

Chief Executive Officer's Review



As we traverse new terrain following the seemingly inexorable march of COVID-19 across the world, we continue to benefit from the prudent actions taken during the year. For instance, our introduction of digital banking options and our efforts to familiarise our stakeholders with internet banking are paying dividends, allowing our customers to conduct vital banking transactions any time they need to.

Taking grassroots communities into the digital era has never been more critically important – and that is the timely journey we embarked on during the year under review. With 40% of Sri Lankans already digitally literate, our investments in digital platforms will pay-off in the years to come. Today, the formerly unbanked or under banked are able to capitalise on the chance to access and move funds – all from the palm of their hand. Particularly for micro and small businesses, this convenience, combined with growing financial literacy, will open many a door that was formerly denied to them. A rise in digital banking customers will also contribute towards nation building as the country endures and adapts to the changes that will inevitably be brought on by the growing spread of COVID-19 across the world.

Digital beginnings

During the year under review, we continued to support our key customer groups – co-operatives, small and medium sized enterprises (SMEs) and the retail segment – as they strove to return to normal life after the April disruptions. We introduced mobile banking using in-house expertise and invested in the UPay app to bring convenient, modern banking options to the masses. This digital push was combined with a raft of financial literacy programmes and internet banking kiosks installed across 100 co-operatives country-wide.

We also launched a business internet banking solution for our corporate banking customers. This segment is comparatively new to SDB bank but essential to our customer portfolio. As our SME customers grow, their financial needs change. Through the corporate banking segment we are able to migrate and retain former SME customers and provide financial services that are tailored to their needs. In return we benefit from the wider diversification of our portfolio.

Deepening investor confidence

The successful raising of LKR 1.8 Bn. from Stichting Fondsbeheer DGGF Lokaal MKB and 1.4 Bn. from Belgian Investment Company for Developing Countries NV/SA (BIO) is testament to the strength of our relationships and the confidence of our investors. Subject to compliance with the conditions stipulated in the Banking Act Direction No. 1 of 2016, these loans are due to be repaid in June 2024 and December 2024, and will contribute significantly towards the achievement of our 2017-2020 Strategic Plan.

Recognising excellence

SDB bank received many accolades during the year. We emerged victorious at the Asian Banking and Finance Awards 2019 held at the Shangri-La – Singapore with awards for the Financial Inclusion Initiative of the Year, the Advertising Campaign of the Year, and Rural/Co-operative Bank of the Year. At the 2019 National Business Excellence Awards, organised by the National Chamber of Commerce of Sri Lanka (NCCSL), SDB bank received a merit award in the Banking Sector category. Other awards for the year under review include recognition for our UPay app which secured the Second Runner-up Award in the Best Client Delivery Innovation category at the SLASSCOM Innovation Awards 2019.

Operating results

Our financial performance, during the year under review is a testament to the Bank's resilience and strength of operations. Net interest income increased by 20.62% over the previous year, exceeding the target set in the budget. Net interest income margin too slightly improved to 5.88% in the current year from 5.55% in 2018, which was commendable in the face of uncertainties following the Easter attacks, excess liquidity in the financial system and uncertain market conditions. A lower growth in fee-based income, however, caused the net operating Income to rise only by 11.24%.

Reflecting the deterioration in asset quality witnessed across the industry in the country, the provision for impairment, made in compliance with the requirements of the Accounting Standard, SLFRS 9 increased significantly from LKR 526 Mn. in 2018 to LKR 917 Mn. Consequently, the Bank's profit for the year reduced from LKR 357 Mn. in 2018 to LKR 253 Mn. We contributed LKR 997 Mn. to the national economy through taxes paid during the year.

Our net loans and advances, deposits, and total assets grew by 10.73%, 7.35%, and 11.33% respectively. Capital adequacy ratios for both Tier 1 capital and total capital were maintained well above the regulatory minimum thresholds. Implementation of BASEL III was also completed and its provisions are now fully applicable.

The unexpected hit to Sri Lanka's economy in April of the reporting year badly impacted our key customer demographic. Racial violence threatened to raise its head once more but at SDB bank, with our reputation for providing financial services regardless of race, religion or language, we remained true to rural communities across the nation, helping them to get back on their feet.

Brand refresh

During the year under review, we began a successful brand rejuvenation programme that is designed to bring SDB bank into the new digital era. While we have traditionally named our products and services using catchy terms such as *Athamaru* and *Jawaya*, research showed that a more straight-forward approach would make it easier for our diverse customers to identify our product range at a glance. As a result, names such as *Athamaru* were converted to SDB Gold Loan. In phases we will be converting the names of all our products and services with the SDB bank moniker at the forefront. It is a cost-effective naming convention that promotes both the Bank and its products and services.

Concurrently we also began changing the look and feel of our branches beginning with Pilimathalawa and Aluthgama. With the leasing arrangements for premises of these two branches coming up for renewal, we were able to convert their interiors and exteriors. The new customer-friendly look and feel provides an oasis of calm for our hardworking customers.

Passionate people

To be an SDB bank employee is to be passionate about our development mission. Uplifting the lives of our key customer demographic is a challenging but rewarding experience. Simply introducing them to our products and services will not cover the scope of what it takes to widen their horizons. This is why the role our people play in serving our customers is so critical. Not only do they provide financial services, but they also engage in teaching and creating awareness, and lifting levels of financial literacy among members of rural and grassroots communities.

Ensuring that our hardworking employees receive the support they need to better the lives of our customers, we partnered with Great Place to Work Sri Lanka. Having first listened to the suggestions of our people and conducted a pulse check on key concerns, we have now begun implementing steps that will lead to greater employee engagement.

This initiative is conducted in collaboration with training and capacity building programmes aimed at improving their technical expertise and experience in core banking as well as soft skills. Improving their digital banking skills has also been a critical focus which in turn empowers them to help customers make the transition to digital channels.

Future outlook

As the Chairperson has illustrated in her message, the journey ahead is going to be challenging. We are, however, well positioned to meet those challenges head on. Our employees are primed to help customers rebuild their lives. While continuing to train them in core banking skills we will also provide a wider range of development opportunities, including mentoring and grooming for future roles.

We will also continue to improve and streamline our systems and processes and the tools that allow our people to provide customers with the kind of financial products and services that truly speak to them. The refurbishment of our branches will also continue, ensuring that our customers have a professional, peaceful, and welcoming physical space to interact with SDB bank employees and successfully complete their banking transactions. A large part of our customer demographic still needs to be able to switch completely to digital banking. Whether individuals, clusters of individuals in co-operative societies or SMEs, digital banking has the potential to open doors that were formerly never within their reach.

As they go through those doors our customers' financial needs will begin to change. When they do we will be there for them at that point as well. Supporting them as they continue improving their lifestyles means preparing for tomorrow's changes today. Going forward, we will continue to introduce meaningful value additions such as mobile banking for our corporate customer segment to ensure that they too are part of our journey towards a digital future.

Sustainable business

Contributing towards the United Nations Sustainable Development Goals through what we do has been an honour. At the same time, it is important to note that many of the SDGs, such as zero hunger, ending extreme poverty, and gender equality have been at the forefront of what we have been doing for decades. The reporting year has been no different.

Our products and services are geared to serve a number of lifestyle stages and demographics from young children to youth, to women – particularly women entrepreneurs, war veterans and their families, and senior citizens. Yet, I am proud of the way our employees have taken the spirit of service beyond our product offering. Many participate in our financial literacy programmes for entrepreneurs, provide instruction on how to use internet banking and go the extra mile to understand the customer and raise solutions for the issues they face. I do not exaggerate when I say that improving the lives of rural and grassroots communities is a passion that drives our employees. For their commitment and dedication, I am truly thankful.

Further kudos

I also extend my sincere appreciation to the regulators for their guidance, the SANASA societies for their patronage and support, and the Chairperson and the Board of Directors for their visionary direction. Let me take this moment to thank Chairperson, Ms Samadanie Kiriwadeniya, who is due to complete her tenure of nine years in May 2020 for her immeasurable contribution to the Bank during her time with us. I also take this opportunity to wish our in coming Chairman every success in the role. In addition to all employees, I also thank the Management team.

Though the terrain ahead promises to be rough, together we will prevail in meeting our objectives.



Thilak Piyadigama
Chief Executive Officer

26 February 2020