# PRESS RELEASE

**Results for the first half ended 30 June 2022**
**National Development Bank PLC**

**CSE stock code: NDB.N0000 | Bloomberg: NDB SL | Reuter's: NDB.CM**

**Released to the Colombo Stock Exchange on: 15 August 2022**

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# NDB posts moderate yet resilient performance in H1 2022

**15 August 2022, Colombo, Sri Lanka**

National Development Bank PLC (NDB/ the Bank) recently released its financial statements for the six months ended 30 June 2022 to the Colombo Stock Exchange. Financial performance recorded was moderate yet resilient against a highly challenged socio-economic backdrop that prevailed during the review period. With our strategy recalibrated to match external developments well on track, NDB was able to achieve its core banking revenue targets, Mr. Dimantha Seneviratne, Director/ CEO of NDB commented. The unprecedented depreciation in the exchange rate together with severe macro-stresses that resulted in higher provisions for investments, and provisions made on a prudent basis on loans to factor in expected stresses narrowed our profits. Whilst we are augmenting the Bank's strength and stability through robust risk management frameworks amidst unique challenges faced by the financial services industry, we are also sharpening our focus on customer-centricity, so as to deliver precise solutions and support them towards gradually emerging from their economic woes, he added.

## Analysis of financial performance

### Profitability

NDB posted a pre-tax profit of LKR 2.7 Bn for H1 2022. Although a reduction of 56% over the first half of 2021 (the comparative period), this deceleration in profits was equitable compared to the considerable quantum of impairment charges factored in for the period, and is predominantly attributable to strong revenue generation and expenses management by the Bank amidst external challenges. Taxes netted LKR 973 Mn, with post-tax profits closing in at LKR 1.7 Bn.

The Bank recorded healthy core banking performance as reflected in a total operating income of LKR 22.4 Bn, an increase of 46% over the comparative period, bolstered by both fund and non-fund based income. Net interest income, for the period under review was LKR 15.0 Bn up by 45% over the comparative period. Interest income and interest expenses both grew simultaneously at 46% and 47% respectively, due to the increasing market rates for both loans and deposits triggered by an 8.5% increase in the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) over the first half of 2022. The resultant net interest margin for the period was 3.77% (2021: 3.25%). On non-fund based income, net fee and commission income improved by 19% to LKR 3.1 Bn, whilst sources of other non-fund based income totaled to LKR 4.3 Bn, predominantly benefitting from the revaluation gains on the Bank's foreign currency denominated reserves, due to the sharp depreciation of the LKR against the US dollar.

The period under review saw the Bank booking impairment charges of LKR 13.9 Bn, an increase of 235% over the comparative period. The greater portion of impairment charges comprised provisions made for foreign currency denominated government securities, factoring in the revisions to the sovereign rating of the country earlier this year on account of the country's debt restructuring measures and the impact arising from rupee depreciation. The Bank strengthened the impairment provisions for loans, given heightened economic uncertainty exacerbated by political instability and social unrest during the period, impacting customer debt serviceability. The resultant ratios indicating impairment levels were; Impaired Loans (Stage 3) Ratio and Impairment (Stage 3) to Stage 3 Loans Ratio were 5.70% (2021: 4.55%) and 32.07% (2021: 32.81%) respectively.

Total operating expenses for the period was LKR 5.8 Bn, an increase of 13% over the comparative period. Inflationary pressure mainly drove expenses up, with a certain aspect of it off-set by large cost benefits achieved through the investments made in digitizing customer services and automating internal process using robotic process automations and workflow solutions. Resultant cost to income ratio remained below 30%, with the combined effects of revenue enhancements as well. NDB will continue cost rationalizations and process efficiency enhancements to preserve profitability.

**Balance Sheet performance**

Total assets closed at LKR 816 Bn at the Bank level and LKR 822 Bn at the Group level, a 16% increase over end 2021 position (YTD growth). Gross loans to customers were LKR 609 Bn, a YTD increase of 16%, comprising the impact of LKR depreciation and moderate growth stemming from all business segments. Customer deposits were LKR 645 Bn, an increase of 17%, again containing the inflationary effects of the LKR depreciation against the USD, and also deposit mobilization at granular level within the retail segment as well as across business segments.

**Investor and regulatory ratios**

Return on average equity and Earnings per share were 5.61% and LKR 9.05 respectively. Pre-tax Return on Average Assets was 0.71%. Regulatory ratios of Liquidity Coverage Ratio (Rupee), Liquidity Coverage Ratio (All Currency) and Net stable Funding Ratio stood well above the regulatory minimum requirement of 90% at 241.02%, 156.50% and 117.49% respectively. Tier I and Total Capital Adequacy ratios as of end H1 2022 were 8.63% and 13.02%, ahead of the regulatory minimum levels of 8.5% and 12.5% respectively, before considering capital relief measures on capital conservation buffers mandated by the CBSL recently. The capital ratios were inclusive of the upside impact on total capital arising from the reclassification of debt portfolios to Amortized Cost from Fair Value through Other Comprehensive Income, as permitted under SLFRS 9 as a one-off option. Net asset value per share as at end H1 2022 was LKR 167.62 (2021: LKR 165.02).

**Outlook**

Given further tightening of the monetary policy by the Central Bank of Sri Lanka, rising inflation, supply-side disruptions caused by fuel and import deficits, etc., economic activity is anticipated to remain low for the remainder of 2022. With customer debt serviceability directly affected, and the full effects of moratoria which ended in December 2021 now unwinding, the Bank will place significant focus and efforts in preserving quality of the loan book. Gradual political stability and expedited discussions with the International Monetary Fund towards finalizing relief measures to Sri Lanka will auger well for the country and its citizens. NDB remains committed in its role as a banking and capital market services Group, to support the Sri Lankans and the country's economy in this recovery path.

NDB was recently adjudged as the Best Bank in Sri Lanka 2022 by the prestigious Euromoney Magazine, having secured the same title from Global Finance USA earlier this year. Accordingly, NDB achieves the rare feat of securing the top triple international awards for Best Bank from Euromoney, Global Finance USA and The Banker UK (2020) in quick succession, demonstrating excellence, stability and strength.