PRESS RELEASE

Results for the nine months ended 30 September 2022
National Development Bank PLC

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NDB posts moderate performance, yet navigates challenges with agility and stability

14 November 2022, Colombo, Sri Lanka

National Development Bank PLC (NDB/ the Bank) released its financial statements for the nine months ended 30 September 2022 to the Colombo Stock Exchange on 14 November 2022. Financial performance continued to be challenged by the prevailing macro-economic conditions, adversely impacting profitability for a continued third quarter, as seen across the entire banking industry. Commenting on the period's financial performance, Director and CEO of NDB Mr. Dimantha Seneviratne noted that, we are navigating through a set of unique challenges hitherto not experienced by Sri Lanka or the banking sector. In such context we are exercising maximum diligence, with high priority on prudent risk management strategies, concerted support to customers in need and preserving shareholder value. We also remain strongly aligned to the Government of Sri Lanka's mission in expeditiously reviving the national economy, with the support of the International Monetary Fund, he noted.

Analysis of financial performance

Profitability

The nine months period under review posted a pre-tax profit of LKR 790 Mn, a 91% reduction over the comparative period of the nine months ended 30 September 2021. Whilst the top line continued to grow, the profit deceleration reported since the beginning of 2022 is predominantly attributable to the increased impairment charges booked in both the loan book and investment portfolio, warranted by macro-economic conditions. Despite this, performance of core banking operations was noteworthy, where net interest income grew by 39% to LKR 22.2 Bn. With the upward movement in interest rates in the market, interest income as well as interest expenses increased, reflecting timely re-pricing of the asset book, and mobilization of deposits respectively. Net interest margin closed in at 3.78% compared to 3.25% of 2021, benefitting from strategic deployment of funds. Net fee and commission income also increased by 10% to LKR 4.4 Bn, mainly driven by trade business, retail banking operations and digital banking initiatives. Other non-fund based income totaled LKR 4.9 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 Bank accounted LKR 22.2 Bn as impairment charges for the period under review, a 234% increase over the comparative period. The greater portion of impairment charges continued to comprise 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. Impairment provisions for loans also increased during the period, to factor in macroeconomic impact on loan book quality. The resultant ratios indicating impairment levels were; Impaired Loans (Stage 3) Ratio and Impairment (Stage 3) to Stage 3 Loans Ratio were 5.75% (2021: 4.55%) and 34.66% (2021: 32.81%) respectively.

The Bank's tight grip on costs helped manage the increase in expenses by only 10% to LKR 8.5 Bn, amidst high inflation. Cost to income ratio continued below the 30% mark, benefitted by both revenue enhancements and cost curtailments, the latter attributable to automation of processes and greater skewing to digital modes in delivering banking services to customers. Taxes netted LKR 228 Mn, with a FSVAT of LKR 762 Mn at 18%, compared to 15% in the comparative quarter of 2021.

Balance Sheet performance

The Bank posted total assets of LKR 819 Bn by the end of the review period, whilst the same at the group level was LKR 825 Bn, a 16% increase over end 2021 position (YTD growth). Within total assets, Gross loans to customers closed in at LKR 600 Bn, a YTD increase of 14%, attributable to both the impact of LKR depreciation and moderate growth stemming from all business segments. On Balance Sheet funding, customer deposits were LKR 649 Bn, a YTD increase of 18%, again attributable to the dual factors of inflationary effects of the LKR depreciation against the USD, and also concerted 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 1.24% and LKR 1.97 respectively. Pre-tax Return on Average Assets was 0.14%. 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 208.00%, 158.02% and 123.19% respectively. Tier I and Total Capital Adequacy ratios as of end September 2022 were 9.42% and 13.60%, 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 Bank continued to maintain high liquidity standards as denoted in the Statutory Liquid Assets Ratio of Domestic Banking Unit and Off-Shore Banking Unit at 22.80% and 25.40% respectively, well above the regulatory minimum requirement of 20%. Net asset value per share as at end Q3 2022 was LKR 162.17 (2021: LKR 165.02).

Outlook

Given subdued economic activity, business growth in the banking industry for the remainder of the year will be moderate. Reduced debt serviceability of customers and potential restructuring anticipated on exposure to Government's international sovereign bonds will also exert pressure on industry-wide capital adequacy level, which will prompt further calibration to banks' growth targets. NDB will follow suite in this regard, where growth will be cautious and calculated to balance off adequate capital levels. The Bank's other strategic priorities, such as innovations on digital front, customer-centricity, empowering the women's market segment, internal process streamlining and automations, staff development, etc., will continue unabated, affording NDB a strong platform to launch ahead, once the country's economic conditions improve.

Notwithstanding the challenges, the Bank has been consistently delivering on exceptional customer service and maintaining agility which have enabled the Bank to adapt to the evolving conditions. Reflecting these strengths, 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.