

**Performance Commentary on
Financial Performance
for FY 2015
National Development Bank PLC**



NDB Group crosses LKR 300 billion in Total Assets

National Development Bank PLC (the Bank) and its group of companies (together referred to as the Group), concluded the financial year 2015 with enhanced business performance as indicated in its balance sheet growth, exceeding LKR 300 billion by the end of the year. Total assets at a Group level closed at LKR 315 billion which translated to a 17% growth whilst the same at the Bank level was LKR 309 billion, an equivalent of 18% growth over the prior year, a convincing indicator of the gradual systematic importance that the Bank is attaining in the Sri Lankan banking industry.

Core banking operations and profitability

The NDB Group's gross income increased by 3% during the year up to LKR 26,916 million, over the comparative year. Net Interest Income (NII) of LKR 7,807 million recorded a marginal decline of 1% over the prior year, largely due to the less than favorable interest rates that prevailed in the market. Group's net fee and commission income and net gains from trading recorded commendable growth of 23% and 20% respectively, over the prior year. This was a result of increased volumes of banking operations supported by a branch network of 93 and enhanced operations of the Group companies via their expert capital market offerings.

These growth levels in non-interest income were results of the Group's concerted focus on one of its strategic imperative to "grow the fee based income" with a view to sustaining profitability even in difficult situations.

Net gains from financial investments for the year ended 31 December 2015 was LKR 494 million at the Group level and compares with a corresponding figure of LKR 1,251 million for the prior year. The variation in the net gains from financial investments in 2015 was mainly due to the higher marked to market gains which were realized in 2014 as a result of the then prevailing market conditions.

Group other operating income recorded a notable growth of 127%. This growth was primarily due to the higher exchange gains earned on the revaluation of the foreign currency book of the Bank over the prior year, which resulted from the adoption of a free float foreign exchange rate mechanism in September 2015 by the Central Bank of Sri Lanka.

Group impairment charges for loans and other losses were LKR 746 million for the year ended 31 December 2015, an increase of 41% over the prior year. Within total impairment, individual impairment was LKR 561 million and compares with LKR 141 million in 2014, whilst collective impairment charge was LKR 151 million as compared with LKR 387 million for the corresponding year.

The increase in the individual impairment charge was primarily due to the Bank's prudent adoption in fair valuing the impaired loans based on sound judgment and objective evidence of future recoveries. The decrease in the collective impairment, which was based on a Board approved impairment provisioning model, was primarily due to the improvement in asset quality, despite the growth in loans and receivables over the prior year.

The total operating expenses of the Group increased by 16% up to LKR 6,830 million by end 2015. Within total operating expenses, personnel expenses grew by 15% to reach LKR 3,634 million and relates to an increase in the permanent work force and annual remuneration increments effected during the year. Office administration and establishment expenses increased during the year mainly due to the increase in the branch network (by 10 new branches and 8 off site ATMs) and general price increases.

Group Profit Attributable to Shareholders (PAS) for the year was LKR 3,542 million, and the contribution to PAS from the core banking operations and the Group share of profits for the year 2015 was 74% and 26% respectively.

In terms of returns to shareholders, the Bank paid an interim dividend of LKR 7/- per share in December 2015. NDB remains as one of the few corporates which pays high dividends consistently to its shareholders and is committed to ensure high returns to the shareholders at all times.

Balance sheet performance

As mentioned above, total assets exceeded LKR 300 billion in 2015, recording a 17% increase at the Group level. Within total assets, loans and receivables to customers grew by an impressive 20% (LKR 34 billion), to reach LKR 210 billion. The growth was noted across the entire product portfolio, demonstrating the enhanced performance of all the business segments of the Bank during the year. Customer deposits grew by 22% over the prior year to reach LKR 184 billion.

When analyzing the performance of the Bank on a quarterly basis, it is evident that more growth was skewed towards the latter half of the year. The performance during the first six months of 2015 was relatively modest, partly due to macro-economic and political conditions that prevailed during this period. It is expected that, the benefits of the accelerated growth achieved in the second half of the year will reflect in the financial results in the year 2016.

Key performance ratios

Return on Equity (ROE) (Group) for the year ended 31 December 2015 was 12.59% and compares with an ROE of 15.78% in 2014. Cost to Income Ratio (CIR) was 49.55%. Despite the

year-on-year increase in the CIR, predominantly attributable to network expansion costs, the CIR of the Bank was well managed within the industry norms.

The Non-Performing Loan (NPL) ratio reflecting asset quality improved to 2.43% compared to 2.51% at the end of 2014. The NPL ratio was also well below the industry average. The improvement in the ratio over the year is a clear reflection of the strong reviewing, monitoring and recovery processes which exist within the Bank over its credit portfolios.

The Bank remained soundly capitalized, with the key capital adequacy ratios well above the regulatory minimum requirements. Tier I capital adequacy ratio (statutory minimum of 5%) was 8.51% at the Bank level and 11.07% at the Group level. Total capital adequacy ratio (statutory minimum of 10%) was 12.59% for the Bank whilst the same ratio for the Group was 15.25% as at end December 2015.

The share price of the Bank closed trading at LKR 194.10 on 31 December 2015.

The branch network stood at 93, with 10 new branches added during the year. The ATM network was 101 by the year end with 18 new ATMs added to the network, 8 of which were off site ATMs.

Awards and accolades

2015 was a momentous year for NDB, where the Bank was recognized by several leading awarding bodies for the sustainable growth the Bank achieved. The most illustrious award was being selected as the Best Bank in Sri Lanka 2015 by the world renowned Global Finance Magazine of USA. The Bank was also recognized by the Asian Banking & Finance Magazine of Singapore as the Best Retail Bank, Best SME Bank, Best Project Financing Bank and Best Cash Management Bank of Sri Lanka for 2015.

Furthermore, a team of professionals from NDB which represented the Asia and Europe cluster at the 7th International Asset & Liability Management Competition emerged champions of the competition at the grand finale held on 02nd July 2015. The event was organized for the 7th consecutive year by a consortium of international agencies that promote financial development globally. This competition offered NDB a unique opportunity to showcase its ALM and Risk Management skills globally whilst affirming the high level of expertise and proficiency of the Bank in the respective areas.

A new vision for the future

During 2015, NDB embarked on a new vision “to be the driving force for a financially empowered Sri Lanka” and a new mission “to be the catalyst in the financial services industry by creating superior shareholder value and contributing to national development”. This

transition also led to the adoption of a redefined set of corporate values of integrity, excellence, creativity, accountability and sincerity.

The essence of all these are captured in the Bank's new corporate tag-line of "Our Commitment. Your Success".

Mr. Rajendra Theagarajah, the Director/ Chief Executive Officer of NDB reflecting on the year gone by stated, that 2015 was one in which, the Bank affirmed its ability in navigating its business sustainably amidst rough market conditions. Envisaging the future, the CEO maintained that, as the Bank's new tag-line vows, NDB is ever more resolute in generating enhanced value to all our stakeholders for their success in 2016 and beyond.