

Chief Executive's Review



That DFCC Bank has existed in the Sri Lankan banking sphere for over 60 years is something borne out of design. With a rich heritage as the pioneer development bank in the country active in commercial banking for over 15 years, DFCC has developed a competitive edge over its peers by being attuned to the needs and wants of the various stakeholders it has engaged with. For over six decades, we have continued to evolve, expand and keep pace with the ever-changing needs of our customers and the Nation, earning a reputation as one of the fastest growing and most admired financial institutions in the country. Embracing the latest technology and wielding the expertise of our multi disciplinary staff, we engage with clients of any size and ventures of any scale.

Our customers expect their Bank to be tuned in to their aspirations. Today's customer expects to be armed with useful facilities and the latest technology right in their pockets. With this in mind, we relaunched our credit cards in March 2018 loaded with technology like Visa payWave contactless technology and introduced a first for Sri Lanka – the 1% cashback on every swipe. Also, our customers, current and potential, want to be closer to us; we therefore continued to expand the branch network in key cities and towns around the country. We converted 10 extension offices into fully-fledged branches and our products and services can now be accessed through over 3,800 ATMs across the island.

For our business customers, the launch of the cutting-edge DFCC iConnect online banking platform brought powerful features such as real-time monitoring of account balances and transactions, and the ability to integrate into a customer's Enterprise Resource Planning (ERP) system. These are the features that enable DFCC to distinguish itself as the preferred banking partner for businesses.

Our shareholders expect their Bank to be in tune with their requirements in terms of preserving the value of their investment. While the reported profit for 2018 reflects a decline, an equitable comparison eliminating the losses and gains on the Bank's shareholding in Commercial Bank of Ceylon and the newly introduced debt repayment levy, reveals a growth of 10% in profit after tax over 2017. At the same time, DFCC recorded a 17% year-on-year growth in the net portfolio and posted a 9% increase in net interest income. This is pursuant to a judicious growth strategy combined with prudence in managing asset and liability pricing. It must be emphasised that our strategy of prudence has been acknowledged by Fitch Ratings, who affirmed the National Long-Term Rating at "AA-(lka)" with a stable outlook. Accordingly, the foundation is in place for sustainable progress at DFCC. Our prudence is also

reflected in the management of the lending portfolio. Despite having a few non-performing loans (NPL) in different sectors, which reflected an industry-wide trend consequent to the challenging business environment that prevailed during 2018, the Bank's NPL ratio is better than the industry average. Moreover, our portfolio is not skewed towards any particular sector.

Our drive for sustainable progress isn't limited to shareholder value. DFCC Bank is in tune with its responsibility to the environment, taking the lead in environmental initiatives and continuing to embrace sustainable practices. We play an active role in the Sustainable Banking Initiative (SBI) and employ the Social and Environmental Management System (SEMS) for project financing, ensuring that the projects we support are aligned with environmental and social regulations and standards. We are rapidly migrating to paperless workflows and the reduction of reliance on fossil fuels, and continue to raise awareness through e-waste and plastic recycling campaigns. We also educate our employees on the importance of being environmentally responsible by engaging them through a long-running tree planting campaign.

DFCC Bank is tuned in to its obligation to the Nation, recognising that the well-being of the communities it is a part of, are vital to the well-being of the country. Supporting such communities has always been a core value of the Bank and is a key factor in our drive for sustainable progress. For example, DFCC continues to support the Micro, Small, and Medium Enterprises (MSME) sector, where the majority of the businesses are female-led and conducted in a domestic setting. Lending aside, our "Samata English" project was well received in 2017 and this programme was expanded for a second edition in 2018. Together with Gateway Language Centre, 96 students, a majority of whom were from rural areas, completed a three-month course and examination. The top six achievers were offered the opportunity to join our Bank as interns so that they could apply and develop their new skills.

The year 2019 will see us continue with the strategies that we formulated and deployed during 2018. We will be focused on growing Current Accounts and Savings Accounts to contain funding costs. We will

drive Corporate and Business Banking, Fee-based activities and non-core businesses to increase avenues of income. We will continue to enhance processes to boost productivity and thereby profitability, while delivering better experiences to customers. As we keep in sight our goal of growing our customer base to five million by 2025, we will proactively monitor and evaluate the outcomes of our strategies on a continuous basis.

We realise that 2019 will be challenging. Taxation has risen with its impact on retained earnings. However, the Bank is amply capital adequate. Our Tier 1 capital adequacy ratio stood at 10.77% while the total capital adequacy ratio was 16.07% against the 7.88 and 11.88% regulatory benchmarks respectively. But to ensure the continued growth of the Bank, we require capital. We therefore invite our Shareholders to participate in a Rights Issue, which is subject to approval at a forthcoming Extraordinary General Meeting. This Issue while strengthening the Bank will deliver increased value to our shareholders.

In conclusion, I express my sincere thanks to our customers for their continued loyalty and patronage; to Chairman Mr Royle Jansz and the Board for their guidance and encouragement, and my colleagues for their tireless effort towards achieving the Bank's goals. My thanks also go out to the officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government institutions for their cooperation and support. I am especially thankful to our shareholders, business partners, the international financial institutions we work with, our bondholders and debenture holders, and depositors for choosing DFCC Bank and placing their unwavering trust in us as we march onwards into 2019.



L H A L Silva

Chief Executive Officer/Director

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