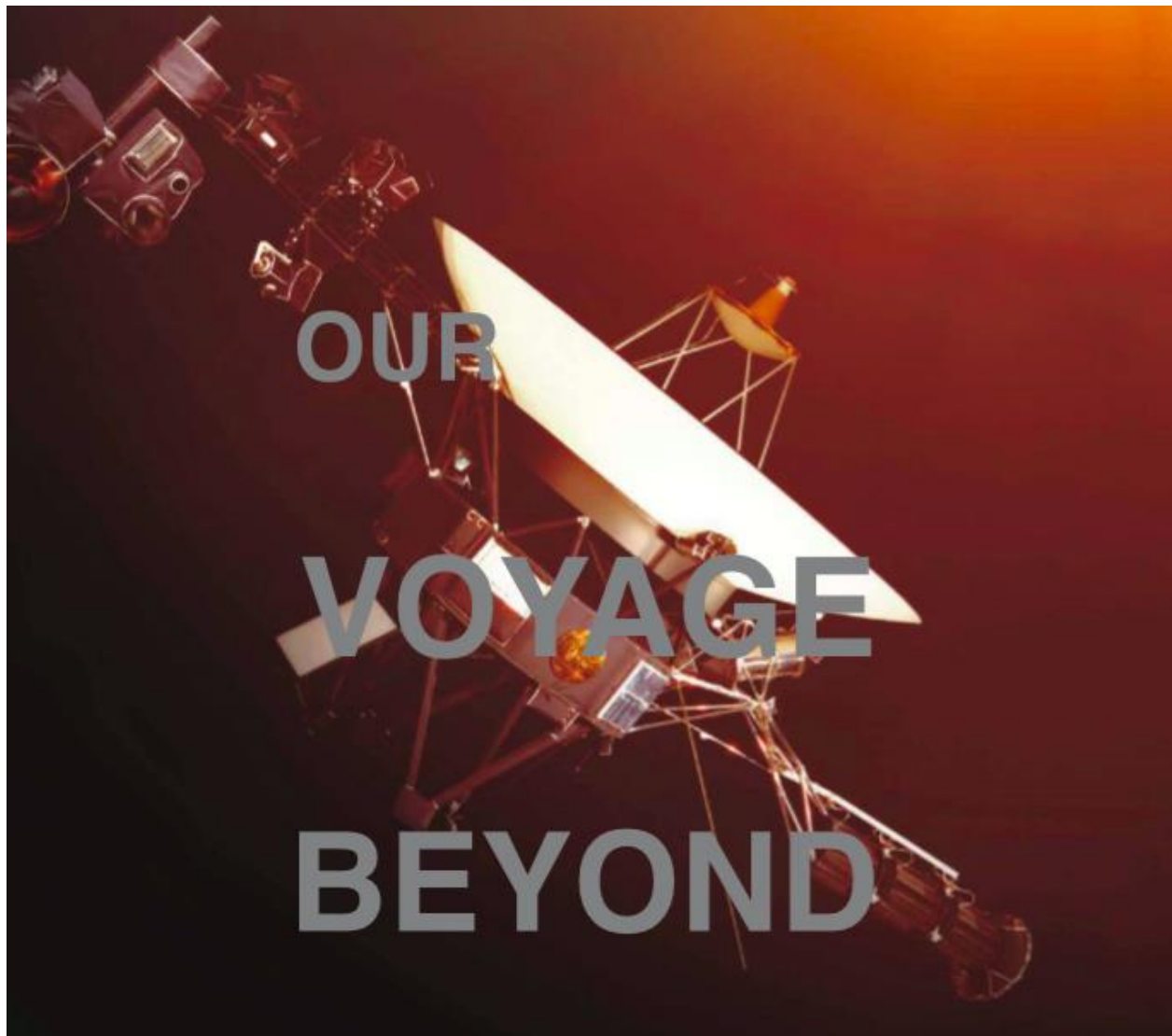




Press Release

Results for the nine months ended 30 September 2020 [Q3 2020]
National Development Bank PLC - NDB.N0000

Released to the Colombo Stock Exchange on: 12 November 2020



NDB maintains growth momentum. Crosses LKR 600 Bn in Total Assets amidst macro challenges.

- Pre-tax profitability up by 2% to LKR 7.7 Bn
- Post-tax profitability up by 34% to LKR 4.5 Bn
- Total assets growth of 13% to cross LKR 600 Bn
- Gross loan book expansion of 8% to LKR 443 Bn and customer deposits expansion of 15% to LKR 464 Bn
- CASA deposits crosses LKR 100 Bn, an impressive YTD growth of 26%
- Cost to income improved to an industry best ratio of 35.9%
- Over LKR 18 Bn approved under the CBSL's "Saubhagya" loan scheme, the fourth highest Bank for such loan approvals

National Development Bank PLC recorded yet another quarter of sound performance amidst macro-economic challenges brought in by the COVID-19 pandemic. The Bank continued its support towards pandemic affected customers through financial and advisory support, whilst maintaining banking services as usual.

NDB released quarterly financial statements for the nine months ended 30 September 2020 to the Colombo Stock Exchange on 12 November 2020, where its profits for the nine months were duly certified by the Bank's external auditors M/s Ernst & Young.

Mr. Dimantha Seneviratne, the Director/ Group Chief Executive Officer commented that living with pandemic concerns has now become the new norm till a lasting solution is found, and in that backdrop, the duty of the banking sector is to provide uninterrupted banking services and support the economic revival despite such challenges. The nine months ended 30 September 2020 was one of the most challenging times we encountered in recent history. Yet NDB managed to steer through with resilience and make a meaningful contribution to the economy and in the process generate solid returns to its shareholders and touch the lives of many other stakeholders. In September 2020, the Bank achieved a milestone in its growth journey by crossing LKR 600 Bn in total assets, well in line with its growth aspirations, attributable to precise execution of strategic imperatives, he further mentioned.

Financial performance

Gross income for the nine months ended 30 September 2020 (Q3 2020) saw an increase of 6% to LKR 46.7 Bn. Within gross income, net interest income (NII) recorded a growth of 4% to LKR 13.7 Bn. NII was impacted by the net interest margin (NIM) of 3.23% for Q3 2020 which was a 30 bps dip from 3.53% in 2019. NIM came under pressure given the interest rate caps introduced on certain products, impact of the moratorium on interest, restructuring of facilities, etc.

Fee and commission income also grew by 5% year-on-year (YoY) to LKR 2.9 Bn. The uptake of digital financial services driven by the dual factors of restricted physical banking by customers due to the pandemic and NDB upgrading its NEOS platforms with many user-

friendly features - was a key contributor towards driving fee income up. The increase in business volumes with the country opening up and the economy gradually returning to normalcy during the window before the second wave of the pandemic set in, also benefited fee income.

Net gains from trading was LKR 779 Mn a marginal increase of 2% YoY. The Bank realized capital gains from Government Securities portfolio, as reflected under net gains from de-recognition of financial assets. Accordingly, Total Operating Income had a healthy 11% growth to record LKR 19.6 Bn for the period under review.

Impairment charges for loans and other losses for Q3 2020 was LKR 4.8 Bn, a 68% YoY increase. The increase in the impairment charges continued to be caused by the increase in the collective provision charge in line with the growth in the loan book and provisions made at individual levels in response to elevated risks caused by the pandemic and other stresses. The Bank also accounted for the day 01 impact on the moratoriums where significant interest concessions were given amounting to LKR 583 Mn, under other impairment charges, as prescribed by SLFRS 09: Financial Instruments. The regulatory non-performing loan [NPL] ratio was 5.57% for Q3 2020, which is on a gradual increase, reflecting the wider industry NPL behavior.

The Bank continued vigorous cost management initiatives, particularly by embracing digital technology and process re-engineering to achieve leaner and efficient processes. The outcome was reflected in other operating expenses reducing by 10% YoY. Total operating expenses reduced by 2% to LKR 7 Bn, leading to a cost to income ratio of 35.9%, one of the best cost to income ratios in the banking industry. Year-on-year headcount increase was marginal at 22, compared to the considerable increase in business volumes, again attributable to streamlined automated processes together with the effective deployment of staff in a productivity enhancement manner.

The total tax charge for Q3 2020 was LKR 3.2 Bn with an effective tax rate of 42% (Q3 2019: 56%). Post-tax profit was LKR 4.5 Bn, up by 34% whilst profit attributable to shareholders at the Group level was LKR 3.9 Bn, up by 32%.

Balance Sheet Growth and Funding

Total assets as of 30 September 2020 stood at LKR 600.1 Bn, which is a 13% growth over December 2019 position (YTD growth). Gross Loans and receivables grew by 8% YTD which was equivalent to LKR 33.6 Bn. Gross Loans grew by 14% YoY which translated to LKR 53 Bn. Customer deposits grew by an impressive 15% YTD to LKR 464 Bn, which was an LKR 59.3 Bn increase. The YoY growth was 24% equal to LKR 90 Bn. Within overall deposits, CASA deposits recorded an impressive YTD growth of 26% crossing the LKR 100 Bn mark, bringing up the CASA ratio to 22% from 20% in 2019.

NDB raised LKR 6.5 Bn via Tier II Listed Rated Unsecured Subordinated Redeemable Debentures issued in September 2020, wherein, the Issue was oversubscribed within the day

of opening itself. During June 2020, debentures worth of LKR 10 Bn issued in 2015 with a tenor of 5 years were redeemed. Furthermore, in October 2020, the Bank announced its plans to raise LKR 8.0 Bn via a Rights Issue at the ratio of 28 new ordinary voting shares for every 61 ordinary voting shares held (up to 106,780,489 shares to be issued), at a consideration of LKR 75/- per share. The purposes for which the proceeds of the Rights Issue are to be utilized are to further strengthen the equity base of the Bank and thereby improve Capital Adequacy Ratios in line with Basel III guidelines and to part finance the growth in the loan portfolio of the Bank.

Capital Adequacy and Liquidity

Tier I and total capital ratios as at 30 September 2020 were 9.21% and 14.21% at Bank level whilst the same were 9.77% and 14.62% at Group level [minimum requirements of 8.0% and 12.0% respectively].

Liquidity Coverage Ratios were 138.83% and 139.16% for Rupee and All Currency respectively as of 30 September 2020 and were well above the statutory minimum requirement of 90%. The Net Stable Funding Ratio was 108%, and compared with the statutory minimum requirement of 90%.

Investor returns

The Return on Average Shareholder Funds [ROE] for the Bank was of 13.37% [2019:13.73%] and the Earnings per Share LKR 23.92 [2019: LKR 23.05] for Q3 2020. The same ratios for the Group were 10.85% [2019: 11.59%] and LKR 21.01 [2019: LKR 21.53] respectively. Return [before tax] on Average Assets for the Bank was 1.70% [2019: 2.01%] and for the Group was 1.65% [2019: 1.97%]. The net asset value per share of the Bank was LKR 187.97 and compared with a closing share price for the quarter of LKR 89/-.

COVID-19 pandemic related support

NDB has approved over LKR 18 Bn of loans under CBSL's Saubhagya COVID-19 Renaissance Facility, and is the fourth highest bank to approve such loans in the industry. Approximately 30% of its loan book was granted debt moratoriums as of end September 2020. The Bank also continues support to affected customers through their indigenous solutions such as "NDB Jayagamu Sri Lanka", special support to female customers through NDB Araliya, and strategic tie-ups with third parties such as Maersk, Daraz, iLoans and ThinkCube Solutions for the benefit of SMEs, entrepreneurs and exporters. The Bank has been proactive in identifying customer needs and supporting them stay afloat through the challenges.

NDB has been on an accelerated growth trajectory over the past three years, maintaining a CAGR of 17% in total assets, 20% in loans and 26% in customer deposits, well ahead of the industry averages. It has also made bold and prominent strides in the Sri Lankan banking arena with digitized solutions, innovative product launches and the unique value proposition offered by the NDB Group in both banking and capital market services.