PRESS RELEASE

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National Development Bank PLC

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NDB posts strong first quarter performance, amidst continuing challenges

12 May 2023, Colombo, Sri Lanka

- Post-tax profitability of LKR 805 Mn, impressively up by 33%
- Net operating income of LKR 4.5 Bn, up by 24% post absorbing impairment of LKR 4.8 Bn
- Balance sheet re-sizing and exchange rate appreciation leading to total assets of LKR 781 Bn
- Sound capital and liquidity positions maintained

National Development Bank PLC posted satisfactory results for the first quarter of 2023, as it continued strong strategic realignment in response to the external challenges that continue to affect the banking sector. Commenting on NDB's performance, Director/ CEO Mr. Dimantha Seneviratne stated that prudent balance sheet management, diversified revenue focus and cost optimization ensured that the Bank generated sound returns to its shareholders. We are cautiously optimistic of the economy's recovery, particularly as the banking sector remains vulnerable with cascading effects of the economic crisis exerting pressure on sector capital adequacy. In such a scenario we are striving to strike a delicate balance between ensuring the quality of our balance sheet and supporting our customers as they gradually converge on a path of recovery, he further commented.

Analysis of financial performance

Profitability

NDB recorded a post-tax profit of LKR 805 Mn for the first quarter ended 31 March 2023, a healthy growth of 33% over the same period in 2022. As demonstrated over the years, NDB's core banking operations posted resilient performance with gross income growing by 75% to LKR 33.5 Bn in the period under review. All income categories grew impressively, with the only exception in other operating income. Net interest income grew by 38% to LKR 8.5 Bn, driven by interest income of LKR 32.8 Bn and interest expenses of LKR 24.2 Bn, which were higher by 113% and 165% over the comparative period respectively. The Bank effectively deployed the funds raised via deposits in interest efficient products whilst maintaining adequate liquidity, resulting in a net interest margin (NIM) of 4.01%. Net fee and commission income was LKR 1.9 Bn an improvement of 13% over the comparative period driven mainly by trade activities, digital transactions and credit card transactions. Other operating income had a LKR 2.2 Bn revaluation loss on account of the rupee appreciation on the Bank's foreign currency reserves.

Impairment charges continued to weigh down profits with a charge of LKR 4.8 Bn reported for the quarter. Impairment provisions for loans reflected macroeconomic impact on loan book quality, predominantly stemming from reduced debt serviceability of customers across all segments, exacerbated by high inflation and negative GDP growth. The Impairment cover (Stage 3) to Stage 3 Loans Ratio was 37.60% (2022: 37.44%) whilst the Impaired Loans (Stage 3) Ratio was 7.30% (2022: 6.24%) by end March 2023. NDB continued to maintain provisions on investments in foreign currency bonds, for the expected International Sovereign Bond (ISB) restructuring to be announced by the Government of Sri Lanka during the year.

NDB continued its cost disciplines well in to 2023, and reported total operating expenses of LKR 3.1 Bn for the first quarter. The year on year increase in costs was stemmed at 16% amidst high inflation and taxes. This was ably supported by the Bank's digital drive in customer solutions as well as process automations, with 85% of the Bank's total transactions driven via digital platforms. The cost to income ratio reported was 33%. The resultant pretax operating profit was LKR 1.4 Bn up by 45%.

Balance Sheet Performance, Liquidity and Capital Adequacy

In tandem with the industry-wide asset de-growth, NDB also posted a 6% drop in its asset base to LKR 782 Bn compared to the end 2022 position. Gross loans to customers decelerated by 7% to LKR 536 Bn, whilst customer deposits closed in at LKR 629 Bn with a 6% deceleration. Total assets at the Group level stood at LKR 788 Bn.

Regulatory Liquidity Coverage Ratio (Rupee), Liquidity Coverage Ratio (All Currency) and Net stable Funding Ratio stood well above the regulatory minimum requirement of 90% at 301.03%, 237.92% and 131.95% respectively. The Consolidated Statutory Liquid Assets Ratio of 27.76% was also well above the regulatory minimum requirement of 20%.

Tier I and Total Capital Adequacy ratios by the end of Q1 2023 stood at 10.08% (Group: 10.62%) and 13.99% (Group: 14.46%), ahead of the regulatory minimum levels of 8.5% and 12.5% respectively. The Bank's prudent balance sheet repurposing in response to rising impairments and exchange depreciation driven balance sheet inflation, enabled the Bank to preserve capital adequacy and remain stable. NDB has also announced its plans to raise Tier II capital via Basel III compliant listed, rated, unsecured, subordinated, redeemable debentures within a one year time frame ending 30 March 2024, of up to LKR 10 Bn, in further strengthening its capital position.

Investor KPIs and Dividends

Return on average equity and Earnings per share for Q1 2023 were 5.07% (Group: 5.06 %) and LKR 8.59 (Group: LKR 9.11) respectively. Pre-tax Return on Average Assets was 0.70% (Group: 0.75%) and Net asset value per share was LKR 172.02 (Group: LKR 182.50), with both ratios having enhanced over the ratios for the financial year 2022. On 19 April 2023, Board of Directors of NDB approved and declared final scrip dividend of LKR 2.50 per share for the financial year ended 31 December 2022, resulting in 19,369,640 ordinary voting shares being listed as scrip dividends on 08th May 2023 in the Colombo Stock Exchange.

Outlook

Gratifyingly, the macroeconomic conditions in the country are gradually improving. Confidence and certainty have also enhanced to considerable extents with the finalization of the Extended Fund Facility arrangement by the International Monetary Fund. The outlook for the industry remains more on moderated or curtailed growth as capital constraints affect all banks alike. Following suit, NDB will continue a cautious balance sheet management approach whilst optimizing on internal profitability amidst the envisaged challenges, to preserve and enhance Tier I capital in the short to medium term.