



The Bank is nearing completion of its new strategic plan, which will be devised by brainstorming the inputs from all the divisions of the Bank as well as the group companies in order to set the Bank and the Group on an aggressive growth trajectory.

The Bank has what it takes to offer every Sri Lankan, whatever their social position, a unique banking proposition, to suit their every need.

At the outset, I would like to pay a tribute to my predecessor, veteran banker, Mr: Rajendra Theagarajah, who was the Chief Executive Officer of the Bank for the past three years. Under his stewardship, the Bank as well as the Group, attained many milestones and forged ahead in the financial sector in Sri Lanka and set a firm foundation to extend our business operations overseas. The Group derived the utmost from his broad experience and knowledge, and for this, we are indeed indebted to him.

Whilst I assumed duties in January 2017, I take this opportunity to reflect briefly on the fortunes of the Bank in 2016 and also outline the opportunities for the future, as we aim to set ourselves new objectives to reach greater heights.

The year under review was one that brought us mixed blessings, but above all, we should regard the past year as a learning experience and face the future with renewed vigour and expectations, armed with fresh strategies. The challenging circumstances that we were faced with, compelled us to change some of our traditional modes of operation. However, the experiences we have gained give us some pointers for shaping the future strategies.

Faced with narrowing margins, we responded by being more selective in our lending. Growth of the loan book was kept to around 10%. Certain high volume but low margin lending was curtailed. Instead, the Bank sought to actively grow trade and export finance, thus broad basing our income sources. Project financing, where we have built on the strengths derived from our origins in development banking, continued to be successful. The new sectors that we focused on included renewable energy, leisure and high end construction. The SME sector too, recorded an exceptional performance in both loans as well as deposits.

Given the back drop of rising interest rates and uncertainties in the leasing industry, retail banking witnessed a subdued portfolio growth. On the other hand, mortgage backed housing loans were boosted by a growth in real estate development, an area focused on actively. A creative niche has been the tri-partite arrangements, where project financing for upper middle class real estate projects are coupled with loans to buyers of apartments.

Though credit cards saw a less than expected growth, we are fully aware of the importance of a strong credit card offering in the retail banking space, and we have been constantly improving our presence in this sector. This will be one of our focal points in the coming year.

Despite the challenging environment, we continued to maintain a healthy asset book and a strong credit quality. Our credit underwriting standards remained robust as reflected by our non performing loan ratio which continued to be below the industry average.

We believe that there is tremendous entrepreneurial potential at the provincial and grass root levels. Through our SME and micro-finance programmes, we continue to leverage this potential and offer our competencies in order to empower the small scale entrepreneurs. We reach out to a diverse range of SME and micro-segments, including farmers venturing into organic paddy cultivation, floriculturists, and small scale street food vendors, to name a few. Through these endeavours, we continue to generate value for the society and also nurture the environment.

A hallmark event during the year was the launching of our new mobile banking application which brought great convenience to our customers. We believe that technological advancement in our offerings is a mandatory constituent for our future success. Moving in to digital channels will gain priority in our new strategy that is being drafted.

Considering our existing balance between fund and fee based income, we have some distance to go. Our future focus will be on products and services which give more value to the customer and where we can

enhance our revenues by way of fee income. Our ratio of deposits in current and savings accounts (CASA deposits) to total deposits, which is an indicator of the cost of funds, is relatively lower compared to the industry average. This is predominantly due to the development banking model that we have inherited and the comparatively shorter tenor of our existence as a fully-fledged commercial banking entity. However, a more focused approach, concentrating on harnessing low cost funding, opens up a window of opportunity to increase our profitability.

During the year, the Bank was recognized with several accolades and awards, including the CFA Sri Lanka Capital Market Awards – Gold Award for Best Investor Relations in the country. In the meantime, NDB Investment Bank Ltd. (NDBIB), a fully-owned subsidiary of the Bank retained its market leader position in raising listed debentures, to the tune of LKR. 31.5 billion in 2016. Furthermore, for its superior execution of transactions in the debt, equity and corporate advisory space, NDBIB was crowned as the 'Best Investment Bank for 2016' for the 5th consecutive year by Euromoney, the world's premier financial markets magazine.

Over the years, the Bank has transformed from a development oriented specialized bank to a fully fledged commercial bank and is now expanding its horizons in the retail space. Our retail orientation is augmented by the rapidly increasing branch network. We have made considerable investments in our network of both branches and ATMs, which has brought us closer to the clientele that seek us out. Eleven new branches were added to our branch network, bringing the total number of branches to 104 as at end of 2016. We are confident that our investments in the network expansion will yield its full potential in the near future, particularly through our renewed focus.

Being the only local Bank that has group companies engaged in investment banking, wealth management and capital market operations, the Bank has a unique and dynamic proposition to offer our worthy customers. We will strongly strategize on this offering, as the one stop shop for this range of products. The cross selling opportunities and the synergies of Group integration present a vast scope for improving our performance and adding value to our customers, which will focus on our new strategy.

I look ahead with great enthusiasm to the challenge of leading the Bank to be one of the most sought after institutions in the industry. The Bank has all it takes to realize its fullest potential. At the same time, I greatly appreciate the opportunity to work with a highly professional and accomplished Senior Leadership Team. The dedication and the commitment of the staff at all levels make it possible to embark on a journey to take the Bank to the next level. The guidance of the Chairman and the Board of Directors add tremendous value in propelling the Bank on this journey.

We are now nearing completion of the Bank's new strategic plan, which we will be devising by brainstorming the inputs from all the divisions of the Bank as well as our group companies in order to set the Bank and the Group on an aggressive growth trajectory. We are excited about the future that lies ahead where we are determined to strive and reach our full potential. In reaching these goals, raising additional capital to meet the Basel III requirements and to support the growing franchise would be a key strategic priority.

I have no doubt that with the commitment from our highly skilled and trained staff, who work with great dedication and enthusiasm, we will be able to reach our new vision through our new strategy. The unleashing of the Group synergies will add tremendous value to our stakeholders, enabling them to prosper and achieve a mutually rewarding relationship. This is the vision that will drive us in the coming years.



P L D N Seneviratne
Chief Executive Officer

21 February 2017