

Chief Executive Officer's Review



We have a solid capital management plan which encompasses capital adequacy to meet regulatory requirements and a balanced dividend policy that will promote reinvestment in development of new products and services.

SANASA Development Bank PLC showed resilience and strength in its operations as it circumvented the challenges that arose during the year to record a relatively strong performance.

The new Accounting Standard which required an augmented provision in respect of impairment had an effect on the profit for the year. However, income increased and the profit for the year improved, prior to the increased provision required. This demonstrated that the basics of the business remained sound and positioned the Bank well to expect an increasingly profitable future.

Operating results

The operating results achieved by the Bank showed solidity in its fundamentals. We were able to increase our net interest income by 21% over the previous year and was within 91% of the budgeted levels. We were also able to maintain our net interest income margin of 36% in the current year. This was no mean feat given the rising cost of funds and the uncertain market conditions. The Bank's net operating Income grew by 13.5%. However, the profit for the year reduced significantly due to the increase in the provision for impairment, made in compliance with the requirements of the Accounting Standard, SLFRS 9. SDB Bank also increased its contribution to the national economy by 23% through higher amounts of taxes paid during the year.

Our loans and advances grew by 16% and deposits increased by 13%, while our total assets were also augmented by 18%. Capital adequacy ratios for both Tier 1 capital and total capital were maintained well above the regulatory minimum threshold.

Implementation of BASEL III is already underway and its provisions will be fully applicable from 2019. As at December 2018, we have satisfied all its requirements comfortably. We are confident that we will continue to comply with the regulations in the years ahead.

While the decrease in profit for the year could be considered a glitch in the operating performance, we can look forward to 2019 as we have laid the foundation for growth and sustainability this year.

As mentioned previously, we have increased our tax payments during the year in keeping with the provisions of the new Income Tax Act that came into effect in 2017. It is possible that the Government may introduce new impositions on banks and we are in a good position to be ready to meet those obligations.

Refocussing on our roots

We started the year with a Bank having a substantial retail portfolio. During the year, as part of the transformation process, we have gone back to our roots in being a development bank rather than a mainstream retail bank. Our strength lies in our ability to interact with the rural sector and promote and nurture those small businesses, including those in the micro finance sector. Our eco system of banking gives us access to over 3,000 active SANASA societies and in turn, to over a million households.

IFC and its transformation activity

We have been in partnership with International Finance Corporation (IFC) to assist us with our business model, front and back office operations, and our risk and governance frameworks. They have applied their expertise in these areas and optimised our operating processes. Primary among the changes introduced was the centralisation of our credit evaluation process. Combined with the digitalisation of the loan originating system, we are now able to speed up the process of making decisions on loan applications while controlling the credit risk.

Managing risk is central to the successful operation of the Bank's business. IFC has reviewed the process of risk management, reorganised the management of credit and market risk and undertaken training of staff. They have introduced an operational risk management framework, risk and control self-assessment models and key risk indicators to measure the risk of each major department and mapped the risks associated with business processes.

In addition, corporate governance procedures were evaluated and the recommended best practices in this aspect are being implemented. They are also training the Company Secretary and other key personnel in this regard.

Digital landscape

We are enhancing our digital platforms and growing the technological side of our business. Our mobile daily deposit collection process was implemented. With mobile phone coverage of 134% (28.3 million connections) in Sri Lanka, it is extremely important that SANASA products can be accessed and transactions conducted, electronically.

Staff development

The transformation agenda spreads its effects across the Organisation. It requires the involvement and commitment of each staff member to give effect to the benefits that it will bring to the operations of the Bank. All staff have and are being trained in the various aspects of operation and the champions who were selected to drive these changes are continuing to perform admirably. A performance management system which has been linked to incentive schemes for individuals, has been a vital component in winning the support of employees and in retaining key high performing personnel.

The signing of the collective agreement with the unions has contributed to an improvement in employee relations and consequently the Bank did not experience any major disruptions to our operations during the year. The Bank has also conducted reviews of jobs which have helped in streamlining operations, embedding a sales culture and increasing productivity.

Future outlook

The engagement of our employees in transforming the Bank, the strengthening of our risk management and governance processes, the optimisation of operating processes and increased digitalisation of the Bank's activities to cater to the technologically evolving population, augurs well for the Bank's future.

Going back to our grassroots brings a focus to our activities in our area of strength and paves the way for more interaction with the growing economic sector of the country. It is exciting that we are in a position to influence the growth of this sector and make available the financial resources that can engender not only growth but also increased exposure to technological advances among the rural population and contribute to their economic advancement and improving lifestyles.

We are intending to launch two new digital products, bring more of our customers into automated and digital banking with mobile apps and real time on-line transaction facilities.

We have a solid capital management plan which encompasses capital adequacy to meet regulatory requirements and a balanced dividend policy that will promote reinvestment in development of new products and services.

SDB Bank is committed to supporting the government in its efforts to widen the impact of economic progress among the population through a focus on promoting self-reliance rather than individuals seeking Government jobs to eke out a living.

2018 brought many challenges and we have been able to meet them and continue to be a stable banking operation.

As SANASA Development Bank PLC continues implementing its transformation agenda, its relevance to customers is becoming more and more apparent. Our move as a Bank to concentrate on the development sector gives us a significant opportunity to enhance the results of the Bank and provide a more than satisfactory return to our shareholders.

Acknowledgements

I wish to thank, former CEO, Mr Nimal C Hapuarachchi for his valuable contribution and the management team, all employees for their support and commitment to travelling this journey together, towards repositioning, and improving our performance in this competitive banking industry. Your contribution to every positive move we have made, has been vital to our success. It is appreciated.

I extend my appreciation and thanks to officials of all the regulatory bodies who have and continue to provide guidance to us on regulatory matters.

The patronage of the SANASA Societies who have supported this Bank since its inception is highly regarded and we thank them for their continued association.

The Chairperson and the Board of Directors have provided guidance through their collective wisdom, in moving this Bank forward. Their support, to me and my team has been invaluable in implementing the policies and procedures and the improvements we have been able to achieve. My sincere thanks go to them.

We look forward to the year ahead where we can leverage our strengths and propel the Bank forward to greater heights and notable achievements.



Thilak Piyadigama
Chief Executive Officer

8 March 2019