

# NDB Stable Outlook For 2019



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**National Development Bank (NDB) is prepared to face 2019 with strong strategic initiatives that will propel the Bank's growth momentum. Established in 1979 as a fully state-owned development finance institution, the Bank entered its shares on the Colombo Stock Exchange in 1993. NDB today, functions as a listed commercial bank with the strength of a unique full-fledged financial service growing in the country. While highlighting the Bank's past achievements, especially in terms of gender equality and empowering SMEs, Dimantha Seneviratne, Group Chief Executive Officer comments on their future initiatives. As 2019 progresses, he reiterates NDB Bank's commitment to customers through product innovation and greater efficiency driven by digitisation.**

**By** Gayathri Kothalawala and Keshini De Silva

**Photography** Mahesh Bandara

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## **What was the performance of the Bank in 2018?**

Growth has been good in terms of assets and liabilities. As per the interim unaudited financial results released to the Colombo Stock Exchange for the financial year 2018, the early balance sheet grew by 23 per cent, whereby total assets stood at 473 billion rupees while total industry assets grew by 15 per cent for 2018. Within total assets, gross loans and receivables grew by an impressive 27 per cent whilst deposits also grew by the same rate. Both these growths are well ahead of the industry averages. Profit After Tax grew by 30 per cent to reach 5.7 billion rupees, the highest ever recorded by the Bank in its history while PAS grew by 51 per cent.

It has been tremendous to receive the complete support of the staff and branches. Everyone has worked towards achieving these results.

Despite 2018 being a challenging year, NDB has achieved beyond expectations, and we are quite comfortable with our performance. In doing so, we maintain a close check on the quality of the portfolio, its balance and the mix into corporate banking, retail banking and business banking. We have a well distributed balance sheet, which will prove to be a strong launching pad for 2019 and onwards.

***NDB Has Achieved Beyond Expectations, And We Are Quite Comfortable With Our Performance. In Doing So, We Maintain A Close Check On The Quality Of The Portfolio, Its Balance And The Mix Into Corporate Banking, Retail Banking And Business Banking.***

Considering that we are a mid-sized bank, NDB has done well and the Bank has won two key awards. We received the Banker Award, which has been awarded by the The Banker Magazine for over 80 years. This is the first time NDB received this award. We were also recognised by Global Finance of USA, as the Best Bank in 2018. Winning both these awards in one year, is a significant achievement. It is the first time that a mid-sized bank received both awards from two independent authorities after rigorous assessments in the same year. This achievement speaks volumes in terms of the progress NDB has made over the last few years. It demonstrates to the world that NDB is one of the best banks in the country, and that we have much to offer our customers.

In addition, we have been recognised for retail banking, branding and have

received various sub awards from Asian Banker and Euro Money. Euro Money has also rated us as the best investment bank in Sri Lanka for seven consecutive years. In addition, CA Sri Lanka has recognised our annual report. We were also the Gold Award winners at the National Business Excellence award for the banking sector. We are grateful for the continuous support of our customers and staff and dedicate these awards to the Bank's customers, staff, shareholders, regulators and other stakeholders.

### **How did NDB Group perform within the banking and financial sector?**

NDB Group consist of several companies. NDB Capital Holdings is a full service investment bank and the holding company of the NDB capital markets cluster. NDB Investment Banking is the best investment bank in the country, as recognised by Euromoney Magazine for the past seven years. The primary focus is on debt and equity raisings, and advisory services.

NDB Wealth Management manages close to 95 billion rupees in assets and is the country's largest private sector asset management company. Apart from corporate clients, we have a growing retail wealth management base as well. We have a strong sales force, which actively promotes wealth management as a savings product. We are not competing with each other. Instead, we provide consolidated services to high net worth clientele, ensuring they have the option of wealth management as a product.

Presently, a savings proposition is being considered for individuals with a monthly income, which enables them to hold a savings account with us. Once their savings reach a certain figure, with the customer's agreement, the funds can be transferred to a wealth management product. This provides the customer the opportunity to earn a higher return rather than maintain the funds in a savings account. It is a combined product offered in collaboration between the two teams, and it will be launched shortly. Clients will also have a complete view of all the accounts. When they log into the system, they will be able to view their current savings balance, fixed deposit balance, wealth management balance and share portfolio balance. The one view account has been tested, and it will be offered soon.

The next company is NDB Securities. Although the market is not too active at the

moment, when there is good activity, the stock brokering arm of NDB is at the forefront. They have a high performing research team, which has won several awards. Recently the CFA Institute has recognised one such research paper.

The private equity management arm, NDB Zephyr Partners, manages funds for investment in equity capital of emerging, scalable SMEs that have growth potential. At present, we have made private equity finance investments in several companies.

DHPL (Development Holdings) is a joint venture between NDB Bank and the Export Development Board (EDB). DHPL is the company that owns the DHPL Building along Nawam Mawatha, which has 15 floors. While NDB and EDB occupy part of the building, over 50 per cent of the floors are rented to reputed clients, which in turn adds value. We have an auditorium available for renting, and we continue to concentrate on maintaining and upgrading the standards of the building.

In addition to Sri Lankan companies, NDB Group also has an overseas subsidiary named NDB Capital in Bangladesh. This subsidiary focuses on investment banking activities in Bangladesh. Performance has been volatile, as for example, the share broking industry has been slow, thus, naturally NDB Capital has not met performance expectations. Yet, considering the circumstances, they have performed well overall.

We are now focusing on harnessing the Group potential via synergies. A separate task team is assigned to work on this area.

***NDB Is Reputed For Its Ability To Identify The Requirements Of Individual Customers And Their Businesses. It Is In-Built Into Our Culture, Because As A Development Bank We Assisted The Smaller Entities To Progress To A Higher Level By Providing Capital, Term Loans And Project Financing.***

## **What is the customer base of NDB?**

As a commercial bank, we cater to the entire spectrum of customers, both in Sri Lanka and overseas ranging from retail industry to blue chip companies. We have

corporate customers and project financing clientele who are interested in investing in large projects. We play the role of the financier in these types of projects.

Corporate banking requires various types of working capital plus investments and mixed assets for which we provide funding. We have segregated business banking to business-smart and business-small. This has been a strategy to reach affluent and emerging SMEs in Sri Lanka. Many SMEs have chosen to bank with us, as we offer unique propositions. We have a micro-finance client base as well.

Our retail banking service caters to individual customers, and NDB has the largest personal loan portfolio in the Sri Lankan banking sector. These are customers to whom we have provided financing to support them in fulfilling their dreams and aspirations. Our credit card service caters to all walks of life and is a very popular proposition.

We also have a significant customer base overseas, where multinationals bank with us due to corporate banking facilities and private banking services offered by NDB. This includes Sri Lankan investors who have ventured overseas.

For example, NDB was the pioneering bank that supported Sri Lankan businesses to invest in power projects in African countries and develop their investments and ventures in the African continent. Our subsidiary in Bangladesh, focuses on investment banking. This subsidiary has assisted many Sri Lankan entities to venture to Bangladesh by making use of our investment banking connections in Bangladesh. We also assist them in overseas market expansion.

**Could you elaborate on the services offered to NDB's SME and microfinance customer base?**

When we assess our portfolio, there is great potential in terms of the NDB branch network. At present, we have 109 branches to reach our SME clientele, who are the backbone of the economy. Although there are many corporates and individuals, the driving force of the economy are the SMEs. This sector requires assistance and guidance from financiers. It is not merely about providing a financial facility and forgetting about them. We need to guide them and advise them of the various loan schemes available. NDB offers many re-finance and low-cost support funding schemes for upcoming entrepreneurs.

NDB is reputed for its ability to identify the requirements of individual customers and their businesses. It is in-built into our culture, because as a development bank we assisted the smaller entities to progress to a higher level by providing capital, term loans and project financing. We have built a new client base through various offers for business banking. For example, NDB provides free of charge LC openings based on the number of transactions. Offers of this nature enable SMEs to enjoy the privileges that larger corporates receive. Hence, we have been able to grow within the SME sector.

Given the focus, a new head of business banking was appointed and a new verticle created to better cater to this customer base and that segmentation has helped us to grow. In fact, we experienced a significant growth in the SME sector last year.

### **What are the products in the overall portfolio at the moment?**

We have various lending and deposit products. This includes traditional overdrafts, working capital facilities, import/export credit facility, bill discounting facilities, various term loans, structured term loans, project finance loans, leasing and credits cards. These are the top lending products. Moreover, we have also concentrated our focus on deposits. Through our product development team, we have introduced new deposit products in addition to the traditional current, savings and fixed accounts. We have launched an innovative investment planner that provides customers a targeted savings figure. Araliya is a savings account dedicated for women. We have different savings products and educational loans for children.

Apart from that, I believe we have the Best Private Banking proposition in the market. Operating from the Privilege Centre at Dharmapala Mawatha and other PRV centres, we provide Privilege Banking and Personal Banking services to our premier clientele via branches with a dedicated relationship management team.

### **NDB is the first EDGE certified corporate in Sri Lanka. How would this impact the Bank and the customers?**

EDGE, which stands for Economic Dividends for Gender Equality, the leading global standard for gender equality, has assessed NDB's policies, practices and

employee's experience. It has also assessed the organisation's values in five different areas: equal pay for equivalent work, recruitment and promotion, leadership development training and mentoring, flexible working, and company culture. After a stringent evaluation and auditing process by an international team, NDB became the first company in Sri Lanka to obtain EDGE Gender certification, joining around 200 elite leading companies, in 50 countries and 23 industries.

As of December 31, 2018, females account for 39 per cent of overall staff and 40 per cent of senior management at NDB. We will continue our effort towards female empowerment. We have launched a proposition called 'Banking on Women' for the first time in Sri Lanka, with advisory support from IFC - a part of the World Bank Group.

The first product we launched for females was the Araliya savings account introduced in 2017. Today, Araliya has expanded into a proposition consisting of specialised bundle offerings including current accounts, business loans, credit cards as well as non-financial services, which will assist in empowering women to fulfill their dreams, goals and aspirations. A web portal will also be created for women entrepreneurs. There will also be service providers registering with us to work with these women entrepreneurs. We will provide guidance and support every step of the way to ensure a great product proposition for Sri Lankan women

*In Terms Of Customer Interactions,*

*I Am Happy To Note That Over 60 Per Cent Of Bank Transactions Are Being Carried Out Through Digital Channels. That Is A Big Step.*

### **How does NDB incorporate digitalisation into banking operations?**

As a mid-sized bank, we are in a strong, strategic position to venture into digital banking. We started our digital journey in mid-2017 and have made tremendous progress over the past one and half years. One key aspect is the digitisation of all processes. While only a few banks in

Sri Lanka have moved into this sphere, NDB is one of the pioneers in digitalisation to minimise human intervention. We are also considering all current process elements to identify areas that can be developed through digitisation

including RPA - Robotic Process Automation so human error is minimised and efficiency is improved.

In terms of customer interactions, I am happy to note that over 60 per cent of bank transactions are being carried out through digital channels. That is a big step. Apart from that, we are also launching a few branches where the digital experience is integrated with branch staff services. The first 'Phygital' branch was opened in Colombo Fort in January this year, known as NDB NEOS. The main focus of these branches will be on paperless account opening and transaction processing. For example, customers will not need to fill paper forms and queue up. Instead, a Padbot will handle the queue management and the client interaction will be done via a digital platform on interactive digital devices. Staff will be on hand to assist customers with their transactions if required.

We have also facilitated digital transactions through cash recycling machines, which we launched in 2018. We have more than 30 cash recycling machines in strategic locations across the country, which enable customers to make deposits 24/7. Over the past year we have identified that this service is significantly being used by our corporate customers to deposit their daily collections. The 24/7 availability of the cash recycle machines offers greater convenience, as customers are able to deposit their cash even outside normal banking hours. The key feature of these cash recycle machines, which are more expansive than traditional ATMs is that deposited cash is re-used for cash withdrawals, which leads to lower maintenance costs for the Bank.

We have also launched branchless banking - 'Bank2U'. Our staff are equipped with a tab and they visit clients to make collections. Through Bank2U, we have handled monetary transactions totalling over one billion rupees last year. This extends our reach to unbanked clients as well. For example, at weekly fairs, our staff visit vendors in the evening or morning to make the collections, thus easing their burden. Interestingly, through this service we manage the savings of trishaw drivers in some regions, and it has helped them develop their savings habit. We now have a significant number of trishaw drivers saving their day-to-day earnings with us. NDB has been able to take banking to newer heights through branchless banking.

We will continue to invest in cash recycling machines and branchless banking, as we believe that this is the future of financial digitalisation.



*Though We May Not Show It To The World, We Are Quite Active In Terms Of CSR. The CSR Initiatives Of NDB Are Aligned Under Three Main Pillars: Education, Environment And Entrepreneurship.*

**NDB also reaches communities through various educational and environmental conservation programmes. Could you explain these initiatives?**

Though we may not show it to the world, we are quite active in terms of CSR. The CSR initiatives of NDB are aligned under three main pillars: Education, Environment and Entrepreneurship. These initiatives are strategically designed to address key social and environmental concerns in Sri Lanka. The Bank works with key partners to implement these projects, ensuring that there is a sustainable impact.

For example, NDB has forged a fruitful partnership with British Council Sri Lanka over the past six years to implement the 'English for Teaching' project. This is a key CSR project under the Education Pillar. This project targets secondary school English language teachers in ten regions and assists in enhancing their knowledge in English and methodology of teaching. To date over 1,000 teachers have been trained impacting over 700 schools and 170,000 students. The key objective of this project is to provide high quality English language teaching to improve the levels of English language learning in Sri Lanka. The ultimate goal is to raise the employment profile of school leavers joining the workforce.

Under the 'Environment' sphere, the Bank partnered with the Field Ornithology Group of Sri Lanka and the Wildlife and Nature Protection Society of Sri Lanka, to conduct awareness programmes for school children. Coupled with classroom lectures as well as field visits to National Parks and the Sinharaja World Heritage Forest, the key objective is to empower the younger generation to protect and conserve Sri Lanka's rich biodiversity and wildlife. Thereby we hope to mould them to be 'Sustainability Leaders' and act as 'change agents' in society working towards environmental conservation. NDB is also mindful of its carbon footprint and has implemented policies to mitigate any adverse impacts on the environment. The Bank's 'Environmental and Social Management System' ensures that all credit facilities are subject to a stringent environmental and

social assessment. This is built into our credit assessment cycle and extends across every sector.

**What are your thoughts on the potential and opportunities for the banking industry this year?**

The industry is facing challenging times, with stress posed by the interest rate and also on the liquidity side. Last year, we had a moderate economic growth and in that context growth for the banking industry is quite challenging. Last year, NDB grew by about 23 per cent in total assets, whereas the industry would have grown by 15 per cent. Therefore, we have grown above the industry average with certain strategies and executions. However, it was a challenging year, and many of these challenges will continue into 2019.

In terms of liquidity, everyone will be looking for scarce liquidity to manage cost. Another challenge is asset quality, measured by non-performing loan ratio. Growing the asset group while maintaining the quality in a low economic growth scenario will be a challenge.

*Amidst Continued Business Growth, We Will Concentrate On Improving Our Internal System Efficiencies. In This Regard We Have Trained Process Champions In The Lean Six Sigma Black-Belt Arrangement To Enable More Efficient Processes With A Reduced Error Rate.*

From the perspective of interest rates, there will be challenges to reduce the cost of assets, maintain a decent margin without damaging clients' profit base. We have to understand that our customers are also facing similar challenges, thus we cannot pass all our costs to the customer. Therefore, we will have to consider improving cost efficiencies internally to achieve reduction in our cost base.

A challenge we face is in minimising our cost of funds as well as the cost of deliveries of our services and products to customers. The digitisation initiatives that we set in motion last year will play a major role in enabling cost efficiencies this year. This includes the digital channels, digital branches, branchless banking proposition and cash recycling machines. By reducing human intervention and the use of IT platforms we aim to reduce our own costs. Thus, we will be able to pass the benefit to our clients without passing the entire cost escalation.

We believe there is great potential in our regional branch network consisting of 109 branches. We have around 31 young branches, which are less than five years old. This is the potential for NDB, as compared to mature banks; these branches have tremendous upside potential.

A separate project is being carried out in the branch network, where individual branches are being assessed through a SWOT analysis to identify potential opportunities. We are identifying their needs such as staffing issues, product knowledge or marketing and the means by which we can support them. We work as a team to assist these branches to reach their optimum level. There will be key implementations that will take place in 2019.

We have received regulatory approval for few branch expansions. Due to construction delays, we could not implement certain planned activities last year. Therefore, these will be implemented this year and we will see some increase in our branches and relocations to better serve our clients.

### **Moving forward, what are the strategies implemented by NDB?**

NDB Bank having recorded a substantial asset growth in the balance sheet most likely will be moving towards a systematically important bank status, which the regulator has defined as over 500-billion-rupee asset base. This is of significant importance to banks in the industry. Once we reach that stage, we will be required to maintain a higher capital requirement as well. Therefore, a key priority for this year is to raise more capital to support this growth.

We will also continue to invest in our IT systems. A core banking change/upgrades in several other systems will most likely take place this year to propel growth. More importantly, IT driven investments will provide front line staff greater efficiency and a better mode of interaction when working with the system.

Apart from this, our growth momentum will continue. Amidst continued business growth, we will concentrate on improving our internal system efficiencies. In this regard we have trained process champions in the Lean Six Sigma Black-Belt arrangement to enable more efficient processes with a reduced error rate. The champions are being trained to eliminate waste and work towards better efficiencies.

NDB Bank will concentrate on getting the processes right this year and stabilize our base to have a strong launching pad for the next phase of growth from 2020 onwards.

