INVESTOR WEBINAR
H1 2018

National Development Bank PLC
[CSE Stock Code - NDB.N0000]
30 July 2018: 1330 HRS (UTC + 0530) : Colombo  Sri Lanka
Forward Looking Statements

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Presentation theme and iconology: This presentation is based on the 2017 NDB Annual Report theme; Take a closer look. The icon of a microscope is used where more details are available on the analysis.

Sources: Internal analysis, CBSL publications
Corporate Participants

Presented by

**Dimantha Seneviratne**
Director/ Group Chief Executive Officer

**Panelists**

**Finance & Planning**
Lalith T Fernando - Group Chief Financial Officer
Suvendrini Muthukumarana - AVP-Finance & Planning

**Heads of Business**
Buwaneka Perera - VP-Corporate Banking
Niran Mahawatte - VP-Treasury
Sanjaya Perera - VP- Personal Banking & Branch Network Management
Indika Ranaweera - VP - SME, Middle Market and Business Banking

Visit our 2017 Annual Report for the profiles of the Corporate Participants.
Agenda

Part I - Business Overview

Part II - Financial Performance

Part III - Q&A Forum
Agenda

Part I - Business Overview

Part II - Financial Performance

Part III - Q&A Forum
Business Overview

- Incorporated in 1979 as a Development Financing Institution under and by virtue of National Development Bank of Sri Lanka Act No. 2 of 1979
- Converted into a fully fledged commercial bank in 2005
- A network of 107 branches and 125 ATMs [including 6 Cash Recycling Machines] spread across the country
- A full suite of banking solutions on offer for retail masses, retail high net worth clients, SMEs, middle market and corporate customers
- A strong digital banking proposition on offer
- Extended services in capital market activities through the robust group companies cluster
- Unique business proposition of “one-stop-shop” for banking and capital market solutions offered under the NDB brand
- Strong brand equity as the Best Bank in Sri Lanka [as adjudged by the Global Finance Magazine of USA for 2018]
- Staff strength of over 2,300 NDBers strengthened by gender diversity
- A group asset base exceeding LKR 420 billion
- National Long Term Rating of A+ (lka) by Fitch Ratings Lanka Limited
Awards - 2018 [Bank]

Global Finance Magazine USA
Best Bank in Sri Lanka – 2018

Global Banking & Finance & Review - UK
Best Project Finance Bank Sri Lanka
Best SME Bank Sri Lanka
Best Bank for Credit Cards Sri Lanka
Best Retail Banking Product - (Personal Loan Product - Dream Maker Loans)
Sri Lanka
Best Financial Group of the Year Sri Lanka

Asian Banking & Finance - Singapore
Under Retail Banking Awards Category
Best Domestic Retail Bank of the Year [for the sixth consecutive year]
Best SME Bank of the Year [For the sixth consecutive year]
Best Financial Inclusion Initiative of the Year

Under Wholesale Banking Awards Category
Best Domestic Project Finance Bank of the Year [for the fourth consecutive year]

Under Corporate & Investment Banking Awards Category
Best Debt Deal of the Year
Best Corporate Client Initiative of the Year
Best Syndicated Loan of the Year

7th Global Customer Engagement Awards Asian Customer Engagement Forum (ACEF) - Mumbai
Silver Award for Best Celebrity Endorsement for NDB Araliya Women’s Savings product

CFA Sri Lanka Capital Market Awards 2018
Gold award for Best Investor Relations [For the third consecutive time]

Awards - 2018 [Group companies]

NDB Investment Bank Limited
Euromoney Magazine Awards for Excellence
Sri Lanka’s Best Investment Bank [For the seventh consecutive year]

FinanceAsia’s Annual Country Awards
Best Investment Bank in Sri Lanka [For the second consecutive year]

Global Brands Magazine
Most Trusted Investment Banking Brand, Sri Lanka [For the fourth year]

Asiamoney Banking Awards - 2018
Best Corporate and Investment Bank, Sri Lanka [For the second consecutive year]

NDB Securities [Pvt] Ltd
CFA Sri Lanka Capital Market Awards 2018
Bronze award for Best Equity Research Report
“Transformation 2020” - The Bank’s strategic framework spanning up to year 2020

Goal
To transform the Bank to a large, systemically important bank from its current mid sized status

- Involves a wide span of changes including the business focus, business processes, organizational structure, employee mindset and culture
- Majority of the strategic initiatives are now implemented
- Results are reflected in the financial numbers recorded for H1 2018
- Greater results to be derived in the near future
- Already strategized the way forward beyond 2020 as a systemically important bank
Agenda

Part I - Business Overview

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H1 2018 - Key Performance Indicators [Bank]

Profitability Indicators [Vs. H1 2017]
- Core banking profits up by 53% - LKR 4.25 bn
- NII up by 43% - LKR 6.8 bn
- Net fee & comm income by 27% - LKR 1.45 bn
- Total op. income up by 30% - LKR 10.1 bn
- Total op. expenses increase 19% - LKR 3.97 bn
- PAT growth of 20% - LKR 2.8 bn
- Group PAS up by impressive 63% - LKR 2,42 bn

Balance Sheet Indicators [Vs. FY 2017]
- Total assets crosses LKR 400 bn - 9% growth up to 417 bn
- Net loans to customers growth of 10% - LKR 301 bn
- Customer deposits growth of 9% - LKR 297 bn
- Total assets [Group] exceeds LKR 421 bn

Efficiency & Return Ratios [Vs. FY 2017]
- Cost to Income Ratio improved to 39.4% from 45.5%
- Net Interest Margin improved to 3.43% from 3.0%
- Return on Average Equity improved to 17.15% from 16.27%
- Return on average assets improved to 1.28% from 1.21%

Business Capacity Ratios [Vs. FY 2017]
- Loans to Deposits Ratio of 103%
- Tier I Capital and Total Capital Adequacy ratios well above the statutory minimum requirements applicable for 2018 (Tier I - 8.48% ; Tier II - 12.80%)
- Liquidity Coverage Ratios [Rupee & All currency] well above the statutory minimum requirements
<table>
<thead>
<tr>
<th><strong>LKR Mn</strong></th>
<th><strong>H1-2018</strong></th>
<th><strong>H1-2017</strong></th>
<th><strong>Variance</strong></th>
<th><strong>%</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income</td>
<td>23,649</td>
<td>20,696</td>
<td>2,953</td>
<td>14</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>6,797</td>
<td>4,746</td>
<td>2,051</td>
<td>43</td>
</tr>
<tr>
<td>Net Fee and Commission Income</td>
<td>1,447</td>
<td>1,141</td>
<td>306</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td><strong>10,093</strong></td>
<td><strong>7,738</strong></td>
<td><strong>2,355</strong></td>
<td><strong>30</strong></td>
</tr>
<tr>
<td>Impairment charges for loans and other losses</td>
<td>1,314</td>
<td>581</td>
<td>733</td>
<td>126</td>
</tr>
<tr>
<td><strong>Net operating income</strong></td>
<td><strong>8,779</strong></td>
<td><strong>7,157</strong></td>
<td><strong>1,622</strong></td>
<td><strong>23</strong></td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>3,968</td>
<td>3,343</td>
<td>625</td>
<td>19</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>4,811</td>
<td>3,814</td>
<td>997</td>
<td>26</td>
</tr>
<tr>
<td>Taxes</td>
<td>2,041</td>
<td>1,500</td>
<td>541</td>
<td>36</td>
</tr>
<tr>
<td><strong>PAT</strong></td>
<td><strong>2,770</strong></td>
<td><strong>2,314</strong></td>
<td><strong>456</strong></td>
<td><strong>20</strong></td>
</tr>
<tr>
<td>Group PAS</td>
<td>2,421</td>
<td>1,486</td>
<td>936</td>
<td>63</td>
</tr>
</tbody>
</table>

- NII benefitted from enhanced NIMs
- Growth in profits from core banking operations [excluding equity income] up by 53% to LKR 4.3 bn from LKR 2.8 bn
- PAT growth of 20% to comfortably exceed LKR 2 billion
- Group share of profits in overall banking profitability up by 20%
Revenue Analysis - Fund Based Income

<table>
<thead>
<tr>
<th>LK Mn</th>
<th>H1 2018</th>
<th>H1 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>20,352</td>
<td>17,703</td>
<td>15</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>13,556</td>
<td>12,958</td>
<td>5</td>
</tr>
<tr>
<td>NII</td>
<td>6,797</td>
<td>4,746</td>
<td>43</td>
</tr>
<tr>
<td>NIM (%)</td>
<td>3.43</td>
<td>2.74</td>
<td>69 bps</td>
</tr>
</tbody>
</table>

- Considerable improvement in interest income due to
  - enhanced loan volumes
  - effective pricing of the loan book

- Interest expenses of 5%, achieved through
  - improved funding mix of the Bank, with greater reliance on customer deposits – Impressive YoY deposits growth of LKR 57.8 bn

*Loan book enhanced by LKR 49 bn YoY, supporting the interest income growth
*The loans to deposits ratio improved to 103% from 108% helping maintain the interest cost at 5%
### Revenue Analysis - Other Income

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>H1 2018</th>
<th>H1 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Fee and Commission Income</td>
<td>1,447</td>
<td>1,141</td>
<td>27</td>
</tr>
<tr>
<td>Net gain from trading</td>
<td>588</td>
<td>533</td>
<td>10</td>
</tr>
<tr>
<td>Net gain from financial investments</td>
<td>390</td>
<td>122</td>
<td>221</td>
</tr>
<tr>
<td>Other operating income [excluding equity income]</td>
<td>342</td>
<td>169</td>
<td>102</td>
</tr>
<tr>
<td><strong>Total non-interest income from core banking operations</strong></td>
<td><strong>2,767</strong></td>
<td><strong>1,965</strong></td>
<td><strong>41</strong></td>
</tr>
<tr>
<td><strong>[excluding equity income]</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating income from equity investments</td>
<td>529</td>
<td>1,028</td>
<td>-49</td>
</tr>
<tr>
<td><strong>Total non-interest income</strong></td>
<td><strong>3,297</strong></td>
<td><strong>2,993</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

- Net fee and commission income growth due to:
  - aggressive drive in retail products including credit card business, mobile banking on-boarding and other fee generating services
  - overall loan portfolio growth

- Other operating income excluding equity income benefitted from
  - enhanced performance of core banking operations
  - revaluation gains in the foreign currency book resulting from movements in exchange rates
Operating Expenses [Bank]

- Operating expenses increase of 19%
- Incurred capital expenditure to support business expansion and enhanced customer experience
  - network expansion
  - 6 Cash Recycle Machines [CRMs]
  - 5 new NDB Privilege Banking Centers
  - 3 branch relocations to new spacious locations
  - dedicated Business Banking Unit at the NDB Head Office premises
- 26% growth in personnel expenses due to increase in recruitments and annual remuneration revisions [composition increase from 51% to 54%]

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>H1 2018</th>
<th>H1 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>2,138</td>
<td>1,703</td>
<td>26</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>212</td>
<td>206</td>
<td>3</td>
</tr>
<tr>
<td>Other expenses</td>
<td>1,618</td>
<td>1,433</td>
<td>13</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>3,968</td>
<td>3,343</td>
<td>19</td>
</tr>
</tbody>
</table>

Cost to Income Ratio well managed at 39.4% due to
- improvement in core banking income
- better cost management

Cost to Income Ratio

Composition of Operating Expenses

- Personnel Expenses
- Depreciation and amortization
- Other Expenses

A bar chart and a pie chart illustrating the breakdown of operating expenses.
**Balance Sheet [Bank]**

<table>
<thead>
<tr>
<th>LKR Bn</th>
<th>H1 2018</th>
<th>FY 2017</th>
<th>YTD Quantum growth</th>
<th>YTD percentage growth</th>
<th>H1 2017</th>
<th>YoY Quantum growth</th>
<th>YoY percentage growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>417</td>
<td>383</td>
<td>34</td>
<td>9%</td>
<td>365</td>
<td>52</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Net loans and</strong></td>
<td>301</td>
<td>274</td>
<td>27</td>
<td>10%</td>
<td>252</td>
<td>49</td>
<td>19%</td>
</tr>
<tr>
<td><strong>receivables from</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total deposits from</strong></td>
<td>297</td>
<td>273</td>
<td>24</td>
<td>9%</td>
<td>239</td>
<td>58</td>
<td>24%</td>
</tr>
<tr>
<td><strong>customers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>30.9</td>
<td>28.7</td>
<td>2</td>
<td>8%</td>
<td>27.4</td>
<td>3.5</td>
<td>13%</td>
</tr>
</tbody>
</table>

- Accelerated balance sheet growth of 9% indicating sound momentum for the rest of the year
- Net loans exceeds LKR 300 bn

**Total Assets - Group**

<table>
<thead>
<tr>
<th>LKR Bn</th>
<th>H1 2018</th>
<th>FY 2017</th>
<th>% YTD growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>422</td>
<td>389</td>
<td>9</td>
</tr>
</tbody>
</table>
• YTD loan growth of 9% - satisfactory and promises sound growth for the full year
• All business segments contributed towards the loan book upscale
Asset Quality

Impairment analysis

<table>
<thead>
<tr>
<th></th>
<th>H1 2018</th>
<th>H1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual impairment</td>
<td>749</td>
<td>338</td>
</tr>
<tr>
<td>Collective impairment</td>
<td>544</td>
<td>196</td>
</tr>
</tbody>
</table>

- Collective impairment increase due to the expansion in the loan book [LKR 48 bn YoY]
- Individual impairment increase due to precautionary provisions which the Bank made for a few selective individually significant facilities, on a prudent basis.

Impairment & NPLs expected to improve due to the Bank’s
- robust and focused recoveries mechanism in place
- prudent risk management strategies
- well diversified loan portfolio with minimized concentration risk

NPL ratio analysis

<table>
<thead>
<tr>
<th></th>
<th>Bank FY 2017</th>
<th>Bank H1 2018</th>
<th>Industry As of May 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.83%</td>
<td>2.54%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

- The increase in the Bank NPL ratio reflects the industry-wide trend for NPLs
- NPL ratio expected to improve over the year with effective recovery processes

Impact of SLFRS 9
Subsequent to the initial assessment conducted, the total additional impairment provision of the financial statements is expected to be approximately in the range of 40-50%.
Customer Deposits

- Quantum increase from FY 2017 - LKR 24 billion
  - Increase in CASA base - LKR 6.5 billion
- Key attributes supporting the CASA growth
  - New CASA deposit products introduced during 2017
  - Digital platform enhancing customer convenience

5 year CAGR of 20% maintained in customer deposits up to 2017.
Institutional Borrowings

- Obtained a loan of up to USD 75 million from Commerzbank Germany
- Entered into an agreement with the IFC for a loan up to USD 50 million [fixed rupee equivalent of LKR 8 bn]
  - Purpose: Lending to borrowers in the SME sector including climate smart agriculture sector

NDB maintains close ties with foreign lending institutions, from the time the Bank was a development financing institution
## Equity capital

<table>
<thead>
<tr>
<th>BASEL III – H1 2018</th>
<th>Bank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 Capital Ratio %</td>
<td>8.48</td>
<td>9.85</td>
</tr>
<tr>
<td>(Minimum Requirement -6.375%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Capital Ratio %</td>
<td>8.48</td>
<td>9.85</td>
</tr>
<tr>
<td>(Minimum Requirement - 7.875%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital Ratio %</td>
<td>12.80</td>
<td>13.87</td>
</tr>
<tr>
<td>(Minimum Requirement -11.875%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Further to intimations of plans to raise equity capital NDB announced a Rights Issue on 19 June to the CSE
- Features of the Rights Issue
  - One new ordinary voting share to be issued for every three ordinary voting shares held
  - Up to 59,154,354 shares are to be issued in this proportion
  - Approximately LKR 6.2 billion in equity capital to be raised
  - Proceeds will
    - further strengthen the equity base of the Bank thereby improve the capital adequacy levels
    - part finance the growth in the Bank’s loan portfolio
Investor Ratios

<table>
<thead>
<tr>
<th>Investor Ratios</th>
<th>Bank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H1 2018</td>
<td>FY 2017</td>
</tr>
<tr>
<td>Closing price per share (LKR)</td>
<td>120.80</td>
<td>136.40</td>
</tr>
<tr>
<td>EPS (LKR) (Annualized)</td>
<td>28.81</td>
<td>24.52</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>17.15</td>
<td>16.27</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>1.28</td>
<td>1.21</td>
</tr>
<tr>
<td>Book value per Share (LKR)</td>
<td>174.14</td>
<td>167.58</td>
</tr>
<tr>
<td>P/E (times)</td>
<td>4.19</td>
<td>5.56</td>
</tr>
<tr>
<td>Price to Book value (times)</td>
<td>0.69</td>
<td>0.81</td>
</tr>
</tbody>
</table>

- Share price traded in the range of a low of LKR 120/- and a high of 138/- during the April - June quarter
- Dividend payout ratio consistently maintained above internally specified minimum levels, to ensure value generated to shareholders
- NDB share continues to be an attractive BUY at a PB < 1
Agenda

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Part III - Q&A Forum
NDB’s Investor Relations is the recipient of the Gold Award for Best Investor Relations at the coveted CFA Sri Lanka Capital Market Awards, for two consecutive years in 2018, 2017 & 2016.

Investor/ Analysts Support

- Clearly defined Quarterly Results Calendar released at the end of each quarter
- Webinar transcripts hosted to the NDB Corporate website/ IR page in playback video and written transcript forms
- Dedicated communication channels made available for any queries and clarifications

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