

## WHAT THE FUTURE HOLDS

**This is how we plan to deliver value to our stakeholders during the period 2017 to 2020. We also provide information from credible sources on the forecast operating environment to provide context to our plans. While considerable efforts were made ensure the reliability of information presented here, we request you to bear in mind that these statements relate to the future and that opinions, forecasts and consequently plans are all subject to change as the future unfolds, changing both opportunities and risks.**

### Global Economy

The global economy is forecast to grow at 3.4% in 2017 with developing and emerging economies estimated to increase its pace of growth from 4.1% in 2016 to 4.5% in 2017<sup>1</sup>. At time of writing, there is significant uncertainty attached to forecasts as the new US Administration reveals and shapes its policy with possible global ramifications. Key assumptions such as near term fiscal stimulus package and increased pace in normalisation of monetary policy need to be monitored as US policy becomes clearer. The forecast also factors in the recent agreement amongst OPEC members and other oil producing countries to limit supply which also warrants monitoring given its impact on the global economy.

Growth in Emerging and Developing Asia is expected to pick up its pace of growth from 6.3% to 6.4% reflecting the normalisation of conditions in a number of countries currently experiencing macroeconomic strains. The forecast for China has been revised up in the expectation of continued policy support while the forecast for India has been revised down on the temporary negative consumption shock stemming from the currency note withdrawal and exchange initiative.

Downside risks to the forecast include a growing debate about the benefits of cross border economic integrations after the Brexit and US elections, shortfall in private demand and inadequate progress on reforms in advanced countries with impaired balance sheets, underlying economic vulnerabilities and geopolitical risks.

### Sri Lankan Economy

Sri Lankan economy is projected to grow at 5.5-6% in 2017 with expected rebound in agriculture activities and the improvement in construction activities, international trade and SME sectors. Downside risks to the forecast include the continuation of the ongoing drought, the developments in the global economy after Brexit and the US election and the increasing trend in global oil prices. Price stability will be a key pillar for sustainable long term economic growth. Strengthening of macroeconomic fundamentals, implementing structural reforms, and improving the business environment is essential for sustained economic growth. Central Bank of Sri Lanka (CBSL) will migrate towards flexible inflation targeting framework to focus on stabilising inflation in the mid-single digits over the medium term, while supporting growth objectives and flexibility in exchange rate management.

### Financial Sector

A broader, deeper and more liquid financial system is vital for efficient allocation of resources and to facilitate strong economic performance of the country.

Major regulatory provisions that will come into force in coming years *inter alia* include;

- Amendments to the Banking Act and a review of the key Banking Act Directions in areas such as share ownership, foreign borrowings and corporate governance.
- Bank Sustainability Risk Index is proposed with pilot run for large banks being conducted in the first quarter of 2017 which will focus on the efficiency, effectiveness and sustainability of individual banks and the banking sector.

- Capital positions will be strengthened in line with minimum requirements and the Basel III capital and liquidity standards. The Direction on Basel III Minimum Capital Requirements will commence implementation in July 01, 2017 with completion set for January 01, 2019 in line with the international timeline.
- CBSL will also focus on strengthening payment and settlement infrastructure moving towards a less cash dependent society which includes development of a payment platform to effect government payments, particularly the payments to Sri Lanka Customs, through the Common Electronic Fund Transfer Switch in real time.
- A national card scheme and a Common Point of Sales Switch and a Common Mobile Switch are being developed to facilitate clearing and payments.
- Further relaxing of foreign exchange transactions is also on the agenda with a new Foreign Exchange Act to be presented to Parliament in 2017.
- Regional development will be a key focus with the allocation of a Rs. 4 Bn. concessionary development credit scheme through participating financial institutions targeted at supporting Micro, Small and Medium Scale Enterprises (MSMEs).
- Formulation of a national strategy for financial inclusion, promoting commercial scale agriculture and dairy enterprise, a loan scheme for promoting rooftop solar power generation and green financing.

<sup>1</sup>World Economic Outlook Update, January 2017

### Our Plans

The Bank's strategy is primarily focussed on creating stakeholder value in the long term while balancing the exigencies of the short and medium term. Our strategic priorities to deliver value as depicted below is our blue print for resource allocation in driving earnings and growth:



Figure 27

Performance Indicator	Goal
Return on average assets	Over 2%
Return on average shareholder funds	Over 20%
Growth in income	Over 20%
Growth in profit	Over 20%
Growth in total assets	Over 20%
Dividends per share	Over Rs. 5.0
Capital adequacy	
Tier I – Minimum 5%	10%
Tier I & Tier II – Minimum 10%	14%

Table 12

We are committed to financial inclusion and have gained considerable experience and insights in to this through our Personal banking operations, consistently emerging as the largest provider of financing to the SME sector. Specialised units dedicated to driving MSME growth and 15 Microfinance and Agricultural units connected to branches gives us greater focus and agility to increase penetration in this segment. Our remittance network also serve to connect rural households to the banking system and we continue to enhance our value added services to these customers supporting customer satisfaction and acquisition.

Digitisation paves the way for scalable growth, customer convenience and global connectivity. Our strategy is threefold, digitising processes, customer experience and the core. From a perspective of adding value to customers, we will continue to build on the considerable progress achieved in 2016 by enhancing our online banking solutions, remittance channels and mobile banking products through collaborative partnerships, using appropriate technology. Our core banking systems will also be upgraded and security strengthened through planned initiatives providing a robust platform for growth.

Growth in international operations is based on using our expertise to address perceived opportunities in selected markets. 2016 was an exciting year as we tested waters in two new markets where the response has been encouraging. There is more work to be done in these markets and 2017 will be a year for driving growth in established territories through customised solutions.

International operations provides a new direction of growth for the Bank which is expected to provide stability in earnings in the future as we increase our geographical diversity. Bangladesh is a market that is projected to increase its pace of growth in

2017 and presents an exciting opportunity. Bank will expand operations in Maldives & Italy where we started operations in 2016 and also will continue to explore new markets in the coming year. Our expertise in SME and remittance are expected to play a key role in developing these markets.

Talent management has been a core strength of the Bank and we are able to attract talent to facilitate a robust pipeline. Our structured programmes combining internal and external training together with support for professional qualifications and a mentoring culture carefully nurtured at the Bank are core strengths. We remain committed to investing in grooming our future leaders and the talent necessary to support our growth aspirations.

Our brand reflects our values, capabilities and our promise. Sound corporate governance, disciplined risk management and a track record of industry benchmark earnings have contributed to building our brand. A performance culture drives excellence in all areas of operations supporting a growing number of awards and accolades which add lustre to the brand. These attributes will be the common thread that connects all our strategic initiatives as we look to our future.



Figure 26