

STRATEGY

The Bank's business model is underpinned by seven pillars of strategic execution. Our strategies focus on how we will seize opportunities and mitigate risks in our operating environment, and set out plans for resource allocation. The five-year strategic plan 2014-2018, prepared in-house, contains the following key elements:

1. Profitable balance sheet growth

Aggressive broadening of the asset base through new products; exploring untapped markets coupled with optimum management of net interest margins and share of fee income; efficient allocation of resources.

2. Growth in fee-based income

Seeking opportunities for cross selling within the Group and additional services such as consultancy, legal and custodial services through a linked platform across the Group.

3. Cost optimization

Balancing costs and benefits without compromising on the brand value of the Bank.

4. Exemplary governance, transparency and compliance

Identifying and managing the various types of risks faced; cultivating an ethical culture throughout the organization while ensuring compliance with all applicable laws, regulations and standards.

5. Operational excellence

Focusing on customers' needs; keeping employees energized and empowered; continuous improvement of systems and procedures to achieve greater efficiency and effectiveness.

6. Strong sales culture

Identifying and optimizing customer value creation; capitalizing on cross selling opportunities.

7. Best in class, engaged and inspired team

Focusing on delivering on business goals through people programmes, plans and initiatives; having an efficient and agile structure with an appropriate mix of skills, technical knowledge and analytical capability coupled with streamlined work processes to enable flawless administration and execution.

PERFORMANCE

The Bank's business processes as described below, mesh the capitals with the strategic pillars to generate value.

Profitable Growth

In the year under review, there was a 8% growth in total assets. Please refer pages 42 to 73 of the Management Discussion and Analysis on the performance of the Bank, Business Units and the group companies .

Like all banking institutions, the Bank is constantly striving to increase the percentage of its fee-based income as a percentage of its total revenues to minimize risk and to optimize capital utilization. Our capital market subsidiaries, which offer a wide range of fee-based services such as full service investment banking, wealth management, securities trading and advisory, debt and equity raising and corporate advisory services to mergers and acquisitions, are the major source of fee-based revenue.

During the year, a number of initiatives were undertaken to reduce costs and improve efficiency without compromising on quality of service. These included streamlining of the inventory control process, renegotiation of courier services and space optimization initiatives.

Leveraging Tangible and Intangible Assets

The Bank continued to intensively pursue its brand-building exercises during the year under review driven

by the Bank's leadership to secure and strengthen our brand image in the market space. The message of 'Our Commitment, Your Success' was successfully projected by all types of media: print, electronic, social media, branch premises and outdoor locations. The brand was reinforced by the numerous products/brand name advertising conducted during the year.

The Bank ensured good governance, transparency and compliance by a rigorous process of system procedures, checks and controls supervised and administered by the leadership and numerous oversight committees. In this connection, an overarching role is played by the Group's audit function which independently evaluates and reports on all functions and processes of the Group.

To strengthen the management of credit risk, the Credit Review Division which was set up in October 2015, plays the role of an independent reviewer in the pre-credit approval stage. The division plays a key role at every stage of the credit process in mitigating risk and ensuring adequate return.

During 2016, the Bank expanded its reach by adding 11 new branches, the majority of which were located outside Western Province. A landmark event during the year was, the opening of the 100th Branch in Hingurakgoda. The total number of branches reached 104 by end of 2016.

The Bank constantly strives to leverage the power of information technology to add value to the services it provides to its customers. The mobile banking service, implemented by the Bank uses cutting-edge technology to enable customers to conduct transactions via a variety of devices. It also provides users with a portal to interact with merchant and utility providers.

Lasting Relationships

Customers are our lifeblood and this is the cornerstone of our thinking in all our product and marketing strategies.

Our clientele encompasses a vast range and we tailor our products and services to cater to their diverse needs and preferences. We facilitate customer contact with the Bank through our 24X7 customer service hotline and Online Banking mail box. In addition, our Telemarketing Division carries out a monthly Customers Feedback survey to gauge customer satisfaction. The division also helps to grow revenues by way of cross-selling and upselling.

The SME sector is one of the main facets in the development strategy of an emerging economy. Recognizing this fact, the Bank from its inception, has given great importance to meeting the credit needs of this sector. During the year under review, the Bank has extended credit to the key sectors of tourism, construction, agriculture, manufacturing and services. The Bank also provided financial assistance and assistance on technical knowledge to the export agriculture sector such as cinnamon, tea and pepper. The recent retail and SME integration at all branches drives aggressive cross selling.

The microfinance sector also continued to expand in 2016 with emphasis on credit quality and risk mitigation whilst empowering and building the capacity of the beneficiaries of our programmes. Our programmes in this sector while accounting for only a modest portfolio and profits make a very significant social contribution. Women continued to account for over 60% of microfinance clients. This programme continues to empower rural entrepreneurs and finances initiatives of great national significance such as organic seed paddy cultivation.

Apart from the above mentioned commercial activities by which we also make a social contribution, the Bank also conducts a large number of CSR activities, particularly those which benefit the local communities in proximity to our branches. Our training programme for English teachers in 2016 has completed training of 193 teachers at 10 Regional Support Centres islandwide. The CKD Mobile Screening Clinics programme, ongoing in rural villages in Anuradhapura, is focused on

early detection and diagnosis of kidney disease, thus contributing to addressing a major national problem. The Bank also contributed to flood and landslide relief through its branches.

Building the Strengths of Our People

The Bank constantly strives, through its HR function, to be an employer of choice. It strives, by motivation and training of employees, to inculcate the values and ethics of the Bank in them; also to align them with the goals and strategies of the Bank. Diversity has been promoted through recruitment and promotion policies with more than one-third of the staff being women, including at management levels. The workforce includes people from diverse social backgrounds, ethnicities and religions. As an equal opportunity employer the Bank firmly believes that this diversity is one of its strengths.

Mainly due to organic growth in its branches, the Bank recruited 476 new staff during the year. In filling vacancies the Bank follows a bottom-up process where the senior positions are filled as far as possible internally. Outside recruitment is mainly at two levels: school leavers and newly qualified graduates and professionals. The Bank maintained an attrition rate during the year of 6.6% of permanent employees, which is quite satisfactory considering the available opportunities both locally and overseas. The rate of staff returning after maternity leave was also commendable at 94.3%.

In line with the importance we give to developing the skills and capabilities of staff a considerable importance is given to training. During the year an average of 6.42 days was spent on training per staff member.

A monthly training calendar is drawn up with the participation of the employees. The Training and Development arm has entered into agreements with professional bodies to provide training of the highest quality.

A wide range of recreational and health-oriented programmes are being conducted to boost the health, safety,

morale and well-being of our people and their families. Employees also have an opportunity to participate in Bank CSR activities giving them the satisfaction of making a contribution to society.

Concern for the Environment

The Bank, which takes a holistic view of value creation, considers that contributing to safeguarding the planet is one of its responsibilities. Environmental considerations are inbuilt into all our activities, especially in lending and project financing. The Environmental and Social Management System (ESMS), which is approved by the Board, is integrated into the Bank's policy for term lending. Under ESMS, projects are screened for their environmental impacts from the inception, and mitigation strategies put in place. Buy-in of the project promoter is ensured by jointly formulating such strategies. Such mechanisms are formally included in loan covenants which make them legally binding. The Bank also undertakes many programmes of a CSR nature to promote environmental consciousness, particularly focused on students.

The above processes create value in its various forms. While they generate value for the Bank they also generate value for the stakeholders. Generating value for the stakeholders is a must for the Bank to create value for itself.

OUTCOME

Value creation leads to Capital Formation which can be internal or external to the Bank. Our internal capital is comprised of financial capital, manufactured capital and intellectual capital. The first two are what is reported in the Financial Statements while the last is comprised of intangibles such as brand, values, ethics, corporate culture, tacit knowledge, systems and procedures. The external capital comprises human capital, social and relationship capital and natural capital. Value is created by the dynamic interaction of the internal capital and the external capital over time.