

PRESS RELEASE

SIX MONTHS ENDED 30 JUNE 2023

National Development Bank PLC

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The future is banking on us

NDB posts PBT of Rs. 4.2 Bn with a YoY increase of 55% amidst continuing external challenges

14 August 2023, Colombo, Sri Lanka

- Net operating income of Rs. 10.7 Bn, a YoY increase of 27%
- Operating costs increase stemmed at 13% with costs linked to high inflation
- Gradual reduction in impairment charges
- Prudent balance sheet management in response to external operating environment
- Sound liquidity and capital maintained throughout the year

National Development Bank PLC demonstrated resilience in its performance, as reflected in the financial statements released for the six months ended 30 June 2023, despite the continuing challenges that affect the banking industry. NDB's Director/ CEO Mr. Dimantha Seneviratne stated that it is encouraging to note the Sri Lankan economy converging on the path of recovery and growth. The banking sector has always been a key catalyst in national economic prosperity, and as our country emerges from a deep setback, we are strongly aligned in supporting such momentum. The banking sector bore the brunt of the economic crisis but remains stable. There was much uncertainty around the Government of Sri Lanka's domestic debt optimization (DDO) mechanism which exerted considerable pressure on the industry. The finalization of the DDO and the options extended to banks has removed ambiguity and has helped lessen the risk premia added to interest rates. We anticipate similar clarity on international debt restructuring. The Central Bank of Sri Lanka's (CBSL) timely policy rates relaxation together with the DDO finalization has enabled the moderation of historically high interest rates and we are passing on this benefit to our customers which will stimulate economic activity, he mentioned. Banks shoulder the noble responsibility of powering the growth of the Sri Lankan economy and extending support to the customers at this critical juncture, and NDB is well focused on same he further added.

Analysis of Financial Performance

Profitability

NDB reported post tax profitability of Rs. 2.3 Bn for the six months ended 2023 (H1 2023), an increase of 37% over the same period in the prior year (YoY/ comparative period). Pre-tax profitability was Rs. 4.2 Bn, a YoY increase of 55%. This is commendable generation of value to shareholders amidst an industry climate that continued to be subdued and challenged. The Bank posted total revenue of Rs. 66.7 Bn for H1 2023, up by 50% YoY driven by sound performance of all income categories save and except for other operating income. Net interest income (NII) remained largely static over the year and was Rs. 15 Bn. Interest income of Rs. 63.2Bn (YoY growth 70%) and interest expenses of Rs. 48.2 Bn (YoY increase 117%) drove the NII. Re-pricing of the lending book in line with market rate movements and the increase in investment portfolio at relatively high rates resulted in the YoY increase in interest income. Interest rates remained on an increasing trend till early June 2023 attuned to CBSL's tightening monetary policy and increased policy rates. The Bank has taken initiatives on a best effort basis to reduce the cost of funding at a faster pace than the expected downward re-pricing of the lending book, with the reduction in policy rates introduced in June and July 2023 of 450 bps. Net Interest Margin (NIM) for the period closed in at 3.7%. NIM is expected to be under pressure on account of the reducing market rates trend.

Fee and commission income was Rs. 3.7 Bn, an increase of 19% YoY driven mainly by trade activities, digital transactions and card transactions. Fee and commission income also continued to be under stresses, an industry-wide phenomena given the reduced business volumes in a negative GDP growth scenario. Other operating income comprised Rs. 3.2 Bn revaluation loss on account of the rupee appreciation on the Bank's foreign currency reserves.

Impairment charges for the six months ended 30 June 2023 were Rs. 7.9 Bn, a YoY reduction of 43%, primarily due to higher impairment provisions made for FCY Investments in the same period of 2022. Adopting a prudent basis, the impairment charge for loans and advances increased over the corresponding period, given the heightened economic uncertainty. 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. The Impairment cover (Stage 3) to Stage 3 Loans Ratio was 33.98% (2022: 37.44%) whilst the Impaired Loans (Stage 3) Ratio was 9.21% (2022: 6.24%) by end June 2023, reflecting the industry-wide concerns on credit quality.

Cost rationalization continued through the year, which helped preserve profitability at a time that revenue was stressed. Operating costs for the six months period was Rs. 6.5 Bn with the YoY increase managed at 13%. The resultant cost to income ratio was 35%, well below the internal targets set, and one of the best ratios across the industry peers. Taxes netted Rs. 1.8 Bn, comprising taxes on financial services of Rs. 1.2 Bn and income tax of Rs. 613 Mn.

Balance Sheet Performance, Liquidity and Capital Adequacy

The Bank's total assets closed in at Rs. 793 Bn as of 30 June 2023, whilst the same at the NDB Group level was Rs. 800 Bn. This was a 5% reduction over the 31 December 2022 position, attributable to the predominant reason of deflation of the foreign currency denominated asset book with the appreciation of the Sri Lankan Rupee. Gross loans to customers declined by 12% from end 2022 to end H1 2023 (YTD), attributable to the aforementioned exchange rate movement and also reduced lending to the private sector. The exceptionally high interest rates diminishing the demand for bank loans together with reduced economic activity led to the contraction of loan books across the industry. Credit to private sector continually declined from February 2023 onwards, prior to showing some recovery in June 2023. At NDB, return on risk adjusted capital (RORAC) based lending remains a key strategic priority to preserve capital and ensure sound interest margins and fee based income. Customer deposits stood at Rs. 628 Bn, a reduction of 7% over 2022. The reduction in deposits was mainly due to the effect of the appreciation of the Sri Lankan Rupee on the foreign currency denominated deposit book.

Demonstrating the Bank's sound liquidity and strong capital position, all related ratios stood above regulator stipulated minimum levels. Regulatory Liquidity Coverage Ratio (Rupee), Liquidity Coverage Ratio (All Currency) and Net stable Funding Ratio stood well above the regulatory minimum requirement of 100% at 253.24%, 243.89% and 137.76% respectively. The Consolidated Statutory Liquid Assets Ratio of 34.35% (2022: 27.24%) was also well above the regulatory minimum requirement of 20%. Tier I and Total Capital Adequacy ratios by the end of H1 2023 stood at 11.04% (Group: 11.57%) and 14.77% (Group: 15.22%), well ahead of the regulatory minimum levels of 8.5% and 12.5% respectively. 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, up to LKR 10 Bn, in further strengthening its capital position.

Investor KPIs and Dividends

Return on average equity and Earnings per share for H1 2023 were 7.20% (Group: 6.94 %) and Rs. 11.80 (Group: Rs. 12.07) respectively. Pre-tax return on average assets was 1.03% (Group: 1.07%) and Net asset value per share was LKR 168.69 (Group: LKR 178.60), reporting improvements over the prior year.

Outlook

NDB is guided by a clear strategy that has been recalibrated in response to the external developments. Whilst growth will be moderated, the Bank will pursue its core strategic aspirations including digital innovations, deployment of technology for process automations and cost optimizations, empowering of the women's market segment and integration to environmental, social and governance (ESG) aspects. Customer-centric solutions to support their growth as well as the country's economic revival, enhancing the value created to shareholders, extending exceptional care to our staff and supporting the aspirations of all our stakeholders will form key focus areas in such strategy. *NDB is the Most Awarded Corporate in Sri Lanka 2022* (for the second consecutive year) as adjudged by the Annual Rankings of LMD.