

Performance Commentary
Financial Performance H1 - 2015
National Development Bank PLC



NDB tops LKR 2 billion in Profit After Tax (PAT) for H1 2015

The banking industry remains challenging with credit growth slower than anticipated and severe competition posed by a large number of banking and non-banking institutions. The macro-economic outlook also carries uncertainty with the parliamentary elections scheduled to be held in August 2015. Despite such factors, National Development Bank PLC (NDB) is well focused on its strategy in achieving its targets and generating sustainable returns to all its stakeholders.

Given below is an analysis of the financial performance of the NDB Bank and Group for the first half of 2015, amidst such macro-economic backdrop. The Bank recorded a PAT of LKR 2 billion for the first half of 2015, which was a 7% Year-on-Year (YoY) growth as compared to 30 June 2014. Total operating income of the Bank grew by 5% compared to H1 2014, to reach LKR 6,241 million.

Net Interest Income (NII) declined marginally by 3% due to the relatively low credit growth environment which prevailed in the country. Net fee and commission income which is a primary contributor towards core-banking operations increased by 12% compared to the prior period. The Bank's Other operating income also increased by LKR 602 million, to reach LKR 1,044 million for the period, which included equity income of LKR 965 million as compared with LKR 431 million for the prior period.

At a Group level, total operating income declined marginally by 3% to reach LKR 6,136 million. The decrease was primarily due to the reduction in Net gains from NDB Group's total financial investments portfolio. However, NDB Group's Net fee and commission income recorded a significant growth of 28% over the prior period due to the increased performance of the fee based Group Companies.

The Bank's Impairment charges for loans and other losses for the first six months of 2015 was LKR 198 million, compared to LKR 222 million of 2014, a reduction of LKR 24 million which was primarily due to the improved quality of the Bank's loan portfolio.

Total operating expenses grew by 16%, an increase of LKR 411 million compared to the prior period. The main cost driver during the period under review was 9 new branches which were added to the Bank's branch network. At a Group level, the operating expenses of LKR 3,280 million grew by 18% over the first half of 2014. NDB Group continues to strive in its cost management initiatives, ensuring that the Group maintains an optimum Cost to income ratio which in turn will ensure higher returns to its shareholders.

The Bank's Balance Sheet recorded moderate growth during the first six months of the year, with Total assets growing at 3%. Loans and receivables to customers grew at the same pace of 3%, reflecting the slow credit growth experienced across the banking industry. The Non-performing loan ratio (NPL) of the Bank for the six months ended 30 June 2015 was 2.64%, still one of the best NPL ratios in the industry and compares with an industry average of 4.5% (as at April 2015).

Customer deposits recorded a 12% growth compared to the year ended 31 December 2014. The Bank issued and placed listed rated unsecured subordinated redeemable debentures of LKR 10 billion with a maturity period of 5 years during the second quarter of 2015.

The Bank continues to remain well capitalized with a 10.12% Tier I capital adequacy ratio and a 14.69% Total capital adequacy ratio, well above the minimum statutory requirement.

Earnings per Share (EPS) for the period under review was LKR 17.54. The share price of the Bank closed at LKR 260.30 on 30 June 2015, with a resultant PE ratio of 14.84 (times). NDB remains focused in generating the highest returns to its shareholders for their commitment and confidence placed in NDB.

The Chief Executive Officer of NDB, Mr. Rajendra Theagarajah, commenting on the six months' performance reiterated that the Bank is resolute in its strategic growth momentum. NDB has experienced considerable improvement in its share in the market, and will continue to grow its share through competitive and innovative product offerings and excellent customer service.

NDB received high recognition at the recently concluded Asian Banking & Finance Awards 2015. The Singapore based magazine awarded NDB with the titles of "Sri Lanka Domestic Cash Management Bank of the Year" and "Sri Lanka Domestic Project Finance Bank of the Year" under the Wholesale Banking Awards category and "Domestic Retail Bank of the Year - Sri Lanka" and "SME Bank of the Year - Sri Lanka" under the Retail Banking Awards category.

These awards are a testimony of the effectiveness with which the Bank serves across a multitude of banking services and across all customer segments such as individuals, micro business ventures, small and medium enterprises and large corporates.

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.
