CHIEF EXECUTIVE OFFICER’S REVIEW

Change is in the air. Sri Lanka's banking industry is not going to be what it used to be. The Bank too is no longer what it used to be. Today, the Bank and the Group are stronger than ever to play a crucial role in the emerging scenario. They hinge on a few critical success factors, discussed below.

A unique business model built on synergy

Commencing business as a traditional development finance institution over three decades ago, the Bank subsequently diversified and transformed itself into a successful Licensed Commercial Bank in 2005. Notwithstanding the change in legal form, it is an institution that did not abandon its roots. Rather, its development banking heritage provided the required synergy and an edge over its peers in the commercial banking space.

Our approach to 'development' – like Maslow's hierarchy of needs – begins with fulfilling a customer's basic survival and sustenance needs. That makes us offer products such as housing finance and savings solutions. Moving one step higher, we nurture micro, small and medium entrepreneurs across the country with not only financial assistance but also through a host of complementary support services. Moving up further to emerging businesses, we have assisted thousands in the middle market segment to blossom and grow. At the top end of the pyramid, we support large corporates seize the next wave of growth opportunities through a full suite of commercial, development and investment banking products and services that are delivered seamlessly through a diversified financial conglomerate – the NDB Group.

Exemplary financial results

Our best ever financial performance during the year saw many firsts for the Bank.

The Bank's profit after tax reached an unprecedented LKR 7.7 bn, a staggering 164% year on year growth, albeit inclusive of an exceptional equity gain of LKR 5.3 bn arising from a strategic divestment.

Amidst an environment of steadily declining margins, the Bank successfully defended its position and maintained its net interest margin at 3.74% for the second successive year.

The total operating income of the Bank - comprising net interest income, fee and commission income and net trading income - achieved an impressive 80% year on year growth to reach LKR 15.9 bn. However, the corresponding growth in net operating income was limited to 68% due to impairment losses totalling LKR 1.2 bn during the year. This was a result of increased stress levels within the industry for loan recoveries, and the Bank's prudent adoption of fair valuing the impaired loans based on sound judgment and objective evidence on future recoveries.

Effective cost management remained a key strategic priority throughout the year, and will continue to be so going forward. The Bank's cost to income ratio, excluding the exceptional equity gain noted earlier, increased marginally from 47% to 51%. This, however, has to be viewed in the context of the addition of nine new branches during the year and the lag effect in reaping the benefit stream.

The Bank's total assets crossed the LKR 200 bn threshold with an impressive 23% year on year growth, ahead of an industry growth rate of 17%.

In our core business, we again outperformed the industry in both advances and deposit growth. Loans and advances grew by 18% to LKR 142 bn, while customer deposits increased by 21% to reach LKR 130 bn. Such performance sends out a strong signal of our appetite to get bigger and bolder in playing an increasingly important role in supporting the economic resurgence of Sri Lanka.

Our Group companies, primarily the investment banking cluster, posted excellent results. The cluster also set the benchmark for the investment banking industry in the country by winning international awards for the second successive year.

Space to grow through a rich repository of capital

A robust capital base continues to provide the bedrock for the Bank to grow. The year saw us raise a landmark LKR 10 bn through a rated, unsecured subordinated redeemable debenture issue which is the single largest quantum of funds raised through a listed corporate debenture issuance to date in the country.

The Bank's regulatory capital reached LKR 27 bn, with capital adequacy ratios (CAR) being maintained well above the minimum regulatory requirements. Tier I CAR stood at 12.05% (against a minimum of 5%) while the combined Tier I & II CAR was 17.87% (against a minimum of 10%) by year end.

Such a large capital cushion gives us the space to realize our ambitious growth plans profitably with adequate leeway to weather any potential downside business risks.

Strategy driven performance backed by an engaged Board

We have articulated a strategic plan spanning five years. Prepared in-house, and driven by a mature and industry savvy Board, it is designed for growth and to raise performance all round.

Broadly, our strategy is well aligned with national priorities and the targeted growth sectors. Our commitment to the SME sector will remain strong as ever, while we also envisage playing a significant role at the larger end, such as project and infrastructure financing.

Going forward, we see future profitability being strongly anchored by the effective deployment of information and communications technology and cost management. Our 'seven pillars of strategy' provide all members of staff the right degree of motivation, a sense of purpose and clear direction in creating value for the Bank as well as its stakeholders.

On the subject of value creation, readers will observe that we have adopted a new approach to annual reporting. Our Annual Report 2013 is an integrated report that aims to communicate more coherently and concisely the many aspects of our business in creating value, both for itself and to its key stakeholders. Integrated reporting is a relatively new phenomenon that is gaining ground globally, duly supported by technology - such as online, mobile and video - to communicate the organization's message more effectively.

Well aligned to embrace change

I began my review with a reference to change. The Road Map released by the Central Bank of Sri Lanka in January 2014 is a much welcomed direction in terms of banking consolidation. As the first mover, the Bank has already announced its intent of entering into merger talks with DFCC Bank to create a strong development bank of significant strength and stature – an institution that will be one of Sri Lanka's systemically important banks in the next few years. After all, size does matter.

Before I conclude, I wish to thank the Chairman and Board of Directors for their counsel, staff for their solid performance, customers for their loyal patronage and all other stakeholders whose relationships we value.

The Bank bade farewell to two pillars of strength in 2013. The immediate past Chairman Mr Hemaka Amarasuriya and the immediate past CEO Mr Russel De Mel are greatly appreciated for their guidance in taking the Bank and the Group to what it is today. We also warmly welcome Mr Sunil Wijesinha, a seasoned professional with executive leadership in financial services and manufacturing, as our new Chairman.

We are riding a wave that holds potential as well as challenges. As movers and shakers we are well equipped to take them on. To paraphrase Victor Hugo's well-known quote, nothing is more powerful than an opportunity whose time has come. And we are ready to seize the moment.

Rajendra Theagarajah
Chief Executive Officer

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