

## Chairperson's Message



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Dear Shareholders,

For SDB Bank 2018 can be identified as a year of challenges. Being a development bank that depends heavily on the interest margins for profitability, and with a customer concentration largely on small and medium scale income holders, our balance sheet strongly correlates with the performance of the real economy and the inflation of the country. Growing business against a very challenging market situation while engaging in responsible banking, supporting a sustainable development process in the country is a major challenge we faced in 2018. In addition to the country's economic conditions, the introduction of the new Income Tax Act, the changes introduced to the accounting standards, and the full implementation of the BASEL III, have all had their impact on our operations, in varying degrees reducing the profit. The details of these challenges and the subsequent impact of these has been dealt with by our CEO in more detail.

I am happy to report that despite the challenges, the fundamentals of the Bank continue to be strong, with solid growth of the assets under management.

Sri Lankan banks have been mandated by the Central Bank of Sri Lanka (CBSL) under Basel III guidelines, to adhere to new minimum capital requirements by June 2019. Any bank that does not comply with these requirements is directed to withhold profit distribution to its shareholders. We are happy to report that the Bank was able to raise LKR 1.4 Bn. capital from two international investment agencies which enabled us to fulfil part of this capital requirement without troubling the existing shareholders. In order to meet the full capital requirement, as directed by the CBSL, SDB Bank has also made arrangements to raise capital further through alternative sources (subordinate debt arrangement) by May 2019. With this arrangement we can maintain both the economic and ownership rights of the existing shareholders unaffected, while complying with minimum capital standards set by CBSL. These measures will enable us to continue providing benefits to shareholders as we did in the past and ensure the resilience and continuity of the Bank to engage in its core development mission comfortably. Therefore, I earnestly request from all shareholders to be with the Bank and support the Management at this crucial juncture to make SDB Bank future proof and resilient.

As you already know the Bank underwent a massive re-engineering process, from operational systems, platforms, and technology to management processes. We have a structurally sound organisation that is backed by our SANASA societies that have been the bedrock of our operations. The Eco System of SANASA banking has provided SDB Bank a cost effective and efficient platform to engage and service a sector of the economy that otherwise would not have access to funds.

We are happy to let you know that we are now ready to face the technology disruptions and also to confidently engage with the larger co-operative movement with correct products and processes to develop the local economy and the wealth creation of small and medium sector enterprises.

Managing risk is fundamental to the operations of our Bank and we have taken steps to strengthen our risk management processes which have been overhauled and reorganised, to provide higher levels of comfort to our shareholders, in the integrity of our operations. The digitalisation of our processes has been instrumental in streamlining

and speeding up our processes. At the same time, it has given us the opportunity to introduce and instil controls in procedures that have contributed to increased vigilance on our exposure to risk.

While governance framework of the banking sector has become more stringent, we are happy to inform all shareholders that our Bank's Board of Directors consist of a diverse set of skills stemming from the vast experience they have gathered in the fields of management, banking, business, accounting, human resource management, gender mainstreaming and co-operative enterprise development. The contribution and expertise they bring to the subcommittees and the board meetings, provide clarity and direction to Management and enhance the fundamentals of governance.

I believe we have consolidated our financial position to an extent that gives assurance to our shareholders and to the market in general of our ability to provide the services we have been set up to deliver. I also assure you that we have all foundations, systems and human resources ready in the Bank to make a quantum leap.


A special mention must be made of the dedication and efforts of Mr Nimal Hapuarachchi, who retired after serving five years as the GM/CEO, for his leadership to complete the operational transformation of the Bank successfully, and Mr Kumar Mayadunne the former Chief Operating Officer who was able to provide leadership to smoothly manage the operational and HR changes. I like to also thank the staff of SDB Bank for their engagement and contribution.

I take this opportunity to thank the Board of Directors for their unstinting commitment to the well-being of the Bank and for their custodial role of the assets of the Bank. Their efforts have provided assurance to our shareholders in the responsible management of their capital.

Special thanks are also extended to all our business partners and customers who are integral to the functioning of the Bank. As the Chairperson of a bank created by the people for the people, I believe that it is only by making the average customer strong and resilient we can and we should grow as a bank. We look forward to working with you in a closer manner with better products to create value.

I am deeply grateful for the leader of SANASA movement Dr Kiriwandeniya and all the Co-operative leaders affiliated to the Federation of Thrift and credit Co-operative Societies Ltd. who created this Bank with a mission and a development purpose that is more relevant to current social economic situation of Sri Lanka than when it was created. The vision and the strategic goals of our Bank give us the road map for our development banking and the role a bank like SDB Bank can and should do to improve the real economy. I encourage all our stakeholders to actively engage with us with their ideas, funds and support in 2019.

We look forward with confidence to the year ahead.



**Samadanie Kiriwandeniya**

*Chairperson*

8 March 2019