Press Release

Results for the first quarter ended 31 March 2018 (1Q 2018)

National Development Bank PLC – NDB.N0000

Best Bank in Sri Lanka 2018

NDB starts the year on a high note. PBT exceeds LKR 2.7 billion; YoY growth of 40% for Q1 2018.

- **Profit after tax up by 35% to LKR 1.6 billion**
- **NDB Group profit attributable to shareholders up by 56% to LKR 1.15 billion**
- **NDB Group's total assets cross the LKR 400 billion mark**
- **Cost to Income ratio improved to 36%**

National Development Bank PLC (NDB) completed the first quarter ended on 31 March 2018 on a high note with impressive growth in profitability and business volumes. Q1 performance was recorded in the aftermath of a highly successful financial year in 2017, where it was recognized as the Best Bank in Sri Lanka by the prestigious Global Banking and Finance Magazine of USA in 2018 for the excellent performance.

Profitability Analysis

Gross income grew by 20% to LKR 11,943 million, reflecting the enhanced business volumes recorded during Q1 2018, compared to Q1 2017. Net Interest Income (NII) recorded an impressive growth of 44% to LKR 3,351 million. The NII was strengthened by the improvement in Net Interest Margin (NIM) to 3.5% from 3.0% in 2017 and the growth in business volumes. The full suite of Bank's lifestyle CASA products with innovative features, appropriate balance sheet funding, etc., enhanced the NIMs.

Net fee and commission income also grew at a satisfactory 28% to reach LKR 710 million for the quarter. Growth in the loan book, particularly in leasing and credit cards, and the accelerated penetration of the Bank's mobile banking app were instrumental in generating enhanced fee based income. NDB aggressively drove its credit card and digital banking propositions in the market, with attractive promotions in Q1 2018.

Net gains from trading and net gains from financial investments both grew in Q1 2018 over Q1 2017, benefiting from the movement in exchange rates and market interest rates. Accordingly, total operating income reached LKR 5,410 million, a growth of 44% over the comparative period.

Impairment charges for loans and other losses for Q1 2018 was LKR 800 million. Impairment at both individual (LKR 330 million) and collective (LKR 456 million) level increased, leading to the overall increase in impairment over Q1 2017. The increase in the collective impairment charges was primarily due to the portfolio growth and some stresses experienced in the lending portfolio. Similar stresses were also experienced by the industry during the period under review. The Bank also made precautionary provisions for a few selective individually significant facilities on a prudent basis during the quarter. The Bank's prudent risk management strategies and robust recoveries mechanisms are anticipated to reduce the impairment charges during the year.

Operating expenses grew by 12% in Q1 2018 over the comparative period, predominantly from administrative and marketing expenses. The Bank opened 3 new Privilege banking centers (for high net worth customers), established three off-site cash recycle machines and relocated one branch during Q1

2018. The cost to income ratio made an impressive improvement to 35.7%, from 45.5% in 2017, reflecting the enhanced banking revenue generated through these investments and cost management.

Resultantly, operating profit before tax on financial services increased by 40% to reach LKR 2,678 million. Profit after taxes on financial services and income tax was LKR 1,561 million at the Bank level which was an increase of 35% over Q1 2017. Profit attributable to shareholders at the group level was LKR 1,152 million and marks an impressive increase of 56% over Q1 2017.

Balance Sheet Analysis

Total assets of the Bank recorded a moderated growth in Q1 2018, with a 3% growth over the end 2017 Balance Sheet position. Accordingly, the Balance Sheet stood at LKR 395.7 billion, which is a quantum increase of LKR 12.6 billion. Total assets at the Group level exceeded LKR 400 billion.

Loans and receivables to customers grew at the same moderated pace. Loans and receivables stood at LKR 282 billion at end Q1 2018, which is an increase of LKR 8 billion over end December 2017. Loan growth was seen across all the loan products and all business segments of the Bank.

In terms of asset quality, the non-performing loan ratio was 2.46% as at 31 March 2018 and remains below the industry ratio. The NPL ratio is expected to improve over the year, as the stresses experienced during the quarter are expected to reverse during the year, with the effective recovery processes that are in place at the Bank.

On the liability aspect, customer deposits grew by 4% to LKR 284 billion, a quantum increase of LKR 11 billion. With the increase in the deposits base, the loans to deposits ratio further improved to 101% in Q1 2018 from 102% in 2017.

Stated capital of the Bank increased by 37% in Q1 2018 to LKR 3 billion, due to the scrip dividend of LKR 5/- per share paid as a part of the final dividend for 2017, in February 2018.

The Bank's robust branch network, currently standing at 107 and well dispersed across the island, together with the digitally enabled banking services offered by the Bank will provide much impetus to the Balance Sheet growth expected over the year.

Capital adequacy and key investor ratios

The Bank remains well capitalized under the Basel III guidelines in the aftermath of implementing SLFRS 9. The Tier 1 Capital Ratio (Minimum Requirement - 7.875%) was 8.73% at the Bank level and 10.14% at the Group level, whilst the Total Capital Ratio (Minimum Requirement - 11.875%) was 13.35% at the Bank level and 14.44% at the Group level.

With respect to SLFRS 9 (Financial Instruments: Recognition and Measurement) which came in to effect from 01 January 2018, the Bank completed the initial assessment and the total additional impairment provision of the financial statements is expected to be approximately in the range of 35-40%.

Return on equity (Group) was 14.03%, an impressive increase from 11.09% in 2017. The same ratio for the Bank was 16.78%. Bank Earning per share also improved to LKR 27.62 from LKR 24.52 in end 2017. Return on average assets recorded a marginal improvement to 1.26% from 1.21% in 2017.

Comments from the Chief Executive Officer

The Chief Executive Officer of NDB – Mr. Dimantha Seneviratne, commenting on the quarter's performance said the results mark a sound beginning for the year and thanked all the stakeholders of the Bank for the support. He mentioned that the Bank continues to be guided by its mid-term strategy and is meticulously pursuing the targets with the ultimate goal of becoming a systemically important bank by 2020. He also made reference to NDB's latest feat in being recognized as the Best Bank in Sri Lanka for 2018 by the Global Finance Magazine of US and the triple awards received from the Global Banking & finance Magazine of UK for year 2018, for Best SME Bank Sri Lanka, Best Bank for Credit Cards Sri Lanka and Best Retail Banking Product - (Personal Loan Product - Dream Maker Loans) Sri Lanka.

NDB looks forward to yet another fruitful year of sustained valued generated to its shareholders, customers, employees and all other stakeholders.