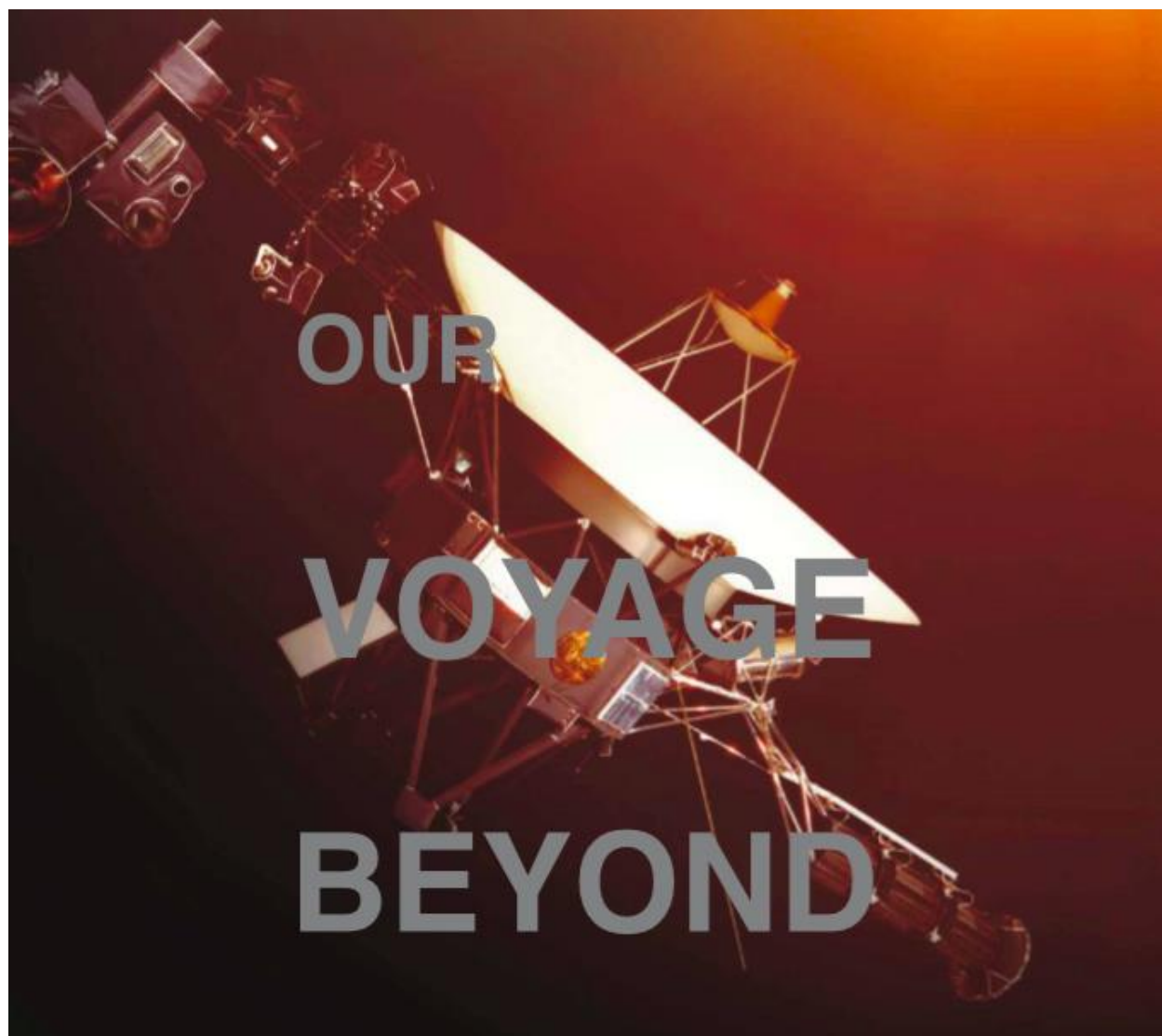




Press Release

Results for the three months ended 31 March 2020 [Q1 2020]
National Development Bank PLC - NDB.N0000

Released to the Colombo Stock Exchange on: 20 May 2020



NDB sustains sound pre-COVID 19 growth and profitability amidst multiple stresses. Geared to propel economic recovery.

- **Total operating income of LKR 6.6 Bn up by 11%**
- **Post-tax profitability of LKR 1.7 Bn up by 27% YoY**
- **Balance sheet expansion by 4% YTD to LKR 553 Bn**
- **ROE enhanced to 15%**
- **NIMs challenged – 3.2% for the quarter**

National Development Bank PLC recorded sound financial results for the first quarter ended 31 March 2020, prior to the onset of the COVID-19 pandemic which has subsequently led to exponential economic stresses at home and the world over.

An unprecedented quarter marked by multiple challenges

With the heightened responsive measure of an island wide lockdown that was imposed only towards the latter part of Q1, the impact of the COVID-19 pandemic was felt by the Sri Lanka economy since the beginning of the first quarter of 2020 due to cascading effects on global supply chains and local business operations. Furthermore, the blow from the pandemic came in less than 12 months since the Sri Lankan economy plummeted due to Easter Sunday attacks in April 2019. The combined effects of all this has caused tremendous impact on every sector in the economy with distinct impact on the banking sector as well. In such a backdrop the Bank increased its operating income to LKR 6.6 Bn by 11%. Post-tax profitability was LKR 1.7 Bn up by 27%, partly benefiting from tax removals introduced by the Government. The Bank's Balance Sheet also expanded by 4% to LKR 553 Bn, which translated to a quantum increase of LKR 24 Bn.

Mr. Dimantha Seneviratne – Director/ Group Chief Executive Officer of NDB stated that the world is currently experiencing the most dramatic economic downturn in its history caused by the COVID-19 pandemic, with distinct challenges posed on the financial services sector such as stressed liquidity, capital adequacy, asset quality and profitability. He stated that it is a test for the sector to demonstrate their adaptability, resilience, responsiveness and readiness in such crises. The situation demanded the most prudent, strategic and skillful navigation by banking institutions which have a tremendous role to play in support of the national economy whilst safeguarding the interests of the key stakeholders including shareholders, customers and employees. Mr. Seneviratne went on to say that the NDB results for Q1 2020 is a reflection of the Bank's delivery of far-sighted strategies. Though we witnessed normal volumes in Q1 up to mid-March, we continue to witness challenges in certain sectors, hence the need for provision build-ups and getting adjusted to the new normal from Q2 onwards.

Furthermore, amidst disruptions to daily life, NDB continued its valid contribution to economic activities by ensuring undisrupted banking services to its customers with highest standards in convenience and safety. The Bank's virtual platforms - NDB NOES mobile banking and online banking were accessible 24*7 whilst the branch network was open to customers in selected localities, fortified by the mobile banking units. Team NDB stood up to the challenge of serving our customers through a combination of

presence at branches/ service points and working from home, keeping up with the Bank's spirit of excellence in service delivery "We Go Beyond". He conveyed his appreciation to employees at all levels for their exemplary dedication in serving customers whilst going through many challenges during the lockdown period.

Profitability

Total operating income which consists of Net Interest Income (NII), Net Fee and Commission income, income from financial investments, Forex profits and other operating income increased by 11% YoY to LKR 6.6 Bn. Net fee and commission income recorded an impressive increase of 19% to LKR 1 Bn benefiting from the strong growth in the retail assets and liability base and uptake in digital financial services. Net interest income [NII] was LKR 4.3 Bn, a negative growth of 7%, partly due to the increase in interest expenses stemming from fresh quoted debentures issued in Q1 2019 and the reduction in margins in line with regulatory policies. A narrowing net interest margin of 3.22% [compared to 3.53% in 2019] also contributed towards this dip in NII, which is a wider reflection of the drop in benchmark market rates during the quarter. The significant increase in other operating income to LKR 835 Mn attributed to exchange gains on the revaluation of the foreign currency reserves of the Bank. This was due to the depreciation of the Sri Lankan Rupee in early 2020 - due to COVID-19 pandemic related economic outcomes, in comparison to the appreciation of the Sri Lankan Rupee in the comparative period in 2019.

The impairment charges for loans and other losses for Q1 2020 was LKR 1.3 Bn and was a 53% increase over the comparative period. The increase in the impairment charges was mainly due to the increase in the collective provision charge in line with the growth in the loan book. The Bank also accounted for provisions at individual levels considering elevated risks due to stressed market conditions, which are being reassessed with COVID-19 related stresses. Other provisions under impairment charges included provisions made for permanent diminution in fair value of investments. The Bank's regulatory non-performing loan [NPL] ratio was 4.78% and compares with 4.77% as 31 December 2019 and 5.2% of the industry for the period under review.

Total operating expenses for Q1 2020 was LKR 2.4 Bn, an increase of 8% from Q1 2019. The cost to income ratio of the Bank was 36.5%, and compares well with 39.9% for 2019. The dynamic automations and efficiency enhancing initiatives introduced by the Bank over 2018 and 2019, such as Robotic Process Automation technology and work flow solutions, adoption of six sigma practices, installation of new product management IT systems and upscaling the Bank's digital banking infrastructure contributed towards this relatively low cost to income ratio. These initiatives also stood the Bank in good stead particularly during the recent lockdown periods, as same enabled seamless services at uncompromised productivity levels with minimum staff involvement.

The total tax charge for Q1 2020 was LKR 1.2 Bn, comprising LKR 556 Mn in VAT on financial services and LKR 631 Mn in Income Tax. The effective tax rate for Q1 2020 was 41%, down from 53% in Q1 2019 due

to the removal of Nation Building Tax [NBT] and Debt Repayment Levy [DRL], w.e.f 01 January 2020. The resultant profit attributable to shareholders at the Group level was LKR 1.2 Bn, a YoY increase of 23%.

Balance Sheet Growth and Funding

Whilst the total asset base at the Bank level stood at LKR 553 Bn, same of the NDB Group reached LKR 559 Bn. The Balance Sheet expansion was supported by a year-to-date [YTD] growth of 4% in the gross loan book to LKR 425 Bn. The YoY growth of the loan book was 18%, which translated to an increase of LKR 63.7 Bn. The focused and energetic business drive across all segments contributed towards the loan book expansion despite the effects of the pandemic.

Balance Sheet expansion was funded by multiple sources including customer deposits and repo borrowings. Customer deposits grew by 2% YTD to LKR 414 Bn, whilst this was a YoY growth of 18% over Q1 2019 – a quantum growth of LKR 63 Bn. Within deposits, the CASA ratio remained at the 20% mark with the CASA base recording a marginal increase of 2% YTD driven by granular CASA.

Capital Adequacy and Liquidity

The Bank remained well capitalized by the end of the quarter, with the capital adequacy ratios well above the regulatory minimum requirement levels. Accordingly, Tier I and total capital ratios at the Bank level were 9.03% and 12.96% whilst the same at the Group level were 9.88% and 13.65% [minimum requirements of 8.5% and 12.5% respectively].

The Bank is also maintaining sound liquidity levels with Liquidity Coverage Ratios well above the statutory minimum requirements. The Bank's Net Stable Funding Ratio was 105%, well above the regulator mandated minimum of 100%. These strong capital adequacy and liquidity levels are clear affirmation of the Bank's stability in the face of the ongoing crisis and its readiness and ability to steer forward sustainably.

Investor returns

The Return on Average Shareholder Funds [ROE] for the Bank was of 14.99% [2019:13.73%] and the Earnings per Share LKR 25.96 [2019: LKR 23.05] for Q1 2020. The same ratios for the Group were 11.38% [2019: 11.59%] and LKR 21.48 [2019: LKR 21.53] respectively. Return [before tax] on Average Assets for the Bank was 1.93% [2019: 2.01%] and for the Group was 1.47% [2019: 1.97%]. The net asset value per share of the Bank was LKR 176.50 and compared with a closing share price for the quarter of LKR 66.20 [on 20 March 2020].

Way forward in a “new normal” defined by the pandemic

Commenting on the year ahead, the Director/ Group CEO Mr. Dimantha Seneviratne stated that the economic toll from the COVID-19 pandemic will further deepen in the coming quarters and remain for years ahead. Whilst the full financial impact stemming from same on the Bank is yet to be estimated, the Bank remains committed to provide relief to all affected customers along with the debt moratorium,

loans at concessionary rates and other means introduced by the Central Bank of Sri Lanka. Digital banking will be the norm in the “new normal” in the aftermath of the pandemic, and NDB is at a strong position in this aspect with the Bank’s dynamic digital banking avenues, particularly the upgraded NDB NEOS mobile banking and online banking options, which saw a surge in transactions and volumes recently.

We will revisit our business model, revise future forecasts and realign strategic resources in pursuit of sound returns delivered to all our stakeholders in the coming months and beyond, whilst placing digitization at core. We are assured that the expertise gathered over four decades as a prime banking institution in the country who have withstood many economic cycles, the clear vision of the leadership team and passion and competence of Team NDB will propel the Bank in making meaningful contribution towards reviving the national economy at this juncture he stated.

On a final note, on behalf of the Bank, Mr. Seneviratne also expressed his gratitude towards the health care services, tri-forces, the police and all other frontline service providers including banking and financial services which made immense contribution in keeping the country safe and alive through the pandemic.

NDB Bank is the Best Domestic Bank in Sri Lanka for 2020 as adjudged by the AsiaMoney Magazine for the second consecutive year and the NDB Group has earned close to 50 awards in 2019, affirming its excellence in multiple performance aspects.