



Chief Executive's Review

The year 2015 was a period of transition for DFCC Bank, and its mixed performance should be viewed in the context of the transformation undergone by the Bank, namely the amalgamation with DFCC Vardhana Bank. In fact, I would like to think of it as a case of 'Form is temporary but Class is Permanent'.

A full analysis of DFCC Bank's performance for the period under review is given in the section on Value Creation and Internal Capital Formation. With the change in the financial year-end to 31 December from 31 March, the performance relates to the period of nine months from April 2015 to December 2015, which must be considered when attempting a comparison with that of the previous full year. Moreover, there were several exceptional items. FYE 31 March 2015 included substantial one-off capital gains and impairment reversals while the period ended 31 December 2015 entailed significant non-recurrent expenses incurred during the amalgamation for items such as systems integration and data migration. The change of the financial year meant that the Bank incurred an additional taxation charge based on the full year, even though results were for nine months. Also, substantial dividend income, which accrues in the first quarter of the calendar year, could not be included.

Net profit after tax for the period ended 31 December 2015 was LKR 1,642 million (Group) and LKR 1,068 million (Bank) while that for FYE 31 March 2015 was LKR 4,439 million and LKR 3,240 million respectively. Net interest income was LKR 6,385 million in the current period, while LKR 6,691 million was reported in the previous year.

The lower interest rates during the period meant that there was a drop in the interest margin to 3.1% from 3.6%, in line with the industry. Meanwhile, total assets grew by 17% to LKR 247,109 million as at 31 December 2015 from LKR 210,610 million as at 31 March 2015. This included a robust credit portfolio growth of 18% to LKR 171,111 million from LKR 144,896 million. Credit quality was not compromised. The ratio of impaired loans to total loans for 31 December 2015 was 5.1% compared to 6.1% for 31 March 2015, indicating a credit quality improvement. The cumulative allowance for impairment of loans and advances was maintained at a healthy level of 72.1% for 31 December 2015. Close monitoring drove down the Bank's ratio of impaired loans to total loans as well as its regulatory non-performing loan ratio, with the latter improving to 3.7% as at 31 December 2015 from 4.3% as at 31 March 2015. Its balance sheet strength is demonstrated by a Group Tier I Capital Adequacy Ratio of 15.4% and a total Capital Adequacy Ratio of 15.3% making DFCC Bank one of the highest capitalised banks in the industry.

Prior to October 2015, DFCC Bank's business was based on an operational merger between DFCC's development banking business and DFCC Vardhana Bank's commercial banking business. While this was a robust arrangement, the changing banking landscape required a paradigm shift in DFCC Bank's agility and thus the legal amalgamation with Vardhana Bank, which I am happy to report was achieved almost seamlessly and within the set timeline. Moreover, it was most fitting that this was accomplished at the time DFCC Bank celebrated its Diamond Jubilee. The outcome is that DFCC Bank is now a full-service commercial bank. It serves a variety of clients from individuals, professionals and entrepreneurs to SMEs and corporates across the country. It has a nationwide footprint through 137 branches in all districts. Importantly, it has been re-launched with a new brand, the significance of which I would like to explain.

Our brand promise is that we enable our customers and other stakeholders to 'Keep Growing' and this means a lifelong relationship of adding value. In fact, several enterprises, which are large businesses today, had their roots in the seed finance provided by DFCC Bank at their inception. A key component in delivering this promise is our employees. DFCC Bank has always been recognised for its development financing expertise driven by its highly skilled and professional workforce. The result is that the Bank remains the first choice for any new venture or expansion project. Following the amalgamation with Vardhana, a young and dynamic team has been added further enhancing the Bank's agility. The internal culture is changing smoothly with a cross fertilisation of skills and expertise. Also, new corporate initiatives were implemented. The corporate structure was redrawn and new business components and functions were added with equally important objectives. Firstly to instil a new internal culture that enables employees to learn, innovate and embrace change. Secondly, that the re-launched DFCC Bank provides a new and enriching experience to customers and that the change is not cosmetic but a paradigm shift.

While DFCC is now a licensed commercial bank, it will hold fast to its development banking mandate and expand this business. Its ability to provide downstream commercial banking products to development finance customers through the same legal entity based on one set of documentation has improved customer experience and reduced costs for both the Bank and its customers. Other amalgamation benefits are accruing. For instance, as two legal entities, DFCC and Vardhana had to duplicate some of their IT operations including disaster recovery sites. The new single entity is enabling a systems rationalisation, cost reduction and other efficiencies. As regards processes, customer focus is intensified and products and services are being shaped around their needs. An example is the ground breaking Supplier Settlement Service launched by DFCC Bank with its IT subsidiary Synapsys. Initially, it will serve the private tea manufacturer and tea leaf supplier community and later will be rolled out to other agricultural industries. It typifies financial inclusion by enabling suppliers to transfer sales proceeds directly to their bank accounts, which are accessible through more than 800 ATMs island-wide. Another example is the 'Mobile Wallet' developed by Synapsys with support from the Bank. This innovation offers many superior features when compared to other products in the market, as in addition to merchant transactions, it enables a far greater level of interaction with the bank payment and fund transfer systems.

Looking ahead, DFCC Bank will embark on an ambitious five-year strategic plan that will reposition it in the upper quartile of the banking industry. It will be a Blue Ocean Strategy based on sustainable new elements. These include a diversification of distribution channels, increased use of digital media and an expansion into foreign markets. While the international move will be challenging, the Bank has already established its overseas credentials through assignments in Oceania and East Africa. In this regard, several options would be considered including the setting up of representative offices and the acquisition of financial licenses or institutions. However, while embarking on the journey, DFCC Bank will not lose sight of its Sri Lankan roots or its development banking mandate, and the Sri Lankan market will remain its prime focus.

Besides banking, DFCC Group customers have access to an array of financial expertise including investment banking, wealth management, information technology, industrial park management and consultancy delivered through the subsidiaries – DFCC Consulting, Lanka Industrial Estates, Synapsys and the joint venture – Acuity Partners, which itself is the parent of financial services powerhouse encompassing corporate finance, stock-broking, fixed income trading, venture capital and asset management. All these businesses are synergised within the Group and differentiate DFCC Bank from the rest of the pack. Going forward, cross-selling of their products and services will be an important element in DFCC Group's value proposition. For example, DFCC Bank's Consumer Banking business will include investment advisory and wealth management services to a segmented clientele. Another would be the digitisation of distribution channels and creation of a virtual branch network.

In summary, while 2015 represented an aberration, we will strive to fulfil stakeholders' expectations in the journey through 2016 and beyond. While the repositioning of DFCC Bank will be a challenging task, the amalgamation with Vardhana has laid the foundation for the Bank to take on the bigger players in the market. I am therefore confident that we will attain our new vision to be the 'leading financial solutions provider sustainably developing individuals and businesses'.

To conclude, I wish to express my sincere gratitude to all stakeholders of DFCC Bank. I thank our loyal customers for their continued support through times good and bad. I thank officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government agencies and authorities for their cooperation. My special thanks go out to those regulators and other officials who helped facilitate the amalgamation with Vardhana Bank. I also thank the various international investment and lending institutions, our bondholders and debenture holders, and depositors for the confidence they place in DFCC Bank.

The fact that the amalgamation with Vardhana Bank was completed smoothly was largely due to the cooperation and commitment of the DFCC and Vardhana teams, who worked in a most collaborative manner. I am heartened by the family spirit evident at the various events held to commemorate DFCC Bank's 60th Anniversary and the amalgamation. I wish to express my heartfelt gratitude to them for a job well-done.

Finally, it is my fervent wish that all stakeholders of DFCC Bank will continue to 'Keep Growing'.



Arjun Fernando
Chief Executive/Director

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