

Sampath's Group profit surpassed Rs.2.0 Bn mark for the 1st Half 2011, recording 56% growth.

Performance Highlights - Group

	30th June 2011	30th June 2010	Variance
Pre-Tax Profit – Rs. Mn.	2,977	1,885	57.9%
Post-Tax Profit - Rs. Mn.	2,131	1,366	56.0%
Net Interest Margin (NIM)%	4.19	5.29	(1.10)
Return on Assets (ROA) (after tax)%	2.09	1.67	0.42
Return on Equity (ROE) (after tax)%	24.21	21.11	3.10
Earnings Per Share (EPS) Rs.	13.53	8.60	4.93
Cost/Net Income Ratio%	59.01	52.99	6.02
NPL Ratio (net of Int. in Suspense)%	3.23	6.91	(3.68)
Provision Cover (specific provisions)%	78.80	65.13	13.67
Open Credit Exposure%	5.80	17.03	(11.23)
Total Capital Adequacy Ratio%	12.33	14.21	(1.88)
Statutory Liquid Assets Ratio (Bank)%	23.74	36.33	(12.59)
Share Price - Rs.	240.10	359.25	(119.15)

	As at 30th June 2011	As at 31st December 2010	Growth
Total Deposits - Rs. Mn.	173,838	150,375	15.6%
Total Advances - Rs. Mn.	155,092	129,321	19.9%
Total Assets - Rs. Mn.	223,100	187,886	18.7%
Number of Branches	199	180	10.6%

Sampath Bank Group which comprises of Sampath Bank and four subsidiary companies, continued its growth momentum in the 1st half of 2011, by posting impressive results in all key areas over the last year same period.

Pre-Tax Profit of Rs. 2,977 Mn of the Group for the I H 2011 was a growth of Rs. 1,092 Mn or 57.9 %, over the previous year's pre-tax profit of Rs. 1,885 Mn, with Sampath Bank contributing bulk (94.24%) of the profit, as the main entity of the Group. The post - tax profit of the Group for the IH 2011 which amounted to Rs. 2,131 Mn, recorded a growth of Rs. 765 Mn or 56%, over the post-tax profit of Rs. 1,366 Mn for the same period last year. Marked improvements in the performance of all four subsidiary companies during the period under review facilitated recording this higher profit growth rate at the group level in 2011.

Profit of the Bank.

The Bank's **pre-tax profit** of Rs. 2,805 Mn in the IH 2011, reflected an increase of Rs. 1,033 Mn or 58.3% over the pre-tax profit of Rs.1,772 Mn for the IH 2010. The **post –tax profit** of the Bank recorded a growth of 52.7 % over the same period of last year, rising from Rs. 1,302 Mn in 2010 to Rs.1, 988 Mn in 2011.

Challenges.

The above profit growth was achieved despite many challenges posed by market forces and the expansion drive undertaken by Bank.

The **mark to market losses** in the IH 2011, arising from the market price fluctuations on the equity and Treasury Bill investments held by the Bank in the trading portfolio amounted to Rs. 146.3Mn, as against a **net gain** of Rs. 195.7 Mn from this source, in the corresponding period last year.

In addition, the **revaluation losses** arising from the appreciating LKR against the US Dollar amounted to Rs. 93.6Mn, as against a loss of Rs. 43.5Mn last year. The LKR appreciated against the US Dollar by Rs. 4.10 over the period, from Rs 113.60 as at 30.06.2010 to Rs 109.50 as at 30.06.2011.

Though the Bank realized **capital gains** of Rs. 411.2 Mn by selling part of the scrip dividend shares received in the IH 2011, this was a shortfall of Rs. 259.3 Mn compared to the capital gain of Rs. 670.5 Mn realized in the I H 2010 and this was partially due to the fall in the market value of shares on the Dhaka Stock Exchange.

The **Net Interest Margin (NIM), which** dropped from 5.27% in the IH 2010 to 4.11% in the IH 2011, eroded a substantial amount of Net Interest Income (NII). This resulted in a NII drop of Rs. 73.34 Mn, despite the rapid growth recorded in the fund based operations of the Bank, as reflected by the growth rates of 24.4% and 46.5% achieved respectively in deposits and advances during the one year period ended 30.06.2011. The drop in NIM in turn was mainly due to the return on interest earning assets falling at a faster rate than the drop in cost of funds on deposits, as a result of changes that took place in the interest rate structure of the market. However, the Bank is in the process of taking effective strategies to improve the Net Interest Margins in future.

The expansion drive of the Bank, which entailed opening of 71 branches during the last two years and recruitment of over 752 staff to manage this expansion drive, coupled with the cost of annual wage increases given effect, caused an increase in the **Bank's operating expenses** which amounted to Rs. 702.08 Mn or 23.1%. As a result, the **Cost /Net Income Ratio** of the

Bank too rose to 59.86% for IH 2011 from 53.47% in the I H 2010, which however is expected to undergo a natural drop, with these new branches raising business volumes in future.

Contributory factors for the Bank's improved results.

Despite the above challenges, the Bank was able to show a strong bottom line growth, due to the positive contributions from many other factors.

Commission & Fee based Income.

Aided by the increased economic activity in the market, the Bank achieved a rapid growth in its lending activities, amounting to 46.5% during the one year of period ended 30.06.2011 and 19.6% in the IH 2011. Though the declining lending rates eroded part of the interest revenue on this credit growth, it paved the way for generating a higher fee-based and commission income from sources directly linked to lending activities. Consequently, the fee-based and commission income of the Bank recorded an impressive growth of Rs. 409.26 Mn or 44.2% in the IH 2011, over the same period in 2010.

Lower charge on loan loss Provisions.

As a result of the Bank's improved credit quality as reflected by the low NPL Ratio of 3.19% on 30th June 2011 and the high Provision Cover of 88.9% achieved by the end of previous year, the requirement on specific provisioning was naturally low in the IH 2011. Consequently, the charge on specific loan loss provisions amounted to Rs. 208.70 Mn. in 2011, (even with an additional provision of Rs.100.0 Mn included therein), as against Rs. 1,385.96Mn made in the IH 2010, which too was inclusive of an additional provision of Rs. 1,135 Mn. These additional specific loan loss provisions were made in line with the Bank's policy of making such provisions against identified NPLs, ignoring the collateral held, aimed at improving the Provision Cover of the Bank.

Based on the higher credit growth during the period, the Bank had to provide Rs.125.14 Mn, as Regulatory General Provisions on performing loans in the I H 2011. However, the effect was off-set by a reversal of General Provisions amounting to Rs 179.05 Mn, resulting from the applicable rate being reduced from 0.9% to 0.7% in the I H of 2011. Hence, it was a **net reversal** of Rs. 53.9 Mn, as against the charge of Rs. 44.36Mn against the General Provisions in the IH 2010.

High recoveries.

On the other hand the Bank was extremely successful in making recoveries against the NPLs. Consequently, it was possible to reverse the previous loan loss provisions made to the tune of Rs. 794.7Mn in 2011, as against Rs. 801.5 Mn reversed in 2010, which figure however was boosted by two major recoveries of Rs. 331.9 Mn & Rs. 271.0Mn made in 2010.

Provision Reversal.

The impairment provision of Rs 275.9 Mn, made in the previous year on account of the investment in the ordinary shares of Union Bank Colombo as instructed by CBSL, was reversed & taken to the profits of IH 2011, since the Union Bank shares are now listed on the Colombo Stock Exchange and traded at a premium above the cost.

Tax Savings.

In addition, the reduced tax rates on Financial VAT (reduced from 20.0% to 12.0%) and Corporate Tax (reduced from 35.0% to 28.0%), too helped to improve the post tax profits of the Bank in 2011. However, the benefit arising from the lower **corporate tax rate** on the profit growth, was offset to some extent by the lower **effective tax rate** of 26.6% achieved in the IH 2010 (as against 29.1% in the IH 2011), resulting from the substantially high tax free income realized in 2010.

Financial Ratios.

The improved profits paved the way for most of the key financial ratios of the Bank to record significant improvements over the previous year.

Prudent lending practices which included the centralized credit model, effective post-sanctioning monitoring and intensified recovery efforts against the existing NPLs, resulted in reducing the Bank's NPLs both in absolute and percentage terms. The NPL volumes net of IIS which stood at Rs 7,089.23 Mn as at 30.06.2010 were reduced to Rs 4,890.55 Mn by Rs. 2,198.68 Mn or 31.01%. Similarly the NPL Ratio of the Bank was reduced substantially to 3.19% as at 30.06.2011, from 6.80% reported one year ago. In addition, the Bank's Net NPL / Equity Ratio (Open Credit Exposure Ratio) too was reduced to 6.15% as at 30.06.2011 from 17.55% as at 30.06.2010. Furthermore, almost all profit-based Ratios of the Bank such as ROA, ROE and EPS recorded significant improvements, as detailed in the chart above.

Sampath also remained as one of the well capitalized banks, with the Tier I Capital Adequacy Ratio at 10.30% and the Total Capital Adequacy Ratio at 12.04% as at 30.06.2011, despite the higher credit growth of 46.5% recorded during the one year period ended 30.06.2011.

Business growth

Total deposit and the total asset bases of the Bank grew by 24.4% and 28.9% respectively during the one year period ended 30.06.2011. The growth rates in the two areas during the 1st half of 2011 which amounted to 15.6% and 18.5% respectively too were impressive, going by the industry's current growth rates. In addition, the growth in customer advances has been phenomenal, with the advances volumes recording a significant growth of 46.5 % during the one year period ended 30.06.2011 and 19.6% in the 1 H of 2011.

Value creation for the stakeholders.

Taking in to account of the bank's better performance in the year 2010, Bank paid a final dividend of Rs. 6.60 per share, in the form of scrip dividends in addition to the interim scrip dividend of Rs. 3.00 per share already paid. Even after the two share-splits, which increased the number of shares by 120% in 2010, Sampath share is currently traded at around Rs 240.10 p.s. and this price is well above the re-stated net assets value of Rs 107.81 per share, after the share-splits.

Moving forward

Currently, Sampath Bank operates with a network of 188 Branches and 237 Automated Teller Machines. The opening of 40 new bank branches covering all part of the country during the year 2010 was a record in the banking history of Sri Lanka and this year up to now 17 new bank branches have been added, of which 10 branches were opened on one day. Plans are underway to continue with the accelerated branch expansion program in the 2 H 2011 as well.

Accolades

In the year 2010 Sampath Bank has received many awards, namely Bank of the Year – 2010 for the second consecutive year by the "The Banker Magazine " -London which is considered as the most prestigious award in the international banking industry, three prestigious awards at the National Business Excellence Awards 2010, conducted by the National Chamber of Commerce, First Runner Up Award 2010 by the South Asian Federation of Accountants (SAFA) for best presented accounts, Effie Advertising Awards 2010 (which has been granted considering the both effectiveness and the creativity of advertising campaign), e-Swabhimani Award 2010, in the category of e-Business and Commerce and National Best Quality Software Awards (NBQSA)

At the last year rating assessments, considering the healthy asset quality, better compliance, transparency, capital adequacy, internal control systems and processes of the Bank, RAM Ratings Lanka has assigned AA (**stable**) rating for Sampath Bank, in their initial rating assessment. In the same year, the overall credit rating of the Bank's has been improved from "AA-"lka (**stable**) to "AA-"lka (**positive**) by Fitch Rating Lanka.