



Press Release

Results for the financial year ended 31 December 2020 [FY 2020]
National Development Bank PLC - NDB.N0000

Released to the Colombo Stock Exchange on: 18 February 2021



NDB demonstrates strength and resilience in most challenging year. Continues value generation to all stakeholders.

- Total assets growth of 18% to LKR 627 Bn
- Gross loan book growth of 8% to LKR 444 Bn. Over LKR 18 Bn approved under the CBSL's "Saubhagya" loan scheme, the fourth highest Bank for such loan approvals
- Customer deposits growth of 21% to LKR 490 Bn, CASA growth of 53%
- Profit after tax of LKR 5.5 Bn, up by 8%
- Net Interest Margin of 3.1%
- Cost to income ratio of 37% one of the best in the industry

National Development Bank PLC posted solid financial results for the financial year ended 31 December 2020, demonstrating its strength, sustainability in generating operational revenue and resilience in withstanding unprecedented challenges. The Bank and the Group's performance as reflected in the financial statements was released to the Colombo Stock Exchange on 18 February 2021, duly audited by the Bank's external auditors M/s Ernst & Young.

Mr. Dimantha Seneviratne, the Director/ Group Chief Executive Officer reflecting on the year stated that 2020 was one which put to test, the capabilities and capacities of each one of us to adapt to unforeseen challenges. NDB stood up to these challenges boldly and gracefully, demonstrating NDB's dynamism, versatility and proficiency in serving the nation through many economic cycles. In many instances, as a bank, we took the lead in facing the new challenges, especially in the digital front - he said.

NDB's commendable performance was not limited to financial results. The Bank continued its efforts despite challenges brought by the COVID-19 pandemic in empowering its customers through apt customer centric solutions, CSR initiatives including a forestation project, women empowerment projects which featured an island wide awards program dubbed as "Vanithabhimana" which drew over 8,000 applications, digitization efforts including the launch of a new online banking platform and introducing QR based payments to name a few. As such, NDB maintained the equilibrium in its performance, serving all its stakeholders without a compromise. The prime awards the Bank won during the year, such as the Bank of the Year by the Banker Magazine UK, Best Consumer Digital Bank by Global Finance USA and being ranked among top 10 most admired corporates in the country attest to NDB's excellence he further stated.

Excellence in performance would not have been possible, if not for the support of many. We would like to express our gratitude to our loyal customers, who have laid their faith in us, the Board of Directors led by the Chairman for their guidance, the dedicated and passionate NDB Team for ensuring uncompromised customer service through the most challenging times, our shareholders and other lenders, and also the Central Bank of Sri Lanka for their direction and support, he added.

Financial performance

Gross income growth moderated to 3% in 2020 compared to 2019 (YoY) to LKR 60.7 Bn, reflecting reduced business volumes in the year, impact of interest rates concessions and interest deferrals stemming from moratoria granted - phenomena experienced across the industry due to the effects of the pandemic. The Bank also accounted for modification losses on such moratoria where significant interest concessions were given, as prescribed by SLFRS 09: Financial Instruments. As a result, NII was LKR 17.7 Bn, with a narrow growth compared to 2019. Interest income slightly dipped over that of 2019, to LKR 53 Bn, whilst interest expenses reduced by 1% to LKR 35 Bn, largely attributable to the rate reductions led by the CBSL as stimulus to economic growth. Pressure exerted on the NIM by interest rate concessions on loans brought the ratio down to 3.1% (2019: 3.5%).

However, Net fee and commission income bolstered overall income with a growth of 9% YoY to LKR 4 Bn. Exponential growth in the use of digital banking services, driven by the pandemic impact and the user-friendly features available in the NDB NEOS digital banking platform together with the Bank's continued focus on enhancing fee based income, were key contributors in this aspect. Net gains from trading for FY 2020 was LKR 967 Mn a marginal decrease of 2% YoY. However, the Bank realized capital gains from Government Securities portfolio, as reflected under net gains from de-recognition of financial assets amounting to LKR 1.5 Bn. Accordingly, Total Operating Income recorded a healthy growth of 7% to LKR 25.4 Bn.

Impairment charges for loans and other losses for FY 2020 was LKR 6.8 Bn, an increase of 63% YoY. Individual impairment increased by 41%, whilst collective impairment increased by 113% to LKR 3.8 Bn and LKR 2.4 Bn respectively. Provision charges increased in line with the growth in the loan book and provisions made at both collective and individual levels in response to elevated risks caused by the pandemic and other stresses. The regulatory non-performing loan [NPL] ratio for 2020 was 5.35% (2019: 4.77%) which is on a gradual increase, reflecting the wider industry NPL behavior. The Bank also made significant provisions for financial investments owing to the decline in macro economic indicators.

Despite the hive of operations carried out, operating expenses recorded a marginal reduction in 2020 compared to 2019 and was LKR 9.4 Bn. The Organization Efficiency and Effectiveness Improvement program launched, migration of a large number of processes to automated platforms (using workflow and Robotic Process Automation) and conversion of transactions performed by customers to digital platforms (80% of total transactions) supported this cost management drive. Resultantly, the cost to income ratio improved to 37.0% (2019: 39.9%), one of the best in the industry. If the impact on the regulatory moratorium reliefs on interest servicing is excluded, the cost to income ratio would have further improved to 35.8% for the year.

The total tax charge of the Bank for FY 2020 was LKR 3.7 Bn (2019: LKR 4.9 Bn) whilst the effective tax rate was 39.9% (2019: 49.2%). During 2020 Nation Building Tax (NBT) on Financial Services and Debt Repayment Levy were abolished.

Balance Sheet Growth and Funding

NDB's total assets crossed the LKR 600 Bn mark in 2020, with the asset base closing at LKR 627 Bn by end 2020, resulting in an impressive YoY growth of 18% which translated to a quantum growth of LKR 97 Bn. Gross Loans and Receivables however moderated in growth at 8% YoY to LKR 444 Bn (quantum growth of LKR 34 Bn). Growth stemmed from all business sectors, including the hard hit SME sector, which drew relief from the CBSL's Saubhagya COVID-19 Renaissance Facility priced at 4%.

Despite bank deposits becoming less attractive in a low interest rate climate, the Bank recorded an impressive growth of 21% in deposits, which translated to a quantum growth of LKR 85 Bn. Within this CASA deposits grew by 53%, an equivalent of impressive LKR 42 Bn. The resultant CASA ratio was 25%, the highest recorded in the last five years. Meticulous efforts to drive CASA and the contribution from Retail and SME segments primarily contributed towards the CASA growth.

Furthermore, the Bank's Loans to Advances ratio (ADR) also improved to 90%, the best in the Bank's history. The Bank historically accounted for a higher ADR owing to the fact that NDB has been in commercial banking operations for just over 15 years, with a development banking background close to 30 years, wherein the business model was less focused in deposit canvassing. NDB has effectively reversed this stance within a relatively short span of time since becoming a fully-fledged commercial bank in 2005 and now stand equal to its peers in this KPI.

During 2020, 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 the latter part of 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 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 for FY 2020 were 9.16% and 14.31% at Bank level whilst the same were 9.72% and 14.75% at Group level [minimum requirements of 8.0% and 12.0% respectively]. Liquidity Coverage Ratios were 161.97% and 157.12% for Rupee and All Currency respectively and were well above the statutory minimum requirement of 90%. The Net Stable Funding Ratio was 112.52%, and compared with the statutory minimum requirement of 90%.

Investor returns

The Return on Average Shareholder Funds [ROE] for the Bank was 13.13% [2019:13.73%] and the Earnings per Share LKR 23.77 [2019: LKR 23.05] for FY 2020. The same ratios for the Group were 11.20% [2019: 11.59%] and LKR 21.99 [2019: LKR 21.53] respectively. Return [before tax] on Average Assets for the Bank was 1.59% [2019: 2.01%] and for the Group was 1.58% [2019: 1.97%]. The Net Asset Value per Share (NAVPS) of the Bank was LKR 192.49 and compared with a closing share price for the year of LKR 78/10. NAVPS for the Group was LKR 206.23.

COVID-19 pandemic related support

NDB 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 28% of its loan book was under debt moratoria by the end of the year, which was approximately 40% in June 2020. The Bank also continues support to affected customers through its indigenous solutions such as "NDB Jayagamu Sri Lanka" empowering exporters and entrepreneurs, 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. Furthermore, the Bank maintains close relationships with their customers and proactively guide them in ensuring their financial health and expedited revival.

Way forward

With the vaccination for COVID-19 rolled out, borders opening up for tourism, ordinary life gradually returning to new normalcy and with focus on promoting local production, prospects for 2021 are brighter. In addition to Business as Usual, the Bank will endeavor to deliver dynamic support to its customers throughout the year and beyond. NDB Vanithabhimana National Awards Ceremony that will be held on 08 March 2021 to coincide with the International Women's Day, the culmination of the year long island-wide program conducted in 2020/21 is an example. NDB, as the fourth largest listed bank with a clear focus on national economic development, remains committed to uplifting the country's economy and the lives of its citizens through customer-centric solutions including advisory.