

SALUTARY PERFORMANCE



Q: How would you assess your performance in 2007?

A: Merchant Bank of Sri Lanka (MBSL) is the country's pioneering merchant bank, having commenced operations 25 years ago. We recorded unprecedented growth in 2006 and it was important for us to consolidate this commanding position in 2007 as well. MBSL recorded a profit after tax of Rs. 238 million, which is a 13.8 per cent increase compared to last year's Rs. 209 million. Profit before tax was Rs. 273 million, a growth of 1.5 per cent over the 2006 figure of Rs. 269 million. Our profitability increase this year was largely due to the steady growth in business volumes and efficient management of lending, coupled with circumspect recovery practices.

Total income increased by 24 per cent to reach Rs. 873 million, an increase of Rs. 704 million in comparison with 2006. Interest income continued to be the dominant contributor, reflecting over 88 per cent of MBSL's total income. We also saw EPS for the year increase 13.8 per cent, to Rs. 2.65. Although market interest rates continued to spiral upwards, affecting the bottom line of the leasing industry, leasing continues to be our flagship product, yielding the largest income for MBSL – an impressive 84 per cent of the total revenue for the year.

Q: What factors in 2007 impeded the growth of the market in relation to your sector and how have you addressed these?

A: The merchant-banking business has become fiercely competitive, as commercial banks have also joined the fray. Unlike regular merchant banks, commercial banks have an inherent advantage – they already have an existing customer base, which can be tapped into directly. Further, the incentives offered can

generate more business. Despite having to deal with this competition head on as well as possessing limited advertising budgets and a small branch network, we are proud that MBSL has performed beyond expectations.

Q: What are the bank's future plans?

A: At MBSL, the current year appears much more challenging – nevertheless, our forecasts for 2008 are charged with expectation. We forecast a turnover of at least Rs. 1.7 billion and a net profit of Rs. 350 million. We aim to obtain the status of a Licensed Specialised Bank, to expand investment-banking activities.

Our operational purview will also expand to include corporate-finance activities – transcending some of our corporate clients and into the public domain, with a value of Rs. 3.5 billion – during the second and third quarters of the year. Our branch network will also experience further penetration, enabling us to maximise our service standards at grass-roots level and impart a service that adds value overall.

Q: How would you assess the macroeconomic climate that prevailed in 2007?

A: While Sri Lanka enjoyed 6.9 per cent GDP growth in 2007, more significant was the focus on monetary policy being designed to contain expansion without interrupting the growth momentum of the economy. As a result of this tight monetary-policy regime, the financial sector expanded significantly and remained resilient, strengthening the capacity to support economic activity.

Financial-sector institutions sustained strong performances throughout 2007. There were also several policy initiatives introduced to enhance access to finance, mainly in the agricultural and SME sectors. Financial

While acknowledging all stakeholders, **Merchant Bank of Sri Lanka** affirms that its team remains at the core of its ongoing success.



infrastructure was also strengthened and improved with the introduction of several legal enactments, broadening prudential regulations to augment supervisory capabilities. There was also the introduction of state-of-the-art technology to mitigate systemic risks.

The activity of financial institutions expanded further, with combined total assets increasing by 18 per cent to reach Rs. 3.7 billion – a notable 1.3 times GDP. Licensed commercial banks and licensed specialised banks, which accounted for 57.4 per cent of total assets in the financial system, continued to occupy a dominant position in the financial sector. Licensed commercial banks contributed 58.6 per cent of asset growth within the financial system. At the same time, licensed specialised banks improved their performance despite negative growth in profits.

Q: How can SOEs avail themselves of the opportunities now available on the way forward?

A: The paths are diverse and the opportunities infinite! It is how individual SOEs take up the challenge that matters. MBSL has undoubtedly demonstrated that it can possess the overall outlook of an SOE but function productively, efficiently and in a manner which enhances customer and employee satisfaction – as can be seen in our profitability, the National Productivity accolade and the above-market results in the Employee Satisfaction Survey.

Most SOEs now have to compete with the private sector – which, from a competitive point of view, is healthy. However, SOEs must not rely on the state for help... but rather, utilise the opportunities that arise to ensure they remain ahead of the competition. For example, MBSL has turned in good results, but that doesn't mean we remain complacent. We have to embark on a continually improving curve, infuse fresh think-

ing, explore new avenues, and exploit every possible advantage that the market and technology offer. We have to set further goals and targets for ourselves, using our imagination and creativity, and ensure that our customer expectations are met – and exceeded.

Q: What achievements or accomplishments can be attributed to MBSL in 2007?

A: While we are very much aware of our responsibility towards all stakeholder groups, we also acknowledge that our team remains core to our success. Another accomplishment we are very proud of is the high levels of satisfaction that are reflected in our annual Employee Satisfaction Survey. Our employees polled 75 per cent in 'Sense Of Belonging', 75 per cent in 'Pride In Working For MBSL' and a high 83 per cent in 'Self-importance'.

We have created a culture that incentivises the growth of the individual and the organisation through professional development as well as by virtue of a learning culture. We have introduced performance-driven initiatives, with rewards and recognition aligned to performance. Being an SOE, to have polled so highly in the Employee Satisfaction Survey is, indeed, commendable.

Q: How has MBSL been of service to the nation and what CSR projects do you engage in, on a sustainable basis?

A: Our CSR policy has been to inculcate the promotion of 5S practices among schools as well as public and private-sector institutions. Our most significant achievement in 2007 was being accorded second place in the Service Sector at the 'National Productivity Awards 2006', which is ample proof of the levels of professionalism in the company.

Janaka Ratnayake

Chairman – Merchant Bank of Sri Lanka



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CEO – Merchant Bank of Sri Lanka

