

PRESS RELEASE

NINE MONTHS ENDED 30 SEPTEMBER 2023

National Development Bank PLC

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

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NDB records strong core banking performance. Remains well on track towards mid-term strategic goals.

14 November 2023, Colombo, Sri Lanka

- Group pre-tax profit of Rs.10.0 Bn with over eight-fold YoY increase demonstrating enhanced performance
- Marked improvement in fee and commission income to Rs. 5.4 Bn – Up by 24%
- Continued gradual reduction in impairment charges
- Prudent balance sheet management amidst external pressures
- Sound liquidity and capital maintained throughout the year

National Development Bank PLC posted enhanced income and profitability during the nine months ended 30 September 2023. The Bank continued to adopt prudent measures in balance sheet management in line with the external developments which affirmed sound returns, optimum liquidity and capital adequacy. NDB's Director/ CEO Mr. Dimantha Seneviratne stated that the Sri Lankan economy is emerging well from the crisis and the Bank is recording similar performance. With critical economic factors such as interest rate, exchange rate and inflation stabilized, there is greater certainty and confidence in doing business. The timely finalization of the Domestic Debt Optimization is noteworthy and we expect expedited finalization of the international debt structuring too, which will further enhance internal conditions and also the external profile of Sri Lanka. We have recalibrated our strategy in the current context and remain well on track in achieving our targets which will deliver continued value to our stakeholders.

Analysis of Financial Performance

Profitability

Rebounding from consecutive quarters of less than potential profitability attributable to external challenges, the NDB Group comprising the NDB Bank as the parent and its subsidiary companies posted an impressive Rs. 10.0 Bn profit before all taxes for the nine months ended 30 September 2023 which compared with Rs. 1.2 Bn of the same period in 2022. Profit after tax at the Group level was Rs. 5.4 Bn whilst the same at the Bank level was Rs. 5.2 Bn which compared with Rs. 691 Mn and Rs. 561 Mn respectively of the nine months of 2022 (YoY). Healthy performance on revenue, reduction in impairment provisions compared to the comparative period and effective cost management across all operations enabled enhanced profitability. At the Bank level Gross income for the period was Rs. 102.9 Bn, up by 38% YoY. Net interest income (NII) was Rs. 24.4 Bn, an increase of 10%. Interest income of Rs. 93.7 Bn which increased by 44% and interest expense of Rs. 69.3 Bn which increased by 61% drove NII. As market interest rates continued to decline, in response to Central Bank of Sri Lanka's relaxing monetary policy, the Bank passed on the benefit to customers with reduced loan rates. The deposits book was also re-priced simultaneously, with the Bank achieving a NIM of 4.00%. Net fee and commission income also drove profitability with a marked improvement of 24% to Rs. 5.4 Bn. The Bank's concerted transaction drive with a wider objective of supporting the economy as it regains momentum, particularly on trade related services enabled enhanced fee income amidst moderate loan book expansion. Other non-fund based income categories of net gains from trading, net gains from financial assets at fair value through profit and loss and net gains on derecognition of financial assets all increased exponentially, on account of variation in the exchange rate and interest rates compared to the nine months in the prior year.

Impairment charges for the nine months ended 30 September 2023 were Rs. 13.9 Bn, a YoY reduction of 37%, 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 economic conditions. 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 36.57% (2022: 37.44%) whilst the Impaired Loans (Stage 3) Ratio was 9.18% (2022: 6.24%) by end September 2023, reflecting the industry-wide concerns on credit quality.

Total operating costs for the period was Rs. 10.1 Bn, up by 20%. General increase in price levels, particularly energy and foreign currency denominated expenses drove costs up. The resultant cost to income ratio was 30.2% and compared well within the industry. Taxes netted Rs.4.3 Bn, comprising taxes on financial services of Rs. 2.4 Bn and income tax of Rs. 1.9 Bn.

Balance Sheet Performance, Liquidity and Capital Adequacy

NDB posted a total assets figure of Rs. 789 Bn as of end September 2023. The same figure at the Group level was Rs. 796 Bn. This was a 5% reduction over the total assets position in 2022, predominantly attributable to the appreciation of the Sri Lankan Rupee over 2023 compared to the severe depreciation seen in 2022 and the loan book contraction. Gross loans at the end of the period closed in at Rs. 514 Bn – down by 11% over 2022. Loan book was also affected by the appreciating currency which led to its reduction, alongside reduced demand for loans on account of high interest rates and low economic activity in the country, as reflected in continuous negative GDP growth over the quarters. Credit to the private sector demonstrated some recovery post mid-year, particularly with the considerable reduction in loan rates. With economic activity slowly improving it is anticipated that the industry-wide decline in gross loans will enter positive territories in the near future. Customer deposits closed in at Rs. 627.7 Bn, a 7% reduction over 2022, with the reduction partly attributable to the appreciation of the Sri Lankan Rupee. The Balance Sheet remained dynamic and resilient and the Bank maintained sound liquidity and capital adequacy. 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 333.73%, 269.95% and 141.66% respectively. The Statutory Liquid Assets Ratio of 37.90% (2022: 27.24%) was also well above the regulatory minimum requirement of 20%. Tier I and Total Capital Adequacy ratios as of end September 2023 stood at 11.06% (Group: 11.54%) and 14.46% (Group: 14.87%), 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 in further strengthening its capital position, and the Issue is set to be concluded before the end of this year.

Investor KPIs and Dividends

Return on average equity and Earnings per share for Q3 2023 of the Bank were 9.75% and Rs. 16.52 respectively, which compared with 4.75% and Rs. 7.65 in 2022, thereby posting considerable improvement in returns to shareholders. The same indicators at the Group level were 9.58% and Rs. 17.22 versus 4.62% and Rs. 7.92 in 2022. Bank Pre-tax return on average assets was 1.49% (2022: 0.26%) and Net asset value per share was Rs. 179.95 (2022: 167.16), again reporting notable

improvement over the prior year. The same indicators at the Group level were 1.64% (2022:0.34%) and Rs. 190.44 (2022: Rs. 177.60)

Outlook

NDB remains committed to delivering sound returns to the shareholders and value to all other stakeholders including customers, employees, etc. The Bank's other business and strategic priorities such as digitization, empowering the women's market segment, environmental friendly initiatives, etc. are on track unabated. The Bank recently launched the fourth edition of *Sri Lanka Vanithabhimana* in collaboration with MTV News First in affording a platform for high performing females to be recognized in a national level awards programme. The Bank has secured over 70 awards and accolades so far in 2023 from various global and local awarding bodies for excellence in a wide range of performance aspects, a highlight being the Best Innovation & Transformation - Sri Lanka awarded by Global Finance USA for 2023. NDB was the most awarded corporate in Sri Lanka as per LMD's annual rankings for 2022 and 2021.