

PRESS RELEASE

Results for the financial year ended 31 December 2023

National Development Bank PLC

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NDB Group posts LKR 11 Bn in pre-tax profits, benefiting from resilient and agile strategy

20 February 2024, Colombo, Sri Lanka

National Development Bank PLC demonstrated its characteristic resilience and agility in withstanding external challenges through the financial year 2023. The Bank's concerted efforts in operationalizing its strategy, duly adapted in response to evolving macro-economic dynamics resulted in the Bank generating sound returns to its shareholders. NDB's newly appointed Director/ CEO Mr. Kelum Edirisinghe attributed such performance to the commitment, hard work and perseverance of the team and the innate acumen the Bank has gathered over four decades of its service to the nation through many socio-economic cycles. We draw deep comfort from a clearly articulated strategy that guides us in the near to mid-term, the strong governance frameworks within which we function and the versatility of our stakeholders well aligned in our mutual growth, prerequisites in navigating through challenging times. Our immediate priorities will be on improving asset quality, enhancing NIMs, driving transaction banking and pursuing growth centered around products offering higher risk adjusted returns, he further commented.

Analysis of Financial Performance

Profitability

The NDB Group comprising the NDB Bank as the parent and its subsidiary companies posted a pre-tax profit of LKR 10.9 Bn whilst at Bank level pre-tax profit was LKR 10.1 Bn. Profitability mirrored solid core banking performance which led to healthy improvement across key income categories. Gross income saw a 20% increase over the financial year 2022 (YoY growth) to LKR 132.3 Bn. Interest income enhanced by 22% to LKR 119.4 Bn with interest expenses rising by 30% to LKR 87.4 Bn, leading to a net interest income of LKR 31.9 Bn, a YoY growth of 4%. The resultant net interest margin of the Bank was 3.96%. Market wide interest rates came down from their historic highs following policy rates cuts netting 650 bps by the CBSL, whilst average prime lending rate dipped by approximately 16 percentage points during the year. Net fee and commission income increased by 14% to LKR 7.2 Bn, enhancing the dynamism of the Bank's revenue mix. Transaction banking drive across all business segments, particularly trade related services and greater uptake of the Bank's digital platforms bolstered fee income amidst loan book contraction. The total of net gains from trading, net gains from financial assets at fair value through profit or loss and net gains from derecognition of financial assets amounted to LKR 8.7 Bn, a notable improvement over 2022 due to variation in the exchange rate and interest rates compared to the prior year.

Impairment charges for the financial year netted LKR 21.1 Bn, a YoY reduction of 28%, 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. NDB continued to maintain sufficient 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 41.11% (2022: 37.44%) whilst the Impaired Loans (Stage 3) Ratio was 8.58% (2022: 6.24%) for 2023, reflecting the industry-wide concerns on credit quality.

Total operating costs for the period was LKR 13.7 Bn, a YoY increase of 20%. General increase in price levels, particularly energy and foreign currency denominated expenses drove costs up. The resultant cost to income ratio was 30.4% and compared well within the industry. Process automations leading to lesser resource usage and greater efficiencies, increasing shift of client transactions to digital platforms and conscious assessment and rationalization of discretionary expenses, particularly as per directions issued by the CBSL were key contributors in curtailing costs increases. Taxes netted LKR 4.7 Bn, comprising taxes on financial services of LKR 2.7 Bn and income tax of LKR 2.0 Bn.

Balance Sheet Performance, Liquidity and Capital Adequacy

NDB's total assets stood at LKR 780 Bn at the closure of the year, whilst Group total assets were LKR 787 Bn and translated to a 6% reduction over 2022, predominantly attributable to the appreciation of the Sri Lankan Rupee over 2023 compared to the severe depreciation seen in 2022. Loan book followed a similar trend, closing in at LKR 496 Bn, a YoY contraction of 14%. Loan book was affected by the dual factors of appreciating currency and subdued demand for loans on account of high interest rates and low economic activity in the country. Customer deposits for 2023 was Rs. 616 Bn, an YoY reduction of 8%, yet again with the reduction partly attributable to the appreciation of the Sri Lankan Rupee. Notwithstanding the contraction, Balance Sheet remained dynamic and resilient, with 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 309.61%, 228.58% and 142.26% respectively. The Statutory Liquid Assets Ratio of 39.02% (2022: 27.24%) was also well above the regulatory minimum requirement of 20%. Tier I and Total Capital Adequacy ratios stood at 11.67% (Group: 12.22%) and 15.90% (Group: 16.35%), well ahead of the regulatory minimum levels of 8.50% and 12.50% respectively. NDB fortified its Tier II capital base with a LKR 5 Bn infusion of Basel III compliant listed, rated, unsecured, subordinated, redeemable debentures during the year.

Investor KPIs and Dividends

Return on average equity and Earnings per share for FY 2023 of the Bank were 8.03% and LKR 13.44 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 8.11% and LKR 14.42 versus 4.62% and LKR 7.92 in 2022. Bank Pre-tax return on average assets was 1.25% (2022: 0.26%) and Net asset value per share was LKR 175.60 (2022: 167.16), again reporting notable improvement over the prior year. The same indicators at the Group level were 1.34% (2022:0.34%) and LKR 186.43 (2022: LKR 177.60)

Outlook

It is anticipated that macro-economic challenges may subside in the near term and with all key indicators adjusting in to positive territories, recovery will be expedited. The banking sector looks forward to the finalization of the international sovereign bonds restructuring, which would allow banks efficient deployment of capital in pursuing growth targets. NDB remains positive of such recovery trajectory, and will focus on creating shareholder value through consistent and sustainable bottom line performance. The Bank is poised to channel customized support to all its customers, combining both banking and capital market solutions with SMEs being a core focus group in such support in enhancing their resilience and development. The Bank will also endeavor towards a judicious equilibrium in its performance covering aspects such as digitalization, empowering the women's market and ESG among others.