

Chief Executive's Review



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2020 was a pivotal year for DFCC Bank, marking 65 years of being a pioneer in Sri Lanka's banking sector and one of the oldest banks in the region. The year also marked the firm establishment of the Bank as a fully-fledged commercial bank in the minds of the public. The Bank has made great strides in recent years to capture market share by demonstrating itself to be a fully committed commercial bank. Most importantly, the Bank's agility was on full display in 2020 as it fully embraced its goal of becoming a customer centric, digital-first bank to serve its customers during unprecedented times.

The pandemic also created the opportunity for the Bank to change mindsets, not just to adapt to the new normal but beyond it as well. During 2020, the Bank implemented the "War Room" concept, in which four key focus areas were identified: deposit mobilisation, managing the debt moratorium, cost optimisation, and strengthening alternative channels. It took all the Bank's employees to come together, despite the logistical impediments and obstacles posed by the pandemic and actualise these four key focus areas so that we could serve our customers and provide relief to them, while complying with the Government's mandates.

A resilient strategy

Vision 2025 has proven to be a very resilient plan. Although our KPIs are quite ambitious and the pandemic would have slowed down certain aspects, we were also able to successfully implement many significant improvements two years ahead of schedule. We are now ready to acquire and onboard customers remotely via our digital platforms. Credit hubs came about as one of our many process improvements, which simplifies individual client processing by offloading it from the business units and branches and shifting them to seven centralised credit hubs, thus boosting

turnaround times. Workflows have been introduced and the Google Workspace suite has been fully implemented across the Bank. We have introduced more convenient features and propositions for our customers, such as chatbots to complement our Contact Centre staff and systems in assisting our customers. We launched the Pinnacle Centre in Colombo 07 to attract high-end customers to the Bank and our customer centric focus has been vital to its success. We have done a lot of work to improve the customer experience through our Customer Experience Unit and our sophisticated Contact Centre now has the ability to monitor customer feedback. Our digital propositions such as DFCC iConnect and the DFCC Virtual Wallet are increasingly popular among our customers and we have worked steadily to introduce new features to our platforms and apps. A new core banking system will be completed in 2021 and transform how we interact with our customers and respond to their needs.

Dealing with the global pandemic

As a relatively new commercial bank in the Sri Lankan banking sector, DFCC Bank really swung into full gear as our liability growth was comparatively higher than other commercial banks during the year. Building our Current Accounts and Savings Accounts (CASA) has been a vital means of securing low-cost funding and we made great strides in 2020. We were also fortunate to not have to let go of any of our 2,072 employees across all our business units. Extensive health and safety precautions were exercised across our branch network. We encouraged working from home wherever possible and provided laptops and VPN connections to employees to facilitate this. In cases where working from home was not possible, we identified strategic locations for our employees to work from and implemented a roster system to maintain social distancing

and reduce footfall at branches. We also extensively participated in the Central Bank's moratorium programmes to offer concessions to our individual and business customers, providing them with some relief during these uncertain times.

Financial performance

2019 had already been a difficult year for the country, but we saw progress towards the latter end of that year and started 2020 on a positive note. Indicators such as loan growth and liability growth were positive until the pandemic gripped the world in March. For the first time in our 65-year history, we had provided an unprecedented amount of relief measures, concessions, and extensions to our customers on a large scale. Naturally, our forecasts for the year were impacted; our interest margins fell, capital ratios were affected, and the impacts will continue to be felt in the years following 2020.

Against all odds, under adversarial conditions, the Bank delivered sound results for the year ended 31 December 2020. Total income grew to LKR 43,300 Mn from LKR 43,297 Mn in the previous year. Deposits experienced a 25% growth to LKR 310 Bn and advances grew 11% to LKR 302 Bn. Although net fee and commission income grew slightly to LKR 2,061 Mn from LKR 2,046 Mn the previous year, net interest income declined by 13% to LKR 11,007 Mn due to the developments during the year. This resulted in our interest margin decreasing to 2.53% in December 2020 from 3.25% in December 2019. Our non-performing loans ratio grew to 5.56% from 4.85% over the same period, in line with the rest of the banking sector. The cost management procedures we employed during the pandemic proved to be effective, with our total operating expenses declining by 2% to LKR 7,387 Mn and a cost-to-income ratio of 48.97% for the year.

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Our Group as a whole recorded a profit before tax of LKR 3,944 Mn and profit after tax of LKR 2,847 Mn against LKR 3,308 Mn and LKR 2,300 Mn respectively in 2019. Our subsidiaries all contributed positively to this growth. Our earnings per ordinary share improved by 9.7%, increasing from LKR 7.14 in 2019 to LKR 7.83 in 2020. We declared a final dividend of LKR 3.00 per share by way of a scrip dividend for the year ended 31 December 2020. More details about our financial performance can be found in the Financial Capital section of this report.

A renewed approach to sustainability

In 2020, we took a fresh look at how DFCC Bank approaches sustainability and felt that our existing initiatives needed to be revitalised and better aligned to the overarching Vision 2025 strategy. Thus, we set about developing a new Sustainability strategy and implemented it with the blessing of the Board of Directors. The new strategy focuses on building the resilience of the Bank by developing a resilient business and working towards becoming a bank specialised in green finance, careful consideration of our impacts on our environment and working towards becoming carbon neutral, and developing resilient communities by developing a sustainable culture and lifestyle. The agenda of our sustainability initiatives is to ultimately strengthen the resilience of the Bank, its stakeholders, and the country through digitisation, empowerment, innovation and inclusivity.

Awards and recognition

The Bank received a fair number of awards and recognition during the year. We were ranked the number one Cash Management Service Provider in Sri Lanka by Euromoney. Further, the Bank was awarded Market Leader in Cash Management (Domestic Banks) and Best Service in Cash Management in Sri Lanka by Asiamoney, earned Merit awards by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for our *Samata English* and *#TogetherWeGrow* initiatives, and won awards for our automated debt moratorium initiative by SLASSCOM and our website by bestweb.lk.

Outlook

Going forward, our focus will be to engage with our customers to ensure that recoveries are taking place. Our centralised credit hubs will go a long way to ensuring that our customers are helped with their requirements looked at on a standardised basis across the country. We have identified sectors to target in 2021 and internal champions who will drive our initiatives in sectors across the country. We will continue to expand our digital footprint and the launch of the core banking system will be a significant achievement that will be the foundation for at least the next decade of innovations at the Bank.

Having recently been appointed as the Chairman of the Sri Lanka Banks' Association, I have a positive outlook on the country and the Sri Lankan banking sector as a whole. After a long period of uncertainty, we have political stability and a policy direction that should help to strengthen the country. Unforeseen circumstances aside, although there are many challenges to overcome, we feel that 2021 will be the year that we can take a quantum leap.

Acknowledgements

I wish to express my gratitude to our Chairman, Mr J Durairatnam, and our Board of Directors for their guidance and support of our initiatives. I thank the Governor, the staff of the Central Bank of Sri Lanka, and the Treasury and its officials for their support. I would like to specifically acknowledge our subsidiaries, who have played a key role in our growth.

I thank our staff for their efforts and perseverance during these difficult times. Finally, I would like to thank our customers for their continued loyalty, and our shareholders for their continued patience and support.



L H A L Silva
Chief Executive Officer

17 February 2021