

# Message from the Chairman



Our primary focus in 2019 was to streamline our internal systems and processes to gear ourselves to capitalise from the growth envisaged in 2020 and beyond. Further, we introduced Vision 2025, a new business plan which charts our course for the coming years.

Dear Shareholders,

It has been a significant year for the Bank, in terms of executing the strategy to become the most customer-centric, digitally-enabled bank in Sri Lanka. Staying true to our motto “Keep Growing” and our drive to become the “Bank for Everyone”, we took tangible steps to enhance our offering, reach, and internal processes, leading to augmented customer experience as a fully-fledged commercial bank.

Given the not so conducive operating environment, the entire banking industry experienced a sharp deterioration in asset quality. Nevertheless, we still maintain an NPL ratio that is below the industry average. During the year, Fitch Ratings re-affirmed the Bank’s rating as AA-(lka) and our Capital Ratios are still well above regulatory requirements.

As a testament to our continued growth within the financial sector of the country, we were ranked 18th amongst Business Today’s Top 30 businesses in Sri Lanka, the 30th position amongst the LMD Top 100, and was placed in the 25th position in Brand Finance Top 100 Most Valuable Brands, 2019.

The challenges arising from the socio-political and economic context were testing on the sector as well as Sri Lanka’s economy. The economy experienced a placid growth momentum in the first quarter of 2019 following the political uncertainty experienced in the final quarter of 2018. Meanwhile, persistent fiscal deficits, a large debt stock, and rising interest servicing cost eroded policy buffers and reduced fiscal capacity to support a slowing economy. Further, the banking sector was affected by heavy regulation and changing tax policies, leading to a modest growth.

Despite these setbacks, the Bank experienced a growth in business volumes with increases in loans and receivables and the deposit base reflecting the robustness of DFCC Bank’s financial intermediation. However, Profit Before Tax (PBT) and Profit After Tax (PAT) do not reflect the growth in business volumes due to the fair value loss recorded on the equity trading portfolio. Consequently, DFCC Bank recorded a PAT of LKR 2.1 Bn in 2019 compared to LKR 2.8 Bn in 2018.

Furthermore, the Bank managed to grow its Current Accounts and Savings Accounts (CASA) deposits over the 2018 levels. The Bank reinforced its efforts to improve its CASA base further in 2019. Reflecting the stability, the Bank maintained the Common Equity Tier (CET) I Capital Ratio well above the minimum requirement of 8.5% as at 31 December 2019.

In 2019, we introduced a strategic framework under the title Vision 2025. This new strategy clearly outlines the short to medium term and long term objectives of the Bank. It aims to realise our long-term goals by 2025: to be among the top five LCBs in Sri Lanka; to grow the customer base to two million; and to become the most customer-centric, digitally-enabled bank in Sri Lanka. Further, in the short to medium term, we are guided by three strategic objectives: enhancing customer centricity; becoming a top-of-mind retail bank; and optimising key customer-facing operations. Even at this nascent stage, we were able to reap rewards from our strategy in 2019, such as improvements in the retail segment, increased presence in the commercial banking space, expansion of the digital portfolio, as well as enhanced digital capabilities such as the introduction of a new core banking system. Equipped with a sound business plan which charts our course for the coming years, we are geared to face the future.

Focusing on our short-term strategic objective of enhancing customer-centricity and improving our brand visibility, we expanded physical and digital interactions with our customers. It resulted in improvements in existing connections as well as the establishment of new connections across different target customer segments. In December 2019, we opened 20 new branches in 30 days in key locations islandwide, a milestone in the Bank’s history. This exponential increase of physical touchpoints further facilitates wider access to our customers who come from all segments of Sri Lankan society. This creates an abundance of opportunities for local communities living in and around these areas to partner with DFCC Bank to fulfill their financial needs. Additionally, it increases our brand visibility which will help to achieve our long-term objective of reaching two million customers.

At present we are a fully-operational commercial bank, yet we have still retained our development banking flavour and continue to work towards all aspects of sustainable development. The values of sustainability have been ingrained seamlessly in our systems, products, and our ethos. While we continue to provide loan products aimed at development and play a key role in providing assistance to the SME segments, we continued our CSR initiatives this year to give back to the community and help preserve the environment. We have set up a Sustainability Unit to manage and govern the sustainability initiatives conducted by DFCC.

At DFCC Bank, we adhere to the highest standards of corporate governance. The Board has adopted global best practices in corporate governance, risk management, and compliance, which are integrated in the processes of the Bank. The Bank's principal strategy is geared towards generating sustainable returns for our shareholders. Our highly skilled, experienced management team is committed to good governance that delivers sustainable returns.

Prudent growth in business volumes, disciplined approach to managing of capital, and judiciously maintaining funding and liquidity have enabled us to continue sustainable value creation. This has enabled us to maintain capital, funding, and liquidity at optimum levels. As a result, consistent with previous years, the Board has recommended a first and final dividend of LKR 3.00 per share, which is a payout of 46% of distributable profits totalling LKR 913 Mn.

I am grateful to shareholders who subscribed to the Rights Issue. The Bank was able to raise LKR 2.8 Bn by way of the Rights Issue. It was encouraging to observe that a majority of the shareholders viewed the Rights Issue as an ideal opportunity to increase their holding in DFCC Bank at a cost below its intrinsic value. Understandably, the depressed equity market and other considerations may have had a bearing on the investment decisions of some shareholders.

Given the lacklustre economic conditions, we concentrated on setting the foundation for the coming years. We are optimistic that the economy of Sri Lanka will stabilise and look forward to creating and sharing value with all our key stakeholder groups. Vision 2025 and its objectives will serve as a guide to improve and reorient all our operations. We will continue to be the "Bank for Everyone" to serve diverse customer segments. We will also exploit to our advantage the synergies across our Group to stay competitive in a highly saturated financial market. We will further strengthen our resolve to be a strong and financially sustainable Bank that puts the customer at the heart of everything we do.

I would like to thank and recognise the service rendered to DFCC Bank by our outgoing Chairman Mr C R Jansz. Along with the Board, he was the guiding hand of the Bank for many years. I would like to wish him all the best for his future endeavours.

My gratitude is also extended to the esteemed colleagues in the Director Board for their guidance and our CEO Mr Lakshman Silva for steering the Bank through trying times in 2019. My appreciation is also extended to the management team as well as our dedicated team of employees at all levels.

I am also grateful for the support of the officials of the Central Bank of Sri Lanka and the Ministry of Finance.

I must also thank our loyal customers for the trust they have placed on DFCC and wish to assure our commitment to provide them with exceptional service. We also look forward to the continued support of our shareholders and all other stakeholders in making 2020 a prosperous year for all.



**J Durairatnam**

Chairman

18 February 2020



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