

Chairman's Statement



The Board continued to ensure the highest standards of corporate governance and adherence to the Bank's Code of Ethics. I take this opportunity to state that, as at the date of publishing this Annual Report, we had complied with all applicable regulatory requirements and best practices to maintain our position as one of the most compliant financial institutions.

Dear friends,

The year 2018 showcases the Bank's resilience, stature and progress under challenging circumstances. Despite the environment being continually in flux, the Bank turned in a strong performance, staying on plan towards sustainable growth, demonstrating the effectiveness of strategy and resilience.

Business performance

In all key areas of business activity, the Bank has posted appreciably high performance and has met the targets set in the Corporate Plan and Budget for 2018. Total assets of the Bank grew by 14.00% to Rs. 1.303 Tn. by end 2018 thereby increasing our market share by 85 bps to 11.1% over the past five years. On either side of the Bank's balance sheet, both the advances and deposits portfolios accounted for 66% of assets

and 75% of funding and grew by 16.77% and 15.63% respectively during the year. With this trend continuing, it is likely that the Bank will achieve the milestone in deposits of Rupees one trillion in the 1st quarter of 2019. Growth in core business coupled with revaluation and capital gains enabled the Bank to record an increase in both fund-based income and fee-based income, registering a growth of total operating income by 30.56%. Operating expenses were effectively managed in line with the growth in business volumes. Yet adoption of SLFRS 9 and the industry-wide deterioration in asset quality saw increased impairment charges resulting in growth in profit before taxes slowing down to 10.39%. Higher tax burden on the sector restricted the growth in profit after taxes to 5.81% at Rs. 17.544 Bn. Our subsidiaries in the Maldives and Myanmar improved their performance and made an increased contribution to the Group's bottom line.

The Board of Directors recommended a final dividend of Rs. 2.00 per share for approval by the shareholders at the forthcoming AGM, to be fulfilled by way of a scrip issue of shares, which together with the two interim dividends already paid in cash adding to a total dividend for the year of Rs. 6.50 per share. Fitch Ratings Lanka Ltd. reaffirmed the Bank's rating at AA (Ika) with a stable outlook, the highest for a private sector bank in Sri Lanka while Credit Rating Information and Services Limited (CRISL) reaffirmed Bangladesh Operations at AAA, the only bank to receive this rating from CRISL, during the year.

Navigating through the unpredictable

The challenges that contributed to the tumultuous environment were a result of the rapidly evolving adverse domestic and global developments.

During the year, we navigated through the challenges posed by higher impairment provisioning arising from changes to accounting standards, increased capital adequacy requirements arising from Basel III, volatile and rising interest rates, shortage of liquidity and steep depreciation of the Rupee.

Nevertheless, the Bank's balance sheet showed a healthy growth, manifesting sufficient liquidity and capital improvement. Besides the rights

issue of shares in 2017, a Basel III compliant debenture for Rs. 10.0 Bn. was issued during the year, strengthening the Tier II capital. The Board of Directors also approved an additional issue of Basel III compliant debenture for Rs. 7.5 Bn. with an option to issue a further Rs. 7.5 Bn. in the event of an over subscription, during the second quarter of 2019.

During the year, the Board provided strategic direction with a focus on improving the risk management and credit evaluation processes without hampering or disrupting targeted credit growth. Taking into account rapidly evolving changes in the operating environment, some of which may even require modifications to the existing business models, a new Board Committee with a mandate to focus on strategic directions was established. The mandate and activities of this new Committee are outlined in the Board Strategy Development Committee Report on page 101. The decisions of the Committee were effectively communicated to the staff in a timely manner, through the Corporate Management. Further, the Board reviewed and approved the charters of all other Board Committees to ensure that their mandates are aligned with the regulatory developments and the Bank's current requirements.

Defining the future

While the future holds many challenges, we are confident of our ability to make astute judgements of our direction and way forward.

The recent past has witnessed significant transformation in the banking industry with FinTechs encroaching into some areas of conventional banking services. In light of these developments, the banking industry has been challenged to re-examine its business models and service offering in order to stay relevant and also to relook at the strengths and opportunities which are unique to banking and package them with technological capabilities demanded by the market. With our customers gravitating towards digital platforms, simplicity and convenience, we have embraced the ethos of customer centricity to deliver enhanced value to all our stake owners. When the customer needs us, we are committed and geared to be already at service.

Given the importance of the Small and Medium Enterprises (SMEs) sector, we have built a robust SME portfolio that our Retail Banking arm is focused on expanding. Further, with the intention of gradually migrating these SMEs towards corporate status as they grow, we have focused on offering them an integrated service to facilitate their growth.

Delivering and deriving value

In Corporate Banking, the Bank re-examined the sector concentration with the dual expectation of seizing untapped potential while mitigating concentration risk where applicable. Corporate Banking, Trade Finance and Investment Banking capabilities as well as synergies of our overseas outfits were collectively and interchangeably used to create best value for our customers. We also undertook calculated expansion to offshore markets, especially looking to strengthen our retail banking footprint in Bangladesh and our microfinancing segment in Myanmar. Our teams deployed in overseas markets will continue to explore new opportunities in their respective regions.

Taking our responsibility seriously as the leading private sector Bank and gearing ourselves to meet the challenges of the environment we are continuously engaged in introducing progressive changes to the Bank's already strong credit culture.

Our Treasury made a significant contribution to the profitability of the Bank making considerable efforts to enhance return on investments and maximise capital gains from trading in government securities. The Treasury is also focused on increasing trading activities to better manage the Bank's asset portfolio.

With direction and guidance from the Board, the marketing team is focused on creating value through brand building exercises with a focus on ensuring maximum return on marketing expenditure.

Harnessing people power and other resources

The Bank's commitment and efforts are focused on attuning its activities to face the challenges posed by the environment, through prudent growth and customer centricity. The financial services sector has witnessed the entry of new players with many bringing with them the technology to disrupt the industry. The Bank is resolute in its stance of keeping abreast of these challenges by embracing innovation and operational excellence to drive future growth.

The Board deliberated on maximising returns on capital investments, particularly on IT systems which would provide our people with the tools they need to exceed customer expectations. In evaluating capital expenditure, we focused on trade-offs between cost of capital and returns in an environment where banking is becoming increasingly capital intensive.

During the year, we introduced measures that were designed to augment the skills and capabilities of our people at work. Employee engagement and satisfaction remained at the heart of our activities with significant efforts made to maintain cordial industrial relations. I add, with great satisfaction, that we were the first in the industry to finalise the Collective Agreement on time. In collaboration with our people, we also relaunched the pension fund.

I extend my warm gratitude for the contribution and support of every member of the Board. I also take this opportunity to thank the former Managing Director/Chief Executive Officer, Mr Jegan Durairatnam for his unstinting service over a period of 36 years of illustrious career in the Bank. During the year, the Board welcomed the new Managing Director/Chief Executive Officer, Mr S Renganathan and the new Chief Operating Officer, Mr S C U Manatunge, two career bankers. I wish them all success in piloting the Bank through these challenging times and remain confident that they have the support of one of the strongest banking teams in the region, to boldly blaze a trail into the future.



Dharma Dheerasinghe
Chairman

Colombo
February 22, 2019

