



We are at a pivotal moment in history. Thanks to the end of the 30-year conflict, the economic growth of the post-war years and a favourable economic outlook, Sri Lanka now has an unprecedented opportunity to surge ahead in the next decade. This opportunity must not be wasted.

Dear Shareholders,

Nearly six years after the global financial crisis began, the world's economic recovery still remains fragile. Developed countries struggle with high unemployment and weak economic growth. Developing countries are growing more slowly than before the crisis.

There are other challenges that could pose new threats to global economic recovery. Conflict and political instability present major risks because they decrease the utilization of productive capacity and create long-term obstacles to development. Moreover, a warming planet could increase the prevalence and size of drought-affected areas, and make extreme weather changes more frequent, with unpredictable costs in terms of lives and financial resources.

The world economy had a mixed 2013. For many countries it was still a struggle, with the eurozone in recession for much of the year and living standards in most of the developed world still below their 2007 peak. But by the end, even the laggards had started to catch up, and for them the long nightmare of recession and its aftermath began to recede.

We continue to see a structural shift from the developed world towards the emerging world. However, growth in China, at 7.7%, and in India, at just below 5%, slowed when compared to the past. In the case of China, this is the lowest growth rate in the last 23 years.

### **The Sri Lankan Economy**

The Sri Lankan economy grew by 7.2% in 2013 largely buoyed by domestic economic activity. The Government also reduced its budget deficit to a 19-year low of 6.4% of the gross domestic product last year from nearly 10% in 2009.

In addition, inflation was contained to single digit levels during the year. Year-on-year headline inflation declined to 4.7% at the end of 2013 when compared with 9.8% at the beginning of 2013. It was also heartening to see the country recording a balance of payment surplus of close to a billion US Dollars. The balance of payment position has improved gradually, now over a 3-year span. Declining imports and growing exports enabled a trimming of the trade deficit by 19%, while the 'invisibles'; worker remittances and tourist earnings grew by double digits, with the latter exponentially by 35%. All this enabled gross official reserves to sit comfortably at 4½ months of imports by year-end 2013.

Going forward, while the GDP growth is expected to be 7% plus, surpassing the rates recorded by most emerging nations, there appears to be a lag effect in the benefit reaching the peripheral economy.



Sri Lanka aspires to be the South Asian economic hub, focused on six hubs, namely, maritime, aviation, commercial, tourism, knowledge and energy. The realisation of this vision will enable Sri Lanka to reach a per capita income level of USD 4,000 by 2016.

### The Group

I will not dwell on specific numbers here as they are discussed in the sections that follow.

Our performance was also supported by impressive growth coming from the Investment Banking cluster. NDB Investment Bank was once again recognized as the best investment bank in Sri Lanka by the Euromoney magazine. The restructuring of the Group two years back, enabling NDB Capital Holdings (NCAP) to focus entirely on capital-related markets is seen to pay dividends. NCAP will take a step further by forming a private equity fund management company, thereby taking Sri Lanka's capital markets forward to a new paradigm by leading innovation and change in this sector.

I stepped down from office on 30 November 2013 in conformity with the prevailing Central Bank's Code on Governance. I wish my successor Mr Sunil G Wijesinha the new Chairman and the Board of Directors which includes newly appointed Director Mrs Indrani Sugathadasa every success as the Bank positions to grow from strength to strength in the years ahead.

Let me take this opportunity to thank the Board of Directors, management and staff of the Bank for their unstinted support during my 2 ½ years tenure of office as Chairman. I also wish to acknowledge our customers' trust, confidence and loyalty in the Bank. To the shareholders, I wish to acknowledge your abiding interest in the progress of the Bank and the healthy dialogue we have maintained over the years. Last, but not least, I thank the various regulatory agencies, particularly the Central Bank of Sri Lanka, for their guidance.

Yours sincerely



**Hemaka Amarasuriya**  
Immediate Past Chairman

13 February 2014

It was with great pleasure and excitement that I took office as the Chairman of the Bank in 1 December 2013. Having witnessed from the outside the Bank's phenomenal growth and transformation over the years from a specialized development bank to a fully-fledged banking conglomerate, I am indeed proud to lead the Bank into an exciting future.

### Banking Sector Consolidation

The Central Bank of Sri Lanka announced in its Road Map for 2014, the intention to promote consolidation in the banking sector to ensure an industry with an optimum number of players and healthy levels of capital and competition. The regulators have expressed the desire to see the two development lending oriented banks, DFCC Bank and National Development Bank PLC merge in order to create a strong development bank that could provide a broader impetus to development banking activities.

In view of the above, the Board of Directors of both DFCC Bank and your Bank have commenced preliminary discussion with a view to achieving such consolidation. Your Bank is ready to embrace the positive changes that the consolidation of the sector will bring about.

### Product Related Development Banking

Though we are considered a fully-fledged commercial bank, there is every reason to believe that the path by which our predecessor Bank trod, since 1979 has not in any way been forsaken to reach out to 'universality'.

'Ceylon Cinnamon' or true cinnamon as it is popularly known is considered as at the finest quality of all cinnamon on the global map. The Government of Sri Lanka while identifying 'Ceylon Cinnamon' as a breakthrough product realizes its potential to increase national income and exports exponentially.

The Bank has pledged its support to this initiative. With this in view, the Bank is pioneering the concept 'Cinnamon to the World' and aims to empower all stakeholders in the cinnamon industry in order to stimulate cinnamon export growth during the Bank's current planning cycle. The Bank's new initiative will extend support to home growers and large scale exporters and go beyond financing to include empowerment, encompassing the true spirit of development banking.

While there is a tendency for smallholders to stay outside the banking system, the Bank has reached out to them through microfinance facilities. As a new initiative, a sample of 80 selected home growers in the Matara District will form the nucleus of a pilot project which will then be expanded to other areas.

The Bank has supported the local tea industry, consisting of a majority of smallholders for over 30 years. The Bank supports the industry by providing financial assistance for capital expenditure for start-up and expansion projects. We have also developed a customized working capital loan product for tea factories, a first in the industry. By setting up regional SME Centres in the plantation districts, the Bank will provide convenient access to the industry to benefit from speedy delivery of financial and advisory services.

Our Bank has pioneered product lending to the SME sector to the tune of supporting over 90,000 ventures while creating in excess of 900,000 employment opportunities. We firmly believe that the global economic recovery will be led by the SME sector and intend to be in partnership with their progress.

### Dividends to Shareholders

The Bank has consistently maintained a high dividend payout ratio in relation to its peers. The primary purpose of the Bank's dividend policy is to maximize the value of shareholders' returns and to reward shareholders with consistently high returns commensurate with the Bank's performance.

I wish to thank Mr Hemaka Amarasuriya, who retired as Chairman in November 2013, for his invaluable contribution and service to the Bank. I also welcome our new Chief Executive Officer Mr Rajendra Theagarajah, a veteran banker with a wealth of experience in the financial services sector.

It has been a good year – indeed a pivotal year – in which the careful plans we had approved began to take shape with the broadening and strengthening of our platforms and the deepening of our customer experience. Our focus for 2014 is unequivocal and unchanged, ensuring that our Board and our Management Team will produce the right conditions for delivering strong performance for you, our shareholders - performance that will validate your confidence in the NDB Group.

I look forward to an exciting future for the Bank based on its strong capital base, operational excellence, visionary leadership and talent.

Yours sincerely,



**Sunil G Wijesinha**  
Chairman

13 February 2014