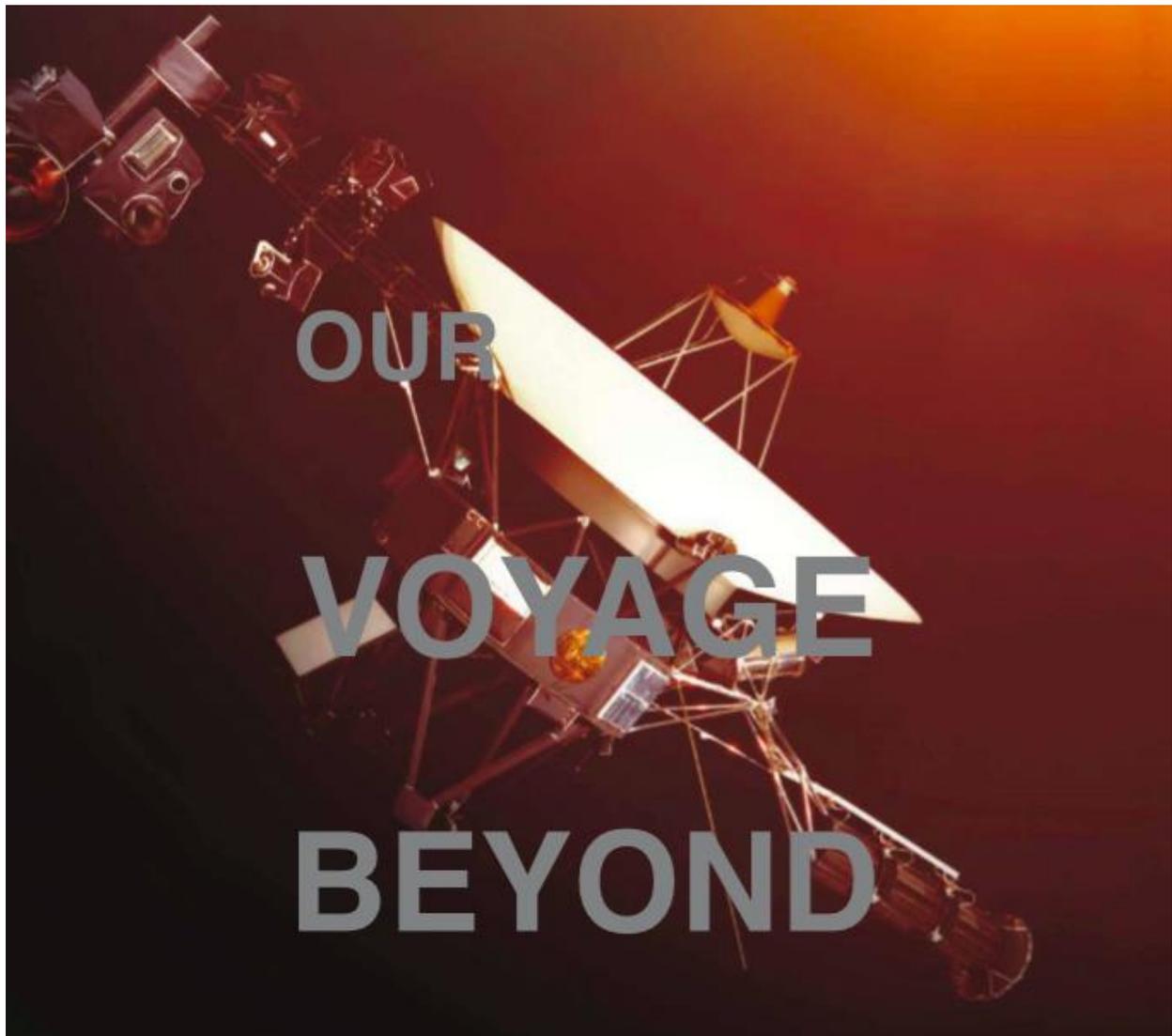




Press Release

Results for the six months ended 30 June 2020 [H1 2020]
National Development Bank PLC - NDB.N0000

Released to the Colombo Stock Exchange on: 13 August 2020



NDB navigates through crises with stability and resilience. Committed to propel national economic revival.

- Pre-tax profitability static year-on-year at LKR 5 Bn
- Post-tax profitability up by 34% to LKR 3 Bn
- Healthy balance sheet expansion of 6% to LKR 562 Bn
- Loan book expansion of 5% to LKR 429 Bn and customer deposits expansion of 6% to LKR 428 Bn
- Cost to income ratio improved to 36%
- CBSL moratorium extended to COVID-19 affected customers amounting to LKR 170 Bn (40% of the Loan Book)
- Over LKR 7 Bn fresh loans approved under CBSL's "Saubhagya" loan scheme at 4% in the past 2 months

Sri Lanka's Best Domestic Bank for two consecutive years as adjudged by AsiaMoney, National Development Bank PLC, recorded sound results for the first six months ended 30 June 2020 [H1 2020] demonstrating its stability and resilience at the face of the economic and business disruptions resulted from the COVID-19 pandemic. The Bank also actively strategized and extended much needed support to the customers affected by the pandemic and initiated many plans, which would ensure wider benefits to the economy at large, in its role as a responsible financier in the country.

Mr. Dimantha Seneviratne, the Director/ Group Chief Executive Officer, commenting on the Bank's performance for the period under review stated that NDB's strategic focus, experience and competence in weathering economic cycles, its talented pool of human capital with a customer-centric approach and efficient processes have enabled the Bank to perform well amidst challenging conditions. The GCEO emphasized that the Bank is harnessing the best of these strengths, and is fully committed towards propelling the Bank's customers' and the country's growth towards financial prosperity.

Impact of the pandemic and support extended to affected customers

The period under review was marked by the heightened impact of the pandemic with a complete lockdown for over 2 months in which economic activity was at near zero. During the lockdown, NDB carried out banking services to the maximum extent possible, via multiple modes of digital channels, branches functioning at selected localities and three mobile ATMs for the benefit of its customers.

With the country gradually opening up, the Bank has allocated extra resources to ensure maximum support to, and financial well-being of the affected customers and to assist them emerge from the downturn expeditiously. The Bank is efficiently passing on the benefits of monetary policy easing measures introduced by the Central Bank of Sri Lanka [CBSL] by reducing overall lending rates of the Bank and lending to productive sectors of the economy, which would reinforce support to COVID-19 hit businesses as well as to the broader economy. NDB granted moratoriums spanning up to six months introduced by the CBSL to c. 40% of its Loan Book, amounting to over LKR 170 Bn, including personal and business customers. Of the

loans approved to support pandemic affected customers, as of end July 2020, over LKR 7 Bn was from the CBSL's Saubhagya COVID-19 Renaissance refinancing scheme priced at a concessionary lending rate of 4%, of which over LKR 4.5 Bn is already disbursed.

In addition to the financial support, the Bank also provides advisory support to the affected businesses and carry out close monitoring to ensure that they are ready to operate with stability once the moratoriums and concessions unwind. The Bank is also conscious that certain customers may require extended moratorium periods, restructuring of facilities and other customized support, based on the industries that they represent and distinct challenges they face. NDB's Jayagamu Sri Lanka program is actively channeling added support to segments such as SMEs and inventors via both financial support which includes loans at reduced interest rates and waivers on fees, advisory support and several tie-ups with trade and export platforms, ERP solutions, etc., with the aim to propel national economic revival.

Financial performance

Revenue was under pressure during the H1 2020, stemming from stressed macro-economic conditions. With the reduction of policy rates and less demand for credit, the net interest margin came down to 3.25% from 3.53% in end 2019. With the combined effect of reduced NIM and lower business volumes, net interest income was LKR 8.8 Bn, a marginal growth of 2% over the prior period. Fee and commission income was LKR 1.7 Bn, a reduction of 1% over the comparative period in 2019, again a direct reflection of reduced business volumes and also due to waivers granted on certain fees as a relief measure. Net gains from trading of LKR 537 Mn was also a reduction of 21%. The Bank realized capital gains from Government Securities portfolio, as reflected under net gains from de-recognition of financial assets. Resultant total operating income was LKR 13 Bn, up by 11% over H1 2019.

Impairment charges for loans and other losses for H1 2020 was LKR 3.2 Bn and was a 69% increase over H12019. 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 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 626 Mn, under other impairment charges, as prescribed by SLFRS 09: Financial Instruments. The Bank's regulatory non-performing loan [NPL] ratio was 5.40% and was at par with the industry for the period under review.

Total operating expenses for H1 2020 was LKR 4.7 Bn, a slight YoY reduction from H1 2019. The Bank implemented a large number of cost management initiatives in response to the pandemic, and same coupled with the Bank's technology driven process efficiencies already in place contributed towards achieving this reduction in expenses. Accordingly, the cost to income ratio for H1 2020 was 36.2%, an improvement from 39.9% in 2019.

The total tax charge for H1 2020 was LKR 2.1 Bn, comprising LKR 965 Mn in VAT on financial services and LKR 1.1 Bn in Income Tax. The effective tax rate for H1 2020 was 41%, down

from 56% in H1 2019 due to the removal of Nation Building Tax [NBT] and Debt Repayment Levy [DRL], w.e.f 01 January 2020. The resultant post-tax profit at the Bank level was LKR 3 Bn and profit attributable to shareholders at the Group level was LKR 2.4 Bn, a YoY increase of 34% and 32% respectively.

Balance Sheet Growth and Funding

Total assets stood at LKR 562 Bn at the Bank level and LKR 567 Bn at the Group level, a healthy growth of 6% over 2019 [YTD] and 15% year on year [YoY]. The gross loan book stood at LKR 429 Bn, a YTD growth of 5%, whilst same on a YoY basis was 15%. The YoY growth is a quantum increase of LKR 56 Bn. Customer deposits was LKR 428 Bn and recorded a YTD growth of 6% and YoY growth of 21%. The YoY growth translates to a quantum of LKR 73 Bn. Accordingly, the Bank's loans to deposits ratio improved to 100%. Within deposits, the CASA base recorded a 9% growth, enhancing the CASA ratio to 21% from 20% in 2019. Furthermore, during June 2020, the Bank redeemed debentures worth of LKR 10 Bn issued in 2015 with a tenor of 5 years.

Capital Adequacy and Liquidity

The Bank's Tier I and total capital ratios as at 30 June 2020 were 9.30% and 12.94% whilst the same at the Group level were 10.09% and 13.57% [minimum requirements of 8.0% and 12.0% respectively]. The Bank has announced a debenture issue in July 2020 to issue 50,000,000 Basel III compliant - Tier II, listed, rated, unsecured, subordinated redeemable 5 year debentures of LKR 100/- each, with a non-viability conversion feature amounting to LKR 5 Bn, with an option to issue up to a further 15,000,000 of said debentures to raise up to LKR 1.5 Bn in the event of an oversubscription of the initial issue. Funds raised via this issue will further strengthen the Tier II capital base of the Bank and support envisaged business growth.

The Bank's Liquidity Coverage Ratios were 136% and 121% for Rupee and All Currency respectively as of 30 June 2020 and were above the statutory minimum requirement of 90%. The Net Stable Funding Ratio was 107%, and compared with the statutory minimum requirement of 90%.

Investor returns

The Return on Average Shareholder Funds [ROE] for the Bank was of 12.18% [2019:13.73%] and the Earnings per Share LKR 21.56 [2019: LKR 23.05] for H1 2020. The same ratios for the Group were 9.49% [2019: 11.59%] and LKR 18.19 [2019: LKR 21.53] respectively. Return [before tax] on Average Assets for the Bank was 1.56% [2019: 2.01%] and for the Group was 1.46% [2019: 1.97%]. The net asset value per share of the Bank was LKR 184.25 and compared with a closing share price for the quarter of LKR 76.90.