

## Press Release

Results for the nine months ended 30 September 2018  
[Q3 2018]  
National Development Bank PLC – NDB.N0000



**Best Bank in Sri Lanka 2018**

## **NDB posts record profitability for Q3 2018 – Pre-tax profits up by 25% to LKR 5.7 bn**

- **Tax increased by 30% from LKR 2,369 mn to LKR 3,078 mn**
- **Post tax profit up by 22% to exceed LKR 4 bn**
- **Pre-tax profits from core banking operations up by 43% to reach LKR 6.4 bn**
- **Strong balance sheet growth of 20% up to LKR 458 bn at the Bank level - Group asset base of LKR 463 bn**
- **A loan growth of 20% for the nine months, well-funded with an equal deposits growth**
- **Cost to income ratio of 39% amidst significant business expansions**

National Development Bank PLC [NDB] posted impressive financial performance for the nine months ended on 30 September 2018, with record profit after tax [PAT] of LKR 4 bn. Profit attributable to shareholders [PAS] was a growth of 42% compared with the prior period amidst a challenging market conditions. Strong growth was recorded in the Balance Sheet along with improvement in net interest margin [NIM], cost to income ratio [CIR] and returns to shareholders.

### **Profitability**

The Bank recorded an operating profit before tax on financial services of LKR 7.1 bn, an impressive increase of 25% over the comparative period of 2017. It is noteworthy that profits from core banking operations [excluding equity income] grew significantly by 43%, affirming the success of the focused business initiatives implemented in line with the Bank's medium-term strategy.

Accordingly, PAT exceeded LKR 4 bn for the nine months period, with a 22% increase, demonstrating resilience to the evolving industry developments such as the adoption of SLFRS 9 and new tax regulations. NDB Group Chief Executive Officer – Mr. Dimantha Seneviratne stated that the recorded results are the clear output of the focused strategy the Bank embarked in 2017 spanning up to year 2020. The Group CEO stated with confidence that NDB is in a sound footing to achieve the medium terms goals of the strategy and bring prosperity to its valued customer base and all stakeholders.

### **Income and expenses analysis**

#### **Operating income**

Net interest income [NII] continued to grow in Q3 amidst marked industry challenges, with a 39% growth in NII up to LKR 10.6 bn. Interest income grew by 17%, whereas the interest expenses increased only by 8%, directly benefitting from the sound balance sheet management and ALCO strategies. NIM which has been on a continuous upward movement improved in Q3 2018 to 3.4% compared to 2.9% for the corresponding period of 2017.

Net fee and commission income grew by 25% over the prior period to reach LKR 2.3 bn. Increased loan volumes to customers and greater drive of fee generating services such as trade services, digital banking

and card operations contributed to this increase in fee income. Operating income also benefited from the sharp US Dollar exchange rate movement experienced in Q3, leading the relatively high gains from foreign reserves. Resultantly, total operating income grew impressively by 30% to reach LKR 15.6 bn.

### **Impairment**

Reflecting the industry-wide trend of rising non-performing loans, the impairment charges for loans and other losses of the Bank for Q3 2018 increased to LKR 2.4 bn as compared to LKR 872 mn for the corresponding period of the prior year. Individual impairment of LKR 1.5 bn for the period represented precautionary provisions made by the Bank for selective individually significant facilities, on a prudent basis, given the challenging economic environment. Collective impairment charges of LKR 934 mn was also made for the period for collectively assessed loans and receivables portfolio in line with the notable growth in the loan book, which amounted to LKR 54 bn for the nine months ended September 2018 [year-to-date] and LKR 68.6 bn over the 12 months period from September 2017 to September 2018 [year-on-year].

### **Operating expenses**

NDB is well managing its cost levels over the years through structured cost management strategies amidst rapid business growth, with its benefits clearly reflected in enhanced profitability levels. Total operating expenses increased by 13% over the prior period and was LKR 6.2 bn. Personnel expenses attributed to the highest portion within total operating expenses with LKR 3.3 bn and recorded an increase of 24%, reflective of the additional staff recruitments taking place to support the on-going business growth in line with the Bank's mid-term strategy Transformation 2020.

Key drivers of cost during the period under review were, the installation of 12 Cash Recycle Machines, opening of the Katugasthota branch, relocation of several branches and establishment of five Privilege Banking Centres to serve high net-worth customers. Expanding digital footprint also took a major step in August 2018, with the introduction of Bank2U branchless banking services.

The CIR further improved to 39.4% as one of the lowest CIRs amongst peer banks.

### **Balance Sheet Analysis**

#### **Assets**

Balance sheet recorded exceptional growth by the end of the nine months compared to the year-end position of 2017, with a 20% growth in total assets to reach LKR 458 bn, which is a quantum increase of LKR 75 bn. The growth rate gives a clear indication that NDB will attain the medium term aspiration of becoming a domestic systemically important bank in the country by crossing the LKR 500 bn mark, well ahead of its target timeline of year 2020.

Within the overall assets growth, loans and receivables to customers grew by 20% to reach LKR 328 bn, an impressive quantum growth of LKR 54 bn. Accelerated performance of all business segments contributed to the growth in the loan book.

The Bank retained the quality of its loan book as measured by the non-performing loan [NPL] ratio which stood at 2.57%, which was considerably below the industry average of 3.5%. The Bank continues to adopt prudent risk management strategies and has well accounted for the impact arising from industry-wide stresses experienced on loan book quality, as evident from prudent impairments.

### **Liabilities**

Customer deposits also recorded exceptional growth of 20% over 2017 to reach LKR 329 bn, which translated to a quantum increase of LKR 55 bn, whilst the year-on-year growth was LKR 73 bn. Of this growth, over LKR 12 bn of growth was recorded in the low cost current and savings deposits [CASA]. The overall CASA ratio was well maintained at 21%, amidst stiff interest rate competition for deposits.

The growth in the loan book which equated the growth in customer deposits helped the Bank improve its Loans to Deposits Ratio [LDR] to 102%, best recorded so far by the Bank since converting to a fully-fledged commercial bank from the development banking model.

### **Capital management and investor returns**

The Tier I capital ratio [minimum requirement – 7.875%] for the Bank and the Group stood at 8.37% and 9.62% respectively whilst the total capital ratio [minimum requirement – 11.875%] stood at 12.13% and 13.12%.

The Bank announced the Rights Issue of 1 share for 3 ordinary shares held, with the aim of raising LKR 6 bn of which approximately 60% has been subscribed so far. The Bank announced that they are exploring options with strategic investors for all Rights that remain unsubscribed.

Return on equity [ROE] at the Bank level was 16.95% for Q3 2018 [2017 – 16.27%], whilst the ROE of the NDB Group was 13.72% [2017 – 11.09%]. The Bank Earnings per Share improved by LKR 4.57 to LKR 29.09 from LKR 24.52 in 2017. The net book value per share at the Group level further increased to an impressive LKR 203/15 from LKR 192/51 in 2017, whilst the same at the Bank level also increased to LKR 181/27 from LKR 167/58.

### **Comments from the Group Chief Executive Officer**

Commenting further, Mr. Seneviratne thanked the NDB Team for their fullest commitment to deliver the results and stated that the market is yet to realize the full potential of NDB in terms of its ability to generate sound results to its shareholders. He was confident that the excellent financial results recorded, considerable strides the Bank is making in the industry space through new product launches and digital solutions and the strong brand reputation NDB enjoys as a best bank in Sri Lanka would take the Bank to a different level.

The Group CEO further stated that the Bank, together with its Group companies is engaged in the provision of assistance to its customers and the nation at large for their prosperity and success.