



PRESS RELEASE

Results for the financial quarter ended 31 March 2021 [Q12021]

National Development Bank PLC - NDB.N0000

Released to the Colombo Stock Exchange on: 13 May 2021



**EVERYONE.
EVERWHERE.**

NATIONAL DEVELOPMENT BANK PLC

NDB commences 2021 on positive note. Ups post-tax profitability by 34% Enhanced fund & non-fund based income, cost management and digital strategies propel profits

13 May 2021, Colombo, Sri Lanka

- Deposits base touches LKR 500 Bn
- Cost to income ratio significantly improves to 30.9%
- Profit before all taxes increases by 19% to LKR 3.5 Bn
- Post-tax profitability increases by impressive 34% to LKR 2.3 Bn

National Development Bank PLC, the reigning winner of The Best Bank in Sri Lanka 2021 of Global Finance USA and The Bank of the Year 2020 of The Banker UK, achieved sustained results for the first quarter ended 31 March 2021, amidst challenging conditions. Commenting on this performance, the Director/ Group Chief Executive Officer of NDB – Mr. Dimantha Seneviratne noted that the period was marked by two fundamental changes, one - the prospect of prolonged low interest rates, and the other - greater inclination towards digital engagements from our customers. NDB strategized in response to these changes well, which ensured continued support to our customers as well as preserved returns to our shareholders. The NDB Group's new strategic plan, which was launched in October 2020, has placed us on a steadfast growth trajectory amidst the turbulences. We carry good momentum to the second half of the year, which seems steeper in terms of challenges, with the outbreak of the third wave of the pandemic in Sri Lanka and worsening situations across Asia, which will have a cascading impact on the local economy. The Bank will fully deploy prudent and timely strategic initiatives in response to the pandemic, the development and impact of which is yet to be fully gauged, he noted.

Income and profitability

The Bank's total operating income posted a growth of 23% to LKR 8.2 Bn, supported by enhanced net interest income (NII), fee income and other non-fund income bases. Although interest income dipped by 8% due to lower interest rates, this was more than offset by a larger dip in interest expenses of 20% leading to a NII growth of 18% to LKR 5.1 Bn. This also led to a broadly stabilized net interest margin of 3.29% compared to 3.07% of 2020. Driving NIMs was the CASA base of LKR 129 Bn in Q1 2021 growing impressively by 58% over Q1 2020 (quantum of growth – LKR 47 Bn), which also raised the CASA ratio from 20% to 26%. Fee and commission income recorded a healthy growth of 29% to LKR 1.3 Bn due to larger credit volumes across all segments and increased transactions routed through NDB NEOS digital platforms. Net gains and trading also posted a record increase of 116% over Q1 2020 to LKR 460 Mn, reflecting the forex income gained during the quarter.

Impairment charges for loans and other losses for Q1 2021 was LKR 2.2 Bn, an increase of 70% YoY. 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 gross non-performing loan [NPL] ratio for Q1 2021 was 5.40% (2020: 5.35%) reflecting the wider industry NPL behavior. The net NPL ratio for the quarter was 2.96% (2020:3.23%). The Bank is

cognizant of further potential stresses on asset quality stemming from the third wave of the pandemic, and has strengthened its risk management framework to mitigate and manage the impact.

On total operating expenses, same was LKR 2.5 Bn for Q1 2021, a 4% increase over Q1 2020. Within this, the Bank continued to manage a reduction in controllable expenses compared to Q1 2020 amidst considerable business growth and various initiatives carried out. The resultant cost to income ratio for the quarter was 30.9% - one of the best in the industry as well as amongst other corporates. This ratio has been on a significant improvement from a high of 49% in 2016, thanks to the increase in banking revenue in line with the Bank's strategic plans, coupled with conscious and concerted cost management initiatives and productivity enhancement measures, which include digitization and automations.

Accordingly, operating profit before all taxes for the period was LKR 3.5 Bn, an increase of 19%. Total taxes for the period was LKR 1.1 Bn, comprising VAT on financial services and income tax, with income tax rate reducing to 24% from 28%. The resultant effective tax rate for Q1 2021 was 33%.

Post-tax profitability enhanced to LKR 2.3 Bn, with a solid growth of 34% whilst profit attributable to shareholders was LKR 2.4 Bn, up by an impressive 90%, complemented by improved performance of the NDB Group's capital market cluster, making up the unique financial service powerhouse in Sri Lanka.

Balance Sheet Performance

NDB sustained its thus far healthy balance sheet growth well in to Q1 2021, wherein the total asset base grew by 2% to LKR 636 Bn over December 2020 (YTD). Though moderated, this is a YoY growth (i.e. over Q1 2020) of 15% and commendable in the prevailing subdued economic conditions. Balance sheet growth was propelled by the growth in the gross loan book to LKR 462 Bn, which was a YTD growth of 4% and YoY growth of 9%, quantum of growth being LKR 18.6 Bn and LKR 37.5 Bn respectively. Loan growth was a reflection of both lending under the Saubhya COVID-19 Renaissance Facility of the Central Bank of Sri Lanka where NDB was the fourth highest bank to approve funds and lending through the Bank's own funds, in support of reviving the country's economy. Loan book growth stemmed from multiple segments, including SMEs and consumers, and across multiple sectors, preserving the dynamism of the Bank's loan book, which has enabled it to withstand external shocks.

On funding, the Bank's deposits base neared the LKR 500 Bn mark with deposits closing at LKR 499.5 Bn. This is a YTD growth of 2% and an impressive YoY growth of 21%, which translates to quantum of LKR 9.2 Bn and LKR 85.3 Bn respectively. This is a considerable growth considering the contraction in commercial bank deposits rates by about 3% from March 2020 to March 2021 rendering them less attractive to surplus units. Within overall deposits, CASA deposits comprised 26%, up from 25% as of 31 Dec 2020. NDB's long-standing relationships with customers together with customer-centric excellence in service have supported in garnering deposits across all segments.

Capital infusion via Rights Issue and Private Placement

NDB successfully concluded the Rights Issue announced in October 2020, where a total of 106,780,489 were offered at a ratio of 28 new ordinary voting shares for every 61 ordinary voting shares held, at a price of LKR 75/- per share. 83.2% of these shares will be allotted to existing shareholders with the balance 16.8% available to be offered to Norfund - the Norwegian Investment Fund for developing

countries who is expected to participate in the Rights Issues and a Private Placement, as per the Share Subscription Agreement and Investment Agreement entered in to with them, and as approved by the shareholders of the Bank at the EGM held on 09 April 2021. Accordingly, LKR 8 Bn will be raised through the Rights Issue.

A further 17,705,927 shares at LKR 82.50 per share, which is at a 10% premium on the Rights price is to be issued to Norfund through the Private Placement. This will raise a further LKR 1.46 Bn, totaling to LKR 9.5 Bn raised by NDB through the Rights Issue and the Private Placement in Tier I equity capital. This timely capital infusion will provide significant impetus in pursuing NDB's strategic growth plans in the near and medium term, whilst making valid contribution to the nation's economic development and capitalizing on emerging opportunities.

Key performance ratios

Return on equity of the Bank for Q1 2021 enhanced to 15.79% (2020: 13.13%) whilst the same at the Group level was 16.01% (2020: 11.20%). Pre-tax ROA of the Bank was 1.62% (2020: 1.59%) and of the Group was 1.76% (2020: 1.58%). Earnings per share of the Bank was LKR 30.98 (2020: LKR 23.77), whilst the same for the Group was LKR 33.62 (2020: LKR 21.99). The net asset value per share of the Bank and the Group were LKR 199.81 and LKR 213.73. In terms of capital adequacy, Tier I capital adequacy ratio and Total capital adequacy ratio of the Bank were 9.00% and 13.74% respectively. The same ratios for the Group were 9.47% and 14.09%. Liquidity coverage ratio – Rupee, Liquidity coverage ratio – All currency and Net Stable Funding Ratio were 167.91%, 158.41% and 114.53%. All these ratios were well above the regulator stipulated minimum requirement levels, reflecting the strength, stability and sufficient liquidity of the Bank.

COVID-19 pandemic related support to customers

The Bank continues to offer its customers close financial and advisory support to expeditiously recover and remain resilient in the challenging conditions brought in by the pandemic. All CBSL mandated relief measures are also duly extended to customers. NDB Jayagamu Sri Lanka, the dedicated proposition continues to support, SMEs, inventors and exporters through customized financial solutions and professional support through a large number of partnerships the Bank has entered in to, for the benefit of customers. Commenting on this, the GCEO stated that the Bank placed the interests of our customers affected by the pandemic at the centre of our efforts and our teams invested considerable time and effort in supporting them emerge resilient from its effects. This is reflected in the percentage of our customers under moratoria out of the total loan book reducing significantly to 17% by March 2021 from 40% in the instance it was first introduced in 2020. We are encouraged by the fact that the majority of our moratoria customers have regained financial health and stability through the Bank's support and their own efforts and discipline in revival. NDB continues to flex and reinvest its solutions in response to unique needs of its customers. The Bank's strong digital platform – NDB NEOS comprising online banking and inter-operable QR payments enabled NEOS App have enabled customers to carry out their banking with the safety of their own space, he further stated.

Contribution to the community

Success is a wider notion at NDB, which permeates beyond financial performance. In this spirit, the Bank continued numerous other activities for the benefit of the community and the environment. Sri Lanka Vanithabhima, the national level awards program with the aims of recognizing high performing females across eight categories, and also encouraging women's participation in the economy culminated in March 2021, with winners felicitated at an event which marked the International Women's Day. A "Smart-Agri" program was also launched with a bid to introduce smart agriculture techniques to farmers, which would improve productivity in farming and cultivations. The Bank's conscious contribution towards a greener planet continued through its reforestation project in Himbiliyakada, Matale, removal of invasive plants threatening the biodiversity of Pitawala Pathana – a protected environment, mangroves planting project in Puttlam and Mannar and numerous environmental awareness and education programs for target audiences.

Way forward

The foreseeable future seems laden with the effects of the COVID-19 pandemic. NDB remains committed to support its customers through these challenges and make essential contribution towards national economic revival, whilst generating meaningful returns to its shareholders and other stakeholders. NDB is set to achieve a triple 500 Bn, in total assets, gross loans and customer deposits, with total deposits to soon cross this milestone. With this ambition brewing at the core, Team NDB is geared to perform and take NDB to greater heights.