Achieving Our Financial Goals

SANASA Development Bank PLC experienced, what could best be described as a subdued financial performance in 2018. This was mainly due to the increased "provision for impairment" of loans and advances that all banks were required to make, to comply with Accounting Standard SLFRS 9.

The summary comparative results for the 2 years 2018 and 2017 are shown below:

	2018 (LKR Bn.)	2017 (LKR Bn.)
Net interest income	**4.693**	3.887
Net fee and commission income	**0.222**	0.275
Total operating income	**5.216**	4.425
Impairment for loans and other losses	**0.526**	0.293
Net operating income	**4.690**	4.132
Profit before taxes	**1.113**	1.102
Taxes (VAT, NBT, Debt repayment levy, Inc. tax)	**0.756**	0.594
Profit after taxes	**0.357**	0.508

Net interest income increased year on year by 21% with interest expense maintaining their cost at 64% of income. This was a positive result since the credit market did not offer cheap money during the year.

Highlights

Total asset base – LKR 96.818 Bn.	Growth of asset base – 17.5%
Deposits – LKR 67.475 Bn.	Deposits growth – 12.6%
Loans and advances – LKR 77.507 Bn.	Growth in loans and advances – 16.2%
Total equity – LKR 7.448 Bn.	Market capitalisation – LKR 4.22 Bn.

Transformation and their financial impact

The transformation of SDB Bank began in 2014 as the Bank planned to increase their Equity to LKR 5 Bn. by the end of 2015 and the asset base to LKR 100 Bn. by end December 2018. The equity is now at over LKR 7 Bn. and the Asset base was LKR 97 Bn. at 31 December 2018.

The next milestone was to convert the focus of the Bank from the micro sector to the SME sector. The Organisation was re-structured with an emphasis on 3 main pillars – SME, Retail and Co-operatives. Business generated from the 3 pillars has now moved from a prior concentration to 28%, 66% and 6% respectively.

In addition, as part of the transformation process, the credit approval structure was revamped and centralised, a tele-collection centre was established to manage the recovery process, the credit administration function was de-centralised to 4 different locations, Treasury and Risk Management were revamped and good practices with sufficient internal controls were introduced.

The loan approval process was automated from the previous manual system. The efficiency levels have increased and processing time has been reduced, resulting in achieving the desired volumes of business.

Internet and mobile banking are expected to be launched in 2019.

Meanwhile, 64% of all loans are now subject to floating interest rates.

When it comes to lending the Bank follows International Corporate Social Responsibility (ICSR) principles, which covers environmental, social and governance aspects.

Financial performance

The key financial performance indicators relevant to the Bank's activities are shown below:

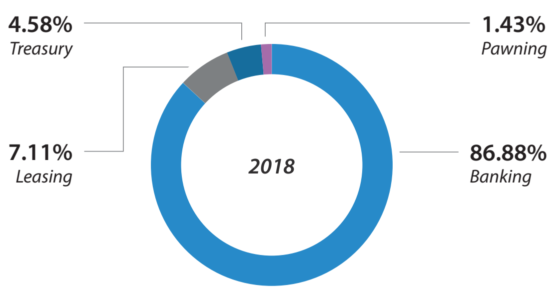
Key performance indicators

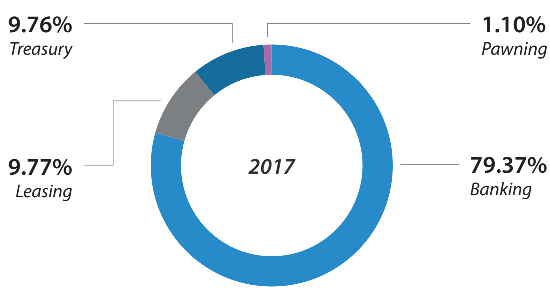
	2018 YoY growth %	Five year average growth %	Sector growth 2018 %
Interest income	21	25	13.9
Net interest income	21	21	16.3
Profit after tax	(29)	20	(8.7)
Gross lending portfolio	16	29	19.6
Deposits	13	24	14.8

While interest income and net interest income each grew by 21%, the Profit after tax suffered a decline due to the increased Provision for Impairment required to be made in compliance with SLFRS 9. Despite the decrease in the profit after tax, the Bank strengthened its fundamentals with growth in the Gross Lending Portfolio and Deposits by 16% and 13% respectively.

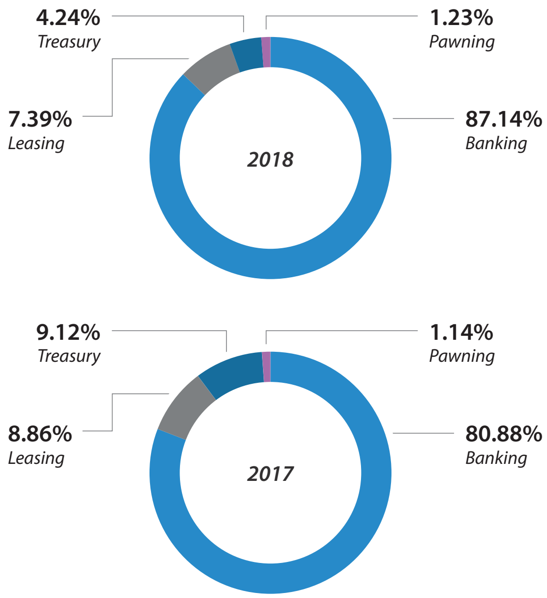
The composition of net operating income is weighted heavily towards income from banking activities as against leasing, treasury and pawning. The composition of total operating income is also similarly affected.

Net operating income



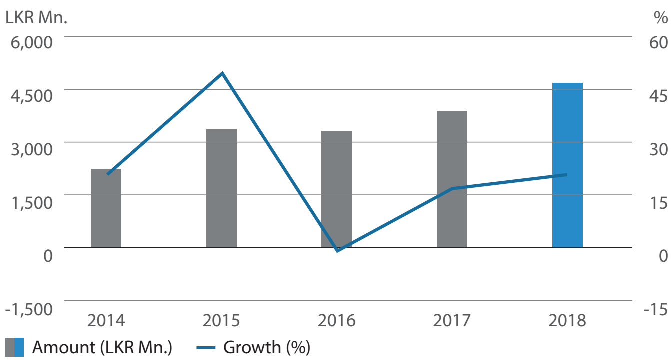


Total operating income



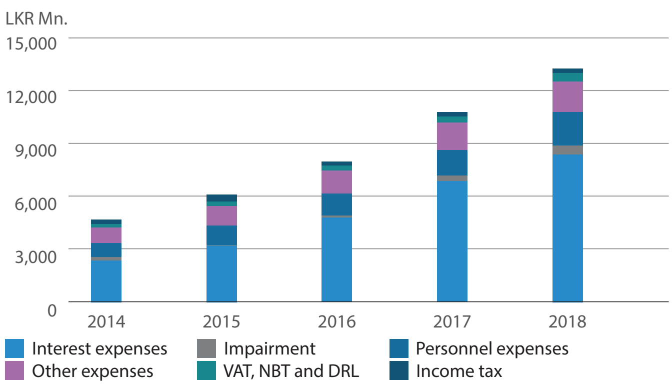
Net interest income has been showing steady growth except in 2016.

Net interest income growth



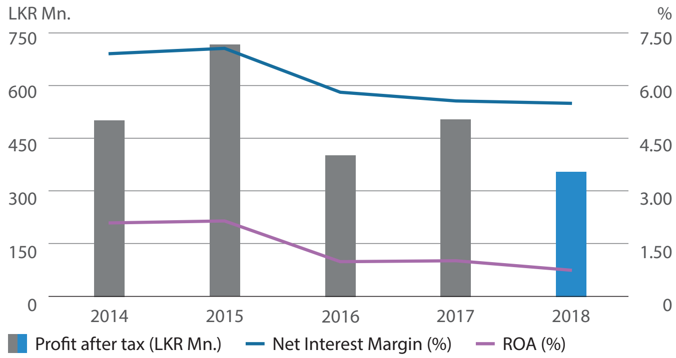
The composition of expenses has been consistent over the years and is being managed effectively.

Total expenses composition



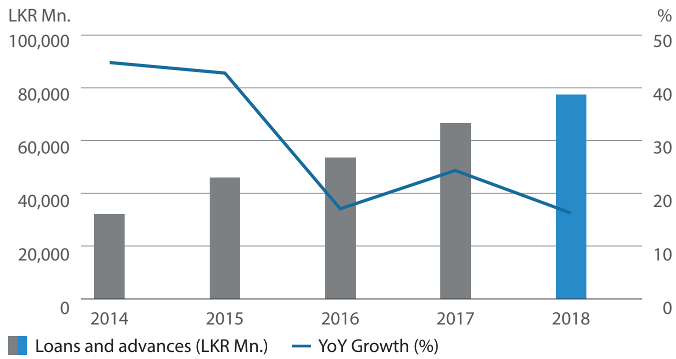
The profitability, net interest margins and return on assets haven't been as consistent in their growth patterns and will be an area of focus for the Bank in the future.

Profitability, NIM and ROA



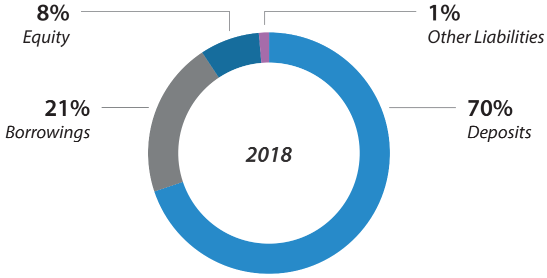
The rate of growth in loans and advances, while being less than in previous years, is still maintaining a consistent growth pattern as it implements its transformation agenda.

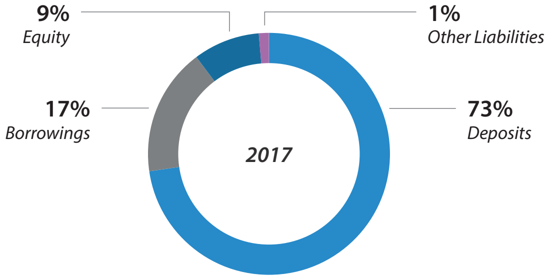
Loans and advances growth



The primary source of funding for the Bank remains deposits from its customers. The reliance on this reduced slightly in 2018 (from 73% in 2017 to 70% in 2018) and shifted to 21% of borrowings in the funding profile of the Bank.

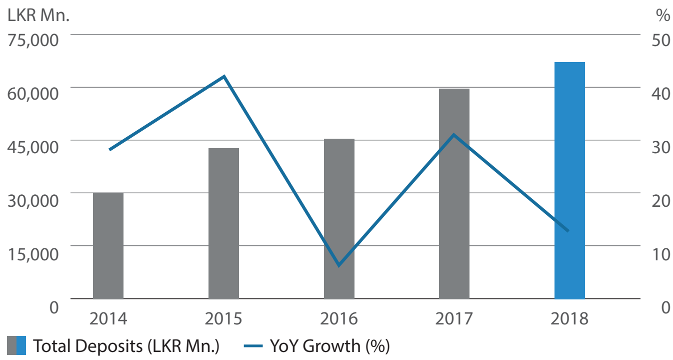
Funding profile





The negative growth in deposits contributed to obtaining more finance from borrowings in 2018.

Deposits growth



Value creation for shareholders

	2018	2017
Earnings per share (LKR)	**6.34**	9.87
Diluted Earnings per share (LKR)	**6.34**	9.87
Dividend pay-out ratio (%)	**Nil**	58.94
Dividend per share (LKR)	**Nil**	6.00
Dividend yield (%)	**Nil**	5.89
Market Capitalisation (LKR Bn.)	**4.22**	5.58
Return on Equity (%)	**4.83**	7.90
Growth in market capitalisation (%)	**-24**	28

The value created for shareholders suffered a setback this year, not through its operating fundamentals, but as a consequence of adjustments to the impairment provisions to comply with amendments to the accounting standard SLFRS 9.