

## Chief Executive's Review



October 2016 marked the first anniversary of the amalgamation of DFCC Bank and DFCC Vardhana Bank and their union was the first ever amalgamation in Sri Lanka's commercial banking industry. The amalgamated DFCC, as a licensed commercial bank, entered uncharted waters and it is gratifying that the Bank not only faced this challenge successfully, but attained a new performance threshold. That the amalgamation was achieved virtually seamlessly, spoke volumes for the quality of the key resource of the two banks, namely their employees. Their purposefulness enabled a blending of development and commercial banking cultures with significant synergies. In effect, DFCC underwent a paradigm shift during 2016.

An analysis of the Bank's performance is given in the Management Discussion. The key numbers reflect the new DFCC. Simply put, the Bank set out to achieve portfolio growth without compromising margins or credit quality. This strategy was successfully executed, following strict implementation of pricing guidelines and rigorous credit evaluation, helped by favourable market factors. DFCC also carried out a successful drive to increase its current and savings base with innovative retail products, which diversified funding and stabilised interest margins. Post amalgamation synergies also contributed meaningfully with net profit per employee increasing by over 30%, despite an additional headcount. The outcome was that the bottom line (without extraordinary capital gains) crossed the LKR 3 billion mark for the first time in DFCC's history, with a strong growth of 60%. Meanwhile, portfolio quality remained a priority and proactive monitoring enabled an improvement in key indicators. Especially noteworthy was the reduction in the non-performing loan ratio to

less than 3%, which matches the banking sector and is creditable, given the larger proportion of higher risk project loans in DFCC's portfolio when compared to the industry. Also, portfolio quality was improved by recoveries from substantial 'hard core' debts, following diligent remedial action. Therefore, as borne out by DFCC's standout results, 2016 represented a watershed for the Bank.

DFCC's paradigm shift was also manifest by innovation and customer centricity, of which there were many examples; the Vardhana Wallet, the Xtreme Saver, the Bancassurance arrangement with AIA Insurance and the migration to the Google App Platform. A catalyst for new thinking was provided by the 'Great Place to Work' programme, which generated ideas as to how things should be done at DFCC. All in all, a new internal culture that enables employees to learn, innovate and embrace change was instilled. This is critical going forward.

The year ahead will see a new direction for which the foundation is laid. While retaining its values and pioneering spirit nurtured over 62 years, DFCC has been rebranded and repositioned on a platform of sustainability embodied by the 'Eleven Sustainable Banking Principles developed for Sri Lanka'. Even as the Bank is committed to its development banking mandate, commercial banking is receiving a strong focus. The business structure was reconfigured enabling DFCC to target new market sectors particularly in the mini, micro and retail segments. The ongoing product and channel development drive will give DFCC the competitive edge and the Bank will keep looking for opportunities in consolidation, regional markets and working in partnership with Group companies. Therefore the stage is set for DFCC to build on the momentum generated in 2016.

I am grateful to my Chairman, Mr Royle Jansz and other Board members for their guidance and inspiration. Looking ahead, I am sure that under their stewardship, DFCC will continue to prosper. I thank my deputy Mr Lakshman Silva, the Senior Management and all my colleagues. Their commitment enabled DFCC to turn in a record performance. I thank our loyal customers for their patronage. I thank officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government authorities for their support. I also thank the international financial institutions, our bond holders and debenture holders, and depositors for the confidence placed in DFCC Bank. May they all continue to 'Keep Growing'.

**Arjun Fernando**  
Chief Executive/Director

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