

Press Release

Results for the six months ended 30 June 2018 (H1 2018)

National Development Bank PLC – NDB.N0000



Best Bank in Sri Lanka 2018

NDB continues its robust growth in H1 2018- Core banking profits up by 53% YoY to LKR 4.3 bn

- **Profit Attributable to Shareholders [PAS] up by 63% to LKR 2.42 bn**
- **Enhanced operational efficiencies – Cost to income ratio well managed at 39.4%**
- **Bank ROE of 17.15% improved on a continuous basis**
- **Group asset base crosses LKR 421 bn**
- **Deposits growth of 9% to LKR 297 bn**
- **NPL ratio of 2.54% maintained at below industry average**

National Development Bank PLC [NDB] recorded impressive results for the six months ended 30 June 2018, continuing the strong growth it recorded last year. This growth is affirmation that, Transformation 2020, the mid-term strategy launched by the Bank in 2017 is delivering the intended results amidst challenging business environment, through clear strategic focus, execution and the commitment of Team NDB.

Profitability

The Bank recorded an operating profit before tax on financial services of LKR 4.81 bn, a 26% year-on-year [YoY] growth. Operating profits from core banking activities excluding equity income increased significantly by 53% YoY to LKR 4.25 bn, compared to LKR 2.79 bn in the comparative period. This operating profit growth was supported by enhanced performance of all key business segments. Post tax profit at the Bank level crossed the LKR 2 bn mark to reach LKR 2.77 bn. Profit attributable to shareholders improved remarkably, to LKR 2.42 bn, a 63% growth over the comparative period.

Income and expenses analysis

Operating income

An impressive 43% YoY growth was recorded in Net Interest Income (NII) to LKR 6.8 bn. Within NII, interest income grew by 15%, benefiting from enhanced loan volumes generated during the period under review, and effective pricing of the loan book. Interest expenses grew only by 5%, directly benefiting from the improved funding mix of the Bank, with greater reliance on customer deposits. This is reflected in the Bank's loans to deposits ratio of 103% in H1 2018 compared to 108% in H1 2017.

Accordingly, the overall net interest margin [NIM], based on the total assets of the Bank improved from 3% in 2017 to 3.43% by end H1 2018.

Net fee and commission income grew by 27% to LKR 1.45 bn. The Bank continued its aggressive drive in retail products including credit card business, mobile banking on-boarding and other fee generating services, in addition to the loan growth, which led to the improvement in net fee and commission income.

Total operating income grew by an impressive 30% to LKR 10.1 bn, whilst the same at the Group level increased by 38% to LKR 10.3 bn.

Impairment

Impairment charges saw a notable increase to LKR 1.31 bn compared with LKR 581 mn of the prior period due to a combination of factors including slight increase in the NPL ratio and the predictive based collective impairment. The impairment charge for the period under review included individual impairment of LKR 749 mn and collective impairment of LKR 544 mn.

The increase in the collective impairment is directly attributable to the expansion in the loan book, which recorded a quantum increase of LKR 49 bn YoY. The loan book experienced few stresses, which were also seen at an industry level. The increase in individual impairment was attributable to precautionary provisions which the Bank made for a few selective individually significant facilities, on a prudent basis.

Operating expenses

Total operating expenses increased by a modest 19% compared to the prior period to LKR 3.97 bn. The largest increase within operating expenses was in personnel expenses with a 26% increase YoY due to staff recruitments to support the on-going business growth and annual remuneration revisions.

Furthermore, additional costs were incurred in expanding customer touch points, including network expansion, establishing 6 Cash Recycle Machines [CRMs] and five new NDB Privilege Banking Centers for high net worth customers, and relocating three branches to new spacious premises. The Bank also established a dedicated Business Banking Unit at the NDB Head Office premises, all of which were carried out with a bid to deliver a superior customer experience to the valued NDB clientele.

Despite such expansions and staff growth, the cost to income ratio was well contained at 39.4%.

Balance Sheet Analysis

Assets

Marking a new milestone in the Bank's growth journey, total assets of the Bank crossed LKR 400 bn to reach LKR 417 bn in H1 2018. This is a 9% growth over the year end position of 2017. The assets growth was supported by the growth in the loans and receivables by 10%. Accordingly, loans and receivable to customers crossed LKR 300 bn at the end of H1 2018 to reach LKR 301 bn.

Loan quality, as denoted by the non-performing loan [NPL] ratio was 2.54% for the period under review. This ratio remains well below the industry average of around 3.3%. The Bank's prudent risk management strategies ensured that the impact of industry-wide stresses on the Bank's loan portfolio is mitigated. The NPL ratio is expected to improve during the year, benefiting from the robust and focused recovery and monitoring mechanism that was strengthened within the Bank.

Liabilities

Customer deposits grew exceptionally well during the six months by 9% to LKR 297 bn. This translates to a quantum growth of LKR 24 bn. CASA deposits within overall deposits also increased by LKR 6.5 bn. The continuous growth in the deposits has improved the loans to deposits ratio, benefitted the NIM and the net interest income.

Furthermore, the Bank continued to diversify its funding base by tapping overseas institutional lenders. In May 2018, NDB obtained a loan of up to USD 75 mn from Commerzbank Germany at competitive rates and also entered in to an agreement with IFC for a loan up to USD 50 mn, for the purpose of lending to customers in SMEs and climate smart agriculture sector.

Capital management and investor returns

Regulatory capital adequacy ratios of the Bank and the Group were well above the minimum requirements as specified by the Basel III guidelines for the period under review. At the Bank level, Tier I & Total capital adequacy ratios were 8.48% and 12.80% respectively. The same rates at the Group level were 9.85% and 13.87% respectively.

NDB has been complaint on mandatory capital ratios and buffers for expansions, and pursuant to intimations for additional capital infusion, the Bank announced a Rights Issue on 19 June 2018 to the Colombo Stock Exchange. Up to 59, 154, 354 shares are to be issued on a proportion of one new ordinary voting share for every three ordinary voting shares held, at a price of LKR 105/-, to raise additional LKR 6.2 bn. Capital so raised will further strengthen the equity base of the Bank and improve the capital adequacy levels to support the next phase of growth and also part finance the asset book.

Return on equity [ROE] at Bank level was 17.15% for H1 2018, and impressive increase from 16.27% of 2017, whilst the ROE of the NDB Group also improved to 14.38%, from 11.09%. Bank Earnings per Share improved to LKR 28.81 from LKR 24.52 in end 2017. The net book value per share at the Group level increased notably to LKR 196/53 from LKR 192/51, whilst the same at the Bank level also increased to LKR 174/14 from LKR 167/58.

Growth aspirations

NDB is presently driving an accelerated growth model, with Transformation 2020, the new strategic plan where a number of key operational areas are undergoing rapid transformation including business lines, digital financial services, credit and noncredit support services, marketing, customer services, etc. Benefits of these strategic initiatives are expected to be reflected in the financial results in the near future.

The strategy encompasses NDB's group companies as well, whereby; the group companies are also integrated and aligned to the overall growth momentum of the Bank. As a result, the group companies' performance has enhanced in tandem with the Bank's performance, as reflected in a YoY increase of 20% in the group share of profits within the Bank's profitability.

Comments from the Group Chief Executive Officer

Commenting on this impressive performance, NDB Group Chief Executive Officer – Mr. Dimantha Seneviratne stated continuous improvement in financial performance recorded by the Bank demonstrates the intrinsic capabilities of NDB, which are now being unleashed through a meticulous strategy execution. Furthermore, the potential to reach greater heights is immense and with the support of the Team NDB, the Board and shareholders, the Bank is on a mission to reap greater benefits as we forge ahead. He also mentioned that NDB, as the only financial services group in the country, with presence in both banking and capital market services is geared to assist the country and its people in the current phase of national economic development.

He extended his thanks to the shareholders of the Bank, who have been backing the Bank's success and thanked the customers, employees and all other stakeholders, who are making valuable contribution towards its success and looked forward to their continued support.

NDB was externally endorsed by a number of awards in 2018, affirming its excellence in a number of core banking areas such as retail banking, SME banking, project financing, micro financing & financial inclusion and marketing and investor relations initiatives among others, the climax of which was being recognized as the Best Bank in Sri Lanka for 2018 by the prestigious, USA based Global Finance publication. Bank's subsidiary, NDB Investment Bank Limited was awarded as the Best Investment Bank in Sri Lanka for the seventh consecutive year by EuroMoney.

The Group is motivated by such external endorsements and highly energized in achieving its strategic goals whilst committing itself for the success of all its stakeholders, he further commented.