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# The banking industry is shifting to a different landscape, where its constituents' readiness to change, agility to adapt, and competence to thrive beyond survival, are being tested.

Dear Stakeholders,

Your Bank is well poised to meet these challenges, and the results to prove it, as you will see in the pages that follow.

## The Global Backdrop

The global economy grew at 3.3% in 2014, at the same pace as it did in 2013. Advanced economies grew at 1.8% in 2014, ahead of its growth rate of 1.3% in 2013. Emerging market and developing economies grew at 4.4% in 2014, which was lower than the growth rate of 4.7% achieved by this region in 2013.

One of the major events which tuned global economic performance during 2014 was the deflation of global oil prices, and its impact reflected across multiple economies around the world. In the US, economic growth rebounded ahead of expectations, with unemployment rates declining further and inflation pressure more muted. China however, recorded lower economic growth than the previous year, with a growth rate of 7.4% in 2014 (2013: 7.8%), with a decline in investment growth and a few other leading economic indicators. Slower growth in this emerging economic giant will have important regional effects and will be reflected in the growth rates of connected economies.

The global oil price reduction will have a positive impact on the Balance of Payment (BOP) of Sri Lanka with reduced expenditure on crude oil. If the oil price reduction is accurately matched within the economy, the cost of living and inflation will also decline. However, policy makers need to be mindful of the resultant dollar appreciation which may pose alternate threats to the BOP with increased cost of imports. The negative impact of the declining oil prices on the oil exporting economies may also impact Sri Lanka's exports to those countries.

## A Buoyant National Economy

Widely benefiting from political stability, investor confidence, and a relatively favourable climate for doing business in post-war Sri Lanka, the country achieved many economic goals that were set for 2014. The per capita GDP reached USD 3,654 (estimated) in 2014 (2013: USD 3,280), affirming Sri Lanka's potential to reach the USD 7,000 plus target by 2020. The national economy grew at a rate of 7.8% (projected), positioning Sri Lanka as the fastest growing nation in South Asia.

Economic growth was largely driven by net exports and investments. The Incremental Capital Output Ratio also improved in 2014, maintaining a similar trend

since 2009, reflecting the improved capital productivity of the economy in relation to its growth.

Inflation continued at benign mid-single digit levels despite adverse weather conditions-led supply disruptions and relatively high fuel prices during the first half of the year. Other major economic indicators such as the trade deficit, current account balance and gross official reserves also showed resilience and positive movements during the year.

Sri Lanka has enjoyed a positive atmosphere in the global markets frontier as well, despite continued sanctions on trading partners such as Russia and Iran and the weakening of some economies that import our produce.

The Colombo Stock Exchange (CSE) flourished during the year with the All Share Price Index crossing the 7,000 mark in August 2014 for the first time in three years. The CSE achieved a number of other performance milestones during 2014, such as the S&P SL 20 index crossing the 4,000 mark for the first time since its launch and the CSE daily turnover recording LKR 8.2 billion, on 19 August 2014, the highest since 16 March 2012. The CSE also had several equity IPOs, debt IPOs and an equity introduction, all of which further reiterate the keen investor confidence placed in the Sri Lankan economy.

Furthermore, in a bid to improve the risk management framework within the secondary market and to offer a stable environment in the form of efficient trading, clearing and settlement systems in the CSE, the Securities and Exchange Commission (SEC) embarked on setting up an integrated Central Counter Party mechanism jointly with the Central Bank of Sri Lanka and the CSE. Such a measure indicates the convergence of trading with global best practices, and will further strengthen investor confidence placed in the Sri Lankan security trading market.

## Banking Industry Landscape

The low interest rate regime continued during the year in line with the Central Bank's monetary policy measures to stimulate domestic credit growth. However, credit growth amongst banks remained a challenge with low credit demand from the private sector.

The asset quality of banks improved towards the latter part of the year, reversing an increasing trend in Non-Performing Loan (NPL) ratios seen in early 2014. Provision coverage also continued to improve largely due to the reduction in NPLs.

The industry continued to respond to the sector consolidation programme of the Central Bank of Sri Lanka towards creating a banking industry that will be structurally robust and capable of financially energizing the needs of the growing economy. Several institutions undertook the preliminary discussions and steps towards such consolidation, amongst which your Bank together with its counterpart DFCC Bank PLC were two key activists.

## Return to Shareholders

The national economy posted good results during the year and provided growth opportunities to the banking sector participants. The Bank and the Group too recorded exceptional performance all round. Group profit attributable to shareholders grew by a resounding 56% to LKR 4,134 million. This was matched by an interim dividend of LKR 7.00 per share paid to shareholders in November 2014, which will be followed by a final dividend of LKR 4.00 per share payable by 9 March 2015. Key shareholder indicators, as discussed under Investor Capital (page 66), indicate strong growth in the value created for shareholders.

## New Approaches to Reporting

For us, there is excitement in communicating with you, showing how well your Bank is delivering value to its key stakeholders, and vice versa. We produced our very first integrated annual report last time, for the year 2013.

Your Bank fully recognizes the confluence and interdependence of economic, environmental and social aspects in creating value over time, and they are duly reflected in our business model. In our reporting for 2013 we had adopted a new approach to sustainability reporting. It was one that seamlessly discussed sustainability aspects right across our new reporting structure, while adopting the Global

Reporting Initiative GRI G4 Sustainability Reporting Guidelines. We have further refined these approaches in reporting for 2014, while going one step further by voluntarily reporting the Bank's carbon footprint for the first time, calculated in accordance with the GHG Protocol Corporate Standard.

## Governance that Goes Beyond Compliance

Good governance is a reigning principle at your Bank's board room and all aspects of business, a virtue that is instilled in the mindset of all our employees as well. As detailed in the section on Stewardship later in this Annual Report, your Bank is run within a comprehensive and transparent corporate governance framework that is in accordance with applicable rules and regulations governing the banking industry, with systems in place to ensure total compliance thereof.

## Resolute in Strategy

The Board, with the active participation of staff, devised a medium term Strategic Plan 2014-2018 which brought into nexus the key elements that were essential in taking the Bank to new levels of performance. Being resolute in strategy, execution through systematic tracking has enabled the Bank to achieve a more coherent, logical, and strong operational model, and has set the Bank on a strong growth platform.

## Focused on the Future

Times of exciting change lie ahead for your Bank. As reported in our Annual Report 2013, the Central Bank of Sri Lanka has encouraged the consolidation of the banking and finance sector in the country. The ongoing discussions between your Bank and DFCC Bank PLC, yet another development banking stalwart in Sri Lanka, will be promoted in the best interests of shareholders and other stakeholders, while implementation is subject to the passage of required legal and regulatory approvals. A considerable amount of preparatory work relating to the proposed amalgamation has been undertaken during the year under review. The Bank will await further policy guidelines on this matter from the regulators before deciding on the next steps.

We reiterate our focus on organic business growth till such consolidation is effected, and our readiness to realign our endeavours at the times needed, to be a part of a larger entity which certainly will deliver enhanced returns to all our stakeholders.

## In Appreciation

A year of excellent performance could not have been achieved if not for the collective contribution of many important individuals and groups. I wish to express my heartfelt gratitude to my fellow Board members of the Bank who bring to the table years of expertise, business acumen and inspiring leadership. Our shareholders and customers are also acknowledged with great appreciation for the trust and confidence they have placed in us. I also thank the employees of the Bank led by the Chief Executive Officer Mr Rajendra Theagarajah and all subsidiaries for their unity, perseverance and loyalty in raising the NDB Group to the heights it has reached today. I also thank the regulators for their professional guidance and support rendered at all times.

## Pushing the Pace in a Resurgent Sri Lanka

Sri Lanka is surging ahead in an economic renaissance not seen ever before. Despite a change in political leadership subsequent to the Presidential Election of Sri Lanka that was concluded in early January 2015, we are firmly convinced that the country's growth momentum is heading at the right pace in the right direction with the '100 day programme' of the new government.

Your Bank too is pushing its pace to play a pivotal role in the resurgent economy.



**Sunil G Wijesinha**  
Chairman

13 February 2015