

LETTER FROM THE CHAIRMAN

WE ARE MOVING AWAY FROM OUR OLD POSITIONING TOWARDS ONE THAT REFLECTS OUR COUNTRY'S RISING PROFILE: BECOMING 'THE DRIVING FORCE FOR A FINANCIALLY EMPOWERED SRI LANKA'

Our strategic planning for the future will reflect the expectations of the Government, which wishes to see the national banking sector play a catalytic role in economic and institutional growth.

Ladies and Gentlemen,

It is my pleasure to address this letter to you as the Chairman of our Company, National Development Bank PLC. 'NDB' is an established group with a strong and highly successful corporate and business culture, which I have been absorbing over the past months. I am deeply impressed by what the Bank has achieved in the years of its service to the Sri Lankan financial sector, and was not at all surprised when *Global Finance*, a prestigious American magazine that covers our industry, named us 'The Best Bank in Sri Lanka - 2015'. I am honoured and elated, as are all of us at NDB Bank, by this news.

A Difficult Year for Bankers

Such recognition was achieved in a year that presented bankers with multiple challenges. Data from the world's key economies confirm that the era of easy money is over. Gradual slowdown was seen in China, where worried investors set off market fluctuations that were picked up in

the trading capitals of the world. America, still enjoying modest growth, was troubled by social and political divisions and several extreme weather events. The first upward adjustment to the federal fund rates after nearly a decade in tandem with the slowdown in the economies of emerging markets, is likely to exacerbate a flight of capital to a safer haven.

Europe struggled with near-flat growth and a vast, destabilizing influx of migrants from the Middle East, where the effects of the confrontation between the rising power of IS and its enemies have created turmoil and misery. Japan recently set its interbank lending rate to negative in an attempt to stave off deflation. Factors such as these combined to create a difficult international financial environment.

At home, Presidential and Parliamentary Elections delivered a new political order and the inevitable realignment of power and influence. People at all levels of society –

including the financial and business communities – are still finding their place. This, too, had its economic consequences.

The Government has done well to manage the economy under these conditions. Inflation has remained in the low single digits. The interest rates also remained in the low single digits throughout the year to support growth. However, to counter excessive liquidity in domestic money markets (an issue in late 2015), the statutory reserve ratio on rupee deposits was raised from 6% to 7.5%, effective from January 2016. The managed exchange-rate regime instituted by the previous administration was replaced by a free float, in September 2015, with immediate consequences for the value of the Rupee.

GDP growth was relatively modest in comparison to figures posted by the Central Bank of Sri Lanka in recent years; and much of the growth, as is often the case, from the services



sector. The banking segment saw a solid increase of 16% in total assets, exceeding LKR 8 trillion – given the difficulties of the year, a very creditable performance.

Financial Performance

Constrained interest margins had a direct effect on the Bank's net interest income, which exhibited negative growth this year. We compensated this effect by focusing on fee-based income, with aggressive cross-selling of fee-based products to borrowers. Revaluation gains on foreign-currency-based assets and investments (a result of the new exchange-rate regime) also helped mitigate the decline in net interest income.

The loans and receivables portfolio of the Bank grew by 19%, while customer deposits increased by 22%, supporting an overall 18% growth in total assets that comfortably crossed the LKR 300 billion mark. However, the squeeze on margins took its toll on profitability. The Bank recorded a profit before tax of LKR 5.45 billion, a decrease of 6% compared with the LKR 5.79 billion of the previous financial year, but reversed the dip with a 3% increase in profit after tax that reached LKR 3.51 billion during the year.

Organic Growth and Financial Inclusion

The Bank and the NDB Group maintained steady organic growth over the year. The mainstream financial services provided by the Bank, together with the financial services offered by other Group companies, continued to be well patronized and profitable. The Bank is now accessible

to customers at 98 branches (covering 22 out of 25 administrative districts) as well as at 106 on and off-site ATMs. The branch network stood at 93, with 101 ATM touch points by the end of 2015. Eight off-site ATMs were added this year. We also strengthened our presence in Bangladesh, where NDB Capital Ltd. offers merchant banking services to entrepreneurs and businesses.

Multiplying customer access points is one way in which we move towards the goal of financial inclusion for all Sri Lankans. In 2015, we simplified our savings accounts by grouping existing savings products into two categories, Easy Saver and Big Saver. Our *Ithuru Karana Maga* marketing campaign and dozens of grassroots financial literacy programmes conducted around the country also helped drive financial inclusion via the savings habit.

Financial inclusion also means making financial resources available to small enterprises and low-income households. Here, our tried-and-tested SME approach continued to yield results. Meanwhile, microfinance initiatives we launched during the year provided farmers in the Mahaweli B Zone with funds to buy seed paddy and supported small entrepreneurs – for example, cultivators of ornamental flora, mushroom farmers and tea smallholders – in other parts of the country.

In 2014, NDB Bank and DFCC Bank issued a memorandum of understanding to mark the commencement of merger negotiations. These discussions were terminated by mutual agreement last year and the accompanying MoU was abrogated.

Brand Building, Corporate Governance and Reputation Management

For years, the Bank has positioned itself, brand-wise, as 'a world-class Sri Lankan'. This slogan was appropriate for a time when many perceived a gap between standards of capability and competence in Sri Lanka and the rest of the world. By and large, this perception is now history. Accordingly, we are moving away from our old positioning towards one that reflects our country's rising profile: becoming 'the driving force for a financially empowered Sri Lanka'. This is reflected in our new tagline: 'Our Commitment. Your Success.'

Our integrated approach to corporate reporting, which began with our 2013 Annual Report, continues with the present one. The Report thus integrates the financial and non-financial aspects of our business strategy, performance and outcomes in the context of sustainable value creation and capital formation.

The Bank augmented its credentials as a model corporate citizen with a number of targeted strategic, operational and philanthropic initiatives in public education, entrepreneurship support, public health, well-being of children and environmental protection. These were carried out with wholehearted participation from our employees.

Validating these improvements to our public profile, we reinforced corporate governance and internal oversight by appointing more Independent Directors to the Bank's Board of Directors, strengthening our risk management framework as well as our disclosure,

valuation, stress testing and other policies and taking steps to improve risk management skills and awareness through training programmes and the circulation of an internal e-newsletter, NDB Risk Analyst.

Looking Forward

The role of financial institutions is changing as Sri Lanka moves up in the international economic and social league tables. While seeding growth and social integration are still important, organizations must also provide support for individuals and groups that have moved beyond the nursery level but have not yet acquired the capabilities to allow them to compete successfully in the free-for-all of the market.

Meanwhile, the need for capital to finance our expanding business operations will lead to several key moves under our capital planning policy in the near future. An area in which substantial changes are due in 2016 is technology, which will shortly revolutionize the NDB banking experience.

Our strategic planning for the future will reflect the expectations of the Government, which wishes to see the national banking sector play a catalytic role in economic and institutional growth.

Conclusion

Many people – far more than can be mentioned here – are due the credit for what the Bank and NDB Group have achieved in the year under review. I extend my grateful thanks to them all – our customers, employees and partners, as well as the staff of the

Central Bank of Sri Lanka and the regulatory authorities – although I cannot thank them individually.

One name, however, must be mentioned: that of B. Asela Jayasinghe, lately Senior Security Officer of Sharp Security Services, who lost his life in the line of duty at our Kekirawa branch. Together with the members of the Board, I express my gratitude and condolences to his family and friends.

I also extend my thanks and bid farewell to my predecessor, Sunil Wijesinha, and three other Board members, Chandra Ekanayake, Anura Siriwardena and Sujeewa Rajapakse who stepped down in 2015. I welcome my fellow Board members Anula Harasgama, Dinal Phillips and Kavan Ratnayaka who joined the Board during the year. I conclude this letter by wishing all NDB Bank stakeholders prosperity and success in 2016.



N G Wickremeratne
Chairman

12 February 2016