Message from the Chairman

Dear Shareholders,

DFCC Bank has done reasonably well in 2018. During a year in which the country had to contend with drought, floods, and political upheaval, the Board considered it prudent to be somewhat conservative in our outlook and lend judiciously rather than grow aggressively. This judgement has proved to be correct – our NPL ratio is below industry average, our AA- rating has been maintained and our capital ratios are still well above regulatory requirements. We are now well positioned for takeoff in 2019, should conditions improve, and after shareholders help buttress the Bank's foundation (Tier 1 capital) by subscribing to the Rights Issue.

The drop in PAT from 2017 of 37% is inclusive of a fair value provision (net of tax) of LKR 871 Mn and debt repayment levy of LKR 213 Mn in 2018, while PAT in 2017 included an exceptional gain (net of tax) of LKR 917 Mn from a sale of shares. When these factors are taken into account, the current year PAT shows an increase of 10% over last year. (This is explained in more detail in the section on Financial Capital on page 32 Table 1.)

Net interest income has shown growth, fee and commission income has improved and expenses kept to a minimum despite the addition of many new branches with the resultant increase in staff and other expenditure such expansion requires.

In a year during which Basel III and SLFRS 9 was implemented, resulting in additional capital requirements and provisioning, these are no mean achievements.

Current Accounts and Savings Accounts (CASA) has shown little improvement from last year due to difficult market conditions where time deposit rates remain high. The Bank will enhance efforts to grow its CASA in 2019.

During the year, DFCC Bank was privileged to have been selected as one of the country's top 10 most admired companies. This recognition defines how the Bank is perceived among the general population and is a testament to the care and service afforded by our people to our customers and all who come into contact with the Bank.

In line with the opportunity afforded by the SLFRS 9 Accounting Standard to review the objectives of the business model in managing the investment portfolio, a decision was taken to retain a portion of the Commercial Bank of Ceylon (CBC) PLC investment as "fair value through profit and loss". This decision was critical in view of the fact that in terms of this accounting standard, it had to be taken by 1 January 2018, as no further changes to the classification was possible thereafter. As a result of this decision, the Tier 1 capital of the Bank improved by approximately LKR 4.5 Bn, even though, due to the current depressed stock market, the Bank has recognised a provision for fall in value of LKR 1 Bn in the Income Statement for 2018.

As I said last year, the fundamentals are in place and growth will follow. The rating agencies have retained our rating of AA- despite the Bank having to face headwinds brought about by the implementation of Basel III, adoption of SLFRS 9 and many new requirements of the Central Bank.

Corporate governance has been well established and good governance is now permeating through the Organisation with the Board setting the example. Succession planning has been strengthened, talent identified, and recognised. Dedication, commitment and integrity is rewarded, and team building has been made a priority.

The Directors have approved a first and final dividend of LKR 3.50 per share, which is a payout of 35% of distributable profits. Shareholders will appreciate the need to build up capital while ensuring shareholders get a fair return.

The Board has decided to request shareholders to participate in a 2:5 Rights Issue at LKR 72.00 per share, subject to approval by the Colombo Stock Exchange and the shareholders at an Extraordinary General Meeting. The main objective of this Issue is to augment our Tier 1 Capital. Unlike most of our peers, we are making this call after a period of 12 years, within which period a 1:1 Bonus Issue was made in 2010, the Bank amalgamated with DFCC Vardhana Bank and transformed from a specialised bank into a dynamic, modern, commercial bank, while retaining its pioneering development banking focus. In order to take your Bank to the next level and to be able to continue with our dividend policy, the Board recommends that shareholders subscribe to this Rights Issue. The net asset value per share of your Bank as at 31 December 2018 was LKR 165.40 and shareholders will appreciate that there is real value in subscribing to the Rights Issue at this time, although they may not be able to unlock this value until the share market recovers from its current doldrums.

I must thank the CEO, Mr Lakshman Silva for his untiring efforts to ensure the Bank performed creditably during a challenging year, the DCEO, Mr Thimal Perera, the COO, Mr Achintha Hewanayake and the Management team and staff at all levels who upheld the highest standards of professionalism and service.

DFCC Bank has an engaged, dedicated and committed Board, giving freely of their time and knowledge over and above participation at Board and statutory committee meetings, and I gratefully acknowledge their contributions. I am also grateful for the support of the officials of the Central Bank of Sri Lanka and the Ministry of Finance.

Our loyal customers are the reason for our success, and I am very grateful to them for their continued loyalty. DFCC Bank remains committed to providing a service that exceeds expectation.

Our shareholders are the wind beneath our wings, and we look forward to your continuing support for the Rights Issue. You have our commitment to do everything in our power to ensure that your Bank continues to grow.

C R Jansz

Chairman

18 February 2019

Scan to view the Message from the Chairman
http://dfcc2018.annualreports.lk/cm.html