Nations Trust Bank Records Strong Performance In 2021 Amidst Volatile Conditions





Gihan Cooray, Chairman, NTB (left). Priyantha Talwatte, CEO/Director, NTB (right).

The Group achieved a record Profit Before Tax of 10.4 billion rupees for the twelve months ended December 31, 2021 – a growth of 38 percent compared to the previous year, despite the challenging operating environment experienced during the period. The Group recorded a Profit after Tax growth of 65 percent, supported by the corporate tax rate decrease.

The loan book recorded an 18 percent growth during the year against the private sector credit growth of 13.5 percent.

Nations Trust Bank adopted a selective expansion strategy, pursuing growth opportunities in sectors such as exports and local manufacturing aligned to the national development agenda while recording growth in the renewable energy and agriculture sectors. The Bank continued to support customers through the crisis, proactively engaging and offering customized financing solutions to ensure commercial viability. The Bank also strengthened one-to-one engagement with customers, offering individual plans for repayment and providing guidance on effectively managing cashflows.

The Bank extended its most full support in implementing the Government's initiatives to minimize the impact of COVID-19 on businesses and the community and stabilize the economy by partaking in the 'Saubhagya' loan scheme. The Bank disbursed over 20 billion rupees of new credit facilities under its revival fund "Nations Diriya" scheme, dedicated to extending financial support to key industries, enabling such businesses to recommence and rebuild their business operations.

The Consumer Banking Division adopted a lifecycle approach to lending, moving away from a product push and offering customer-centric, relevant solutions based on specific needs. The Bank strengthened its digital offering to its customers, launching the Nations Direct integrated cash management system for corporate and commercial customers. This included tailor-made offerings and host-to-host solutions, among others. Nations Trust Bank raised USD 65 million from overseas Development Finance Institutions during the year to support the Small and Medium Enterprise sector, demonstrating the strength and track record of the Bank despite the volatile environment. The Bank also raised four billion rupees, Fitch 'A-rated, Senior, Unsecured, Unlisted, Redeemable Debentures, in July 2021, further strengthening the medium-term funding profile of the Bank. In supporting the loan growth and economic recovery efforts, average yields on loans reduced by 260 bps during the year. A net reduction in profits in the FIS portfolio also contributed to the decline in net interest income. The absence of a one-off interest reversal on moratorium loans similar to what was recognized in the previous year helped negate the decline in interest income. The improvement in the CASA ratio to 40 percent as at the end of the year, from 32 percent recorded in the previous year, helped partially offset the decline in interest margins during the period. Momentum could be seen in Trade Finance-related income with the increase in certain Trade Finance-related activities. Growth in cards income was contained on account of a

decrease in card spending due to changes in customer behavior patterns due to mobility restrictions and overseas travel during certain parts of the year. Suspension or refund of certain charges by the Bank, considering the current difficulties faced by customers due to the COVID-19 pandemic, negatively impacted the Bank's fee-based income. With the yield curve remaining flat for most of the year, opportunities for generating capital gains through trading were limited. The Bank made conscious efforts to reduce the portfolio duration, repositioning it to capture future opportunities. The Bank continued to utilize its FX SWAP book to fund rupee loan growth, focusing on broad-basing counterparties to diversify risks. Gains on foreign exchange increased primarily from FX funding swaps due to the discounts, which prevailed in the market. NTB successfully pursued low-cost funding options through the SWAP market, affording the Bank a solid platform to drive growth in 2022. Strategic focus on preserving portfolio quality through robust monitoring, risk profiling, and ongoing customer engagement enabled the Bank to improve portfolio quality. Positive flows in the past due buckets and lower exposures in most risk buckets reflect a 228bps reduction in the non-performing loan ratio, thereby reducing impairment charges on loans by 13 percent during the period. The Bank continued to assess the operating environment's uncertainties and maintain a management overlay in the impairment provisions on exposures to identified risk elevated industries. The Bank has also assessed the impact of macroeconomic variables that could elevate the credit risk of the loan portfolio and considered the potential impact of these variables in the calculation of the provision for impairment. The Bank further increased the impairment provisions against other financial instruments to reflect current market trends and applicable macroeconomic conditions. NTB invested 334 million rupees on digital capabilities during the year while automating over 40 internal processes, which supported growth in omnichannel users and digital transactions, which reached 87 percent. The cost management culture entrenched across the organization by continuing some of the cost-saving strategies and initiatives executed last year and productivity, efficiency drives, and focus on some large cost pools were the main reasons for the two percent reductions in expenses. Cost to income ratio improved to 39 percent compared to 46 percent in the previous year, demonstrating the Bank's ability to considerably enhance efficiency and productivity through digitalization and new ways of working. The impact stemming from the tax rate differential in income tax and deferred tax relating to the previous financial year was reversed in the year ended December 31, 2021, using the applicable new tax rate of 24 percent. This resulted in a profit after tax growth of 65 percent over last year.

In the Budget Proposals 2022, the Government has proposed to impose a surcharge tax at the rate of 25 percent on individuals or companies with a taxable income of over 2,000 million rupees for the year of assessment 2020/2021. However, this proposal was not substantively enacted as of the date of the financial statements. The Bank and the Group did not recognize any provision in 2021 financial statements in place of the proposed surcharge tax.

The Return on Equity stands at 18 percent, with a 69 percent EPS growth for the period under review.The financial position of the Group remained strong as its Tier I Capital and Total Capital Adequacy ratios as of December 31, 2021, were well above the regulatory levels at 14.77 percent and 17.46 percent, respectively.

Priyantha Talwatte, CEO/Director of NTB, stated, “We are committed to pursuing growth opportunities across selected industry sectors by offering holistic value propositions, which include: advisory and capacity building across product verticals with an ongoing focus on strengthening employee capabilities. We remain focused on delivering our strategic agenda set for the year and enhancing digital capabilities with the intention of achieving customer convenience, cost, and process efficiencies, pioneering innovation, and thereby challenging the norm to deliver an unparalleled banking experience to our customers in a new reality. With the nationwide vaccination program successfully being rolled out, there is an expectancy of a rapid return to economic normalcy. NTB is fully geared to steer ahead more responsively to the external environment by prioritizing customer requirements supported by an extremely focused and involved Nations team who has demonstrated their agility to deliver sustainable value, given the challenging environment.”