

Ms.M. Sabaratnam  
Attorney-at-Law & Notary Public,  
Ceylinco Consultancy & Allied Services (Pvt) Ltd., Colombo.

### **Bankers**

Seylan Bank Ltd.  
Bank of Ceylon  
Sampath Bank Ltd.  
People's Bank

### **Subsidiary Companies**

SMB Money Brokers (Pvt) Ltd.  
SMB Real Estate Ltd.  
Seylan Merchant Leasing Ltd.

### **Associate Company**

OpenArc Global Solutions(Pvt) Ltd.

## ***BRANCHES***

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#### **Ambalangoda Branch**

24/2, Galle Road,  
Ambalangoda.  
Tel: 091-5458221

#### **Kandy Branch**

25, Hill Street,  
Kandy.  
Tel: 081-2202813

#### **Matugama Branch**

33, Neboda Road,  
Matugama.  
Tel: 034-2249274

#### **Panadura Branch**

293 A, Galle Road,  
Panadura.  
Tel: 038-5597258

#### **Mahiyanganaya Branch**

24, Kandy Road,  
Mahiyanganaya.  
Tel: 055-2258108

#### **Gampaha Branch**

111, Baudhdhaloka Mawatha,  
Gampaha.  
Tel: 033-2231404

#### **Kurunegala Branch**

30, Weeratunga Building,  
Baudhdhaloka Mawatha, Kurunegala.  
Tel: 037-2224291/2

#### **Negombo Branch**

2nd Floor, Ceylinco Building,  
115, Green Road, Negombo.  
Tel: 031-2236453

#### **Ratnapura Branch**

144, Bandaranayake Mawatha,  
Ratnapura.  
Tel: 045-2232486

#### **City Branch**

Landmark Building,  
385, Galle Road, Colombo 03.  
Tel: 2573363

#### **Matara Branch**

49, Anagarika Dharmapala Mawatha,  
Matara.  
Tel: 041-2227810/1

#### **Galle Branch**

12, 1st Cross Street,  
Talbert Town, Galle.  
Tel: 091-2245740

#### **Nugegoda Branch**

132/2/1, High Level Road,  
Nugegoda.  
Tel: 5558551/2

#### **Mt.Lavinia Branch**

331, Galle Road,  
Mt. Lavinia.  
Tel: 5554210/1

#### **Metropolitan Branch**

Landmark Building,  
385, Galle Road, Colombo 03.  
Tel: 4714724

#### **Malabe Branch & Vehicle Sales Centre**

505, Walivita Road,  
Malabe.  
Tel: 2413415

SEYLAN MERCHANT BANK LIMITED