Press Release

Results for the financial year ended 31 December 2016
National Development Bank PLC

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NDB Bank records a PAT of LKR 3.2 billion for 2016

National Development Bank PLC recorded a post-tax profit (PAT) of LKR 3,170 million for its financial year ended 31 December 2016, a 10% reduction over the PAT of 2015 (2015: LKR 3,511 million). Whilst the core banking operations improved during the year, leading to a growth of 8% in total operating income up to LKR 13,151 million (2015: LKR 12,209 million), at a profitability level, this improved performance was affected by one-off specific provisions made for few customers and the higher effective tax rate in 2016 compared to 2015, which was partly due to the increase in the financial services VAT rate from 11% to 15%. NDB Group Profit Attributable to Shareholders (PAS) of LKR 2,691 million was impacted by lesser than anticipated capital market activities during the year, which resulted in a 24% reduction over the prior year (2015 : LKR 3,542 million).

The Bank's net interest income (NII) grew by 13% up to LKR 8,487 million (2015: LKR 7,522 million), resulting in a sustained net interest margin (NIM) of 2.64%, which is satisfying, given the tapering interest margins that were experienced across the industry over the year. Strategic and focused expansion of the assets and liabilities growth compared to that of lending growth, whilst being conscious of product pricing led to these sustained NII.

Net fee and commission income from core banking operations grew by 12% up to LKR 2,253 million (2015: LKR 2,016 million), a commendable growth resulting from the Bank's strategic focus in this area. However, at a Group level, net fee and commission income of LKR 3,046 million recorded a negative growth of 4% (2015: LKR 3,157 million), due to the lower than anticipated fee and commission income from the NDB Group's capital markets cluster, which is primarily attributable to the lower capital market activities of the country witnessed during the year.

Impairment charges for loans and other losses of the Bank for the year was LKR 1,367 million (2015: LKR 712 million). The higher specific impairment charge for 2016 compared to 2015 was due to the one-off specific provisions made for few customers, based on sound judgement and objective evidence as per the Bank's conservative impairment policy. The higher collective impairment charge was primarily due to the increase in the Bank's loan portfolio by LKR 18.7 billion.

The network expanded by 11 branches and 15 ATMs during the year, thereby bringing the total branch and ATM count to 104 and 116 respectively, whilst the total number of staff increased by 148 to reach 2,108. The year also saw the Bank re-locating several branches, in order to provide enhanced services to its customers. As a result, NDB's total operating expenses of LKR 6,449 million grew by 7% over the prior year (2015 : LKR 6,050 million). The same at the Group level recorded a 5% growth.

The cost to income ratio (CIR) of the Bank improved to 49.0% as compared to 49.6% in 2015. The CIR of the Bank excluding equity income was 52.0% and indicates the CIR of the Bank's core operations. The ratio remains at this level as the Bank is still in an investment phase with branch expansions.

NDB's ability to manage its costs at optimum levels amidst expansions is commendable. The substantial investments made in the retail branch network during the recent past are yielding increased revenue to the Bank and the benefits are expected via an improved cost to income ratio going forward.

In terms of the Balance Sheet performance, the Bank's total assets base increased by 8% to LKR 335 billion (2015: LKR 309 billion). Total assets at a Group level increased by the same rate and stood at LKR 341 billion (2015: LKR 315 billion). The Bank has sustained its market share in terms of total assets amidst the recorded growth rate.

Within total assets, loans and receivables to customers of LKR 228 billion grew by 9% (2015: LKR 210 billion). The Bank was able to reprice its loan book in tandem with the interest rate increases in the industry. Such repricing combined with the volume growth positively contributed towards defending NIMs. All the business units within the Bank contributed towards the increase in the loan book, especially the project and infrastructure financing unit which lends to infrastructure development and related projects. This affirms the Bank's commitment and congruence with the country's overall development plans.

Asset quality remains high as reflected by a gross non-performing loan ratio (NPL) of 2.63% (2015:2.43%) well within the Bank's consistently low NPL range and also well below the industry average. Net NPL ratio stood at 1.16% as at 31st December 2016.

Customer deposits grew by 10%, crossing the LKR 200 billion mark for the first time in the Bank's history and reached LKR 204 billion (2015: LKR 185 billion). This landmark in customer deposits was achieved by the Bank in a gratifyingly short period of just over 10 years, since the Bank attained commercial banking status in 2005. Increasing the Bank's CASA ratio from its current range of 22% is a key strategic priority which is a challenge to the industry at large in an increasing interest rate environment, as depositors' preference largely skews towards time deposits. This skewness is further augmented by the considerable interest rate gap that prevails between the savings and time deposits in the Sri Lankan banking and non-banking sphere, which will also pressurize the industry NIMs.

Bank Tier I capital adequacy ratio for 2016 was 9.31% whilst its total capital adequacy ratio was 12.95%. The same ratios for the Group were 11.55% and 15.27% respectively. These ratios are well above the regulatory minimum levels of 5% for Tier I capital adequacy and 10% for total capital adequacy. The Bank is preparing for the migration to the BASEL III compliance requirement in July 2017. In this preparation process, infusion of fresh capital to support the Bank's growing franchise would be a key strategic priority, which will be pursued during 2017.

The Bank's return on average shareholders' funds (ROE) for the year ended 31 December 2016 was 13.36% with earnings per share (EPS) of LKR 19.19. The same measures for the NDB Group were 9.23% and LKR 16.29 respectively.

The Bank also underwent key executive and non-executive management changes during the year. Mr. Ananda W Atukorala assumed duties as the Chairman with effect from 01 September 2016. Mr. Rajendra Theagarajah stepped down as the Chief Executive Officer of NDB on 30 November 2016, having served the Bank for over three years. Mr. Dimantha Seneviratne joined the NDB Team as the new Chief Executive Officer (CEO) on 02 January 2017. With new leadership at the helm, the Bank is set for exciting years ahead.

Commenting on the 2016 performance, the Chairman of NDB mentioned that the year was a reflection of the Bank's ability to steer itself through challenges and secure stable results to its shareholders and other stakeholders. The Group is well poised for the year ahead, whilst capitalizing on the unique proposition the Bank and the Group offers, as a one-stop solution for full spectrum banking and capital market needs.

The newly appointed CEO reflected on the key strengths which NDB possesses; such as the unique business proposition of "development oriented commercial banking" which is gradually shifting towards the retail and SME space, the market leadership position in capital & investment banking cluster that can be integrated well to capitalize on cross selling opportunities. The quality asset base, highly trained skilled staff and the lessons learnt in the past all of which can be turned on to harness the opportunities in taking the Bank to the next level.