NDB Posts PBT of 4.2 billion rupees with a YoY Increase of 55 per cent amidst Continuing External Challenges



Sriyan Cooray, Chairman, NDB Bank.



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National Development Bank demonstrated resilience in its performance, as reflected in the financial statements released for the six months ended June 30, 2023, despite the continuing challenges that affect the banking industry. Dimantha Seneviratne, Director/CEO, NDB stated that it is encouraging to note the Sri Lankan economy converging on the path of recovery and growth. The banking sector has always been a key catalyst in national economic prosperity, and as our country

emerges from a deep setback, we are strongly aligned in supporting such momentum. The banking sector bore the brunt of the economic crisis but remains stable. There was much uncertainty around the Government of Sri Lanka's domestic debt optimization (DDO) mechanism which exerted considerable pressure on the industry. The finalization of the DDO and the options extended to banks has removed ambiguity and has helped lessen the risk premia added to interest rates. We anticipate similar clarity on international debt restructuring. The Central Bank of Sri Lanka's (CBSL) timely policy rates relaxation together with the DDO finalization has enabled the moderation of historically high interest rates and we are passing on this benefit to our customers which will stimulate economic activity, he mentioned. Banks shoulder the noble responsibility of powering the growth of the Sri Lankan economy and extending support to the customers at this critical juncture, and NDB is well focused on same, he further added.

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NDB reported post tax profitability of 2.3 billion rupees for the six months ended 2023 (H1 2023), an increase of 37 per cent over the same period in the prior year (YoY/ comparative period). Pre-tax profitability was 4.2 billion rupees, a YoY increase of 55 per cent. This is commendable generation of value to shareholders amidst an industry climate that continued to be subdued and challenged. The Bank posted total revenue of 66.7 billion rupees for H1 2023, up by 50 per cent YoY driven by sound performance of all income categories save and except for other operating income. Net interest income (NII) remained largely static over the year and was 15 billion rupees. Interest income of 63.2 billion rupees (YoY growth 70 percent) and interest expenses of 48.2 billion rupees (YoY increase 117 per cent) drove the NII. Re-pricing of the lending book in line with market rate movements and the increase in investment portfolio at relatively high rates resulted in the YoY increase in interest income. Interest rates remained on an increasing trend till early June 2023 attuned to CBSL's tightening monetary policy and increased policy rates. The Bank has taken initiatives on a best effort basis to reduce the cost of funding at a faster pace than the expected downward re-pricing of the lending book, with the reduction in policy rates introduced in June and July 2023 of 450 bps. Net Interest Margin (NIM) for the period closed in at 3.7 per cent. NIM is expected to be under

pressure on account of the reducing market rates trend.

Fee and commission income was 3.7 billion rupees, an increase of 19 per cent YoY driven mainly by trade activities, digital transactions and card transactions. Fee and commission income also continued to be under stresses, an industry-wide phenomena given the reduced business volumes in a negative GDP growth scenario. Other operating income comprised 3.2 billion rupees revaluation loss on account of the rupee appreciation on the Bank's foreign currency reserves.

The Bank's total assets closed in at 793 billion rupees as of 30 June 2023, whilst the same at the NDB Group level was 800 billion rupees. This was a five per cent reduction over the December 31, 2022 position, attributable to the predominant reason of deflation of the foreign currency denominated asset book with the appreciation of the Sri Lankan Rupee. Gross loans to customers declined by 12 per cent from end 2022 to end H1 2023 (YTD), attributable to the aforementioned exchange rate movement and also reduced lending to the private sector. The exceptionally high interest rates diminishing the demand for bank loans together with reduced economic activity led to the contraction of loan books across the industry. Credit to private sector continually declined from February 2023 onwards, prior to showing some recovery in June 2023. At NDB, return on risk adjusted capital (RORAC) based lending remains a key strategic priority to preserve capital and ensure sound interest margins and fee-based income. Customer deposits stood at 628 billion rupees, a reduction of seven per cent over 2022. The reduction in deposits was mainly due to the effect of the appreciation of the Sri Lankan Rupee on the foreign currency denominated deposit book.