

INSIDE INSIGHT

Investor Update - H1 2022

National Development Bank PLC
NDB.N0000

National Long-term Rating:
A(lka) RWN, Fitch Ratings Lanka Limited



FORWARD LOOKING STATEMENTS

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PRESENTED BY

Dimantha Seneviratne

Director/ Chief Executive Officer

Panelists

Sanjaya Perera - Senior Vice President - Personal Banking & Customer Experience

Deepal Akuratiyagama - Chief Operating Officer

Suvendrini Muthukumarana - Vice President - Finance

Niran Mahawatte - Vice President - Treasury

Indika Ranaweera - Vice President - SME, Middle Market & Business Banking

Ishani Palliyaguru - Vice President - Project Finance and Corporate Credit Control

K V Vinoj - Vice President - Wholesale Banking

Zeyan Hameed - Vice President - Branch Network Management & Product Development

Damitha Silva - Assistant Vice President - Digital Financial Services

Shanka Abeywardene - Assistant Vice President - Corporate Planning & Business Intelligence

AGENDA

- PART I - CORPORATE PROFILE
- PART II - OPERATING ENVIRONMENT
- PART III - FINANCIAL PERFORMANCE - H1 2022
- PART IV - WAY FORWARD
- PART V - Q&A

PART I - CORPORATE PROFILE

Our Vision

The driving force for a financially empowered Sri Lanka

Our Values

Integrity
Creativity
Excellence
Sincerity
Accountability
Dependability

Our Legacy

Over 40 years of service to the nation

Our Team

Over 3,000 NDBers across the NDB Group

Our Profile

Credit rating affirmed at A(lka) RWN

Our Presence

113 branches
150+ CRM cum ATMs
Global access through NDB NEOS

Our Dynamism

NDB Group - Universal banking and full-spectrum capital market services

Our Diversity

Commitment to gender equality with EDGE certification

Our Integrity

Strong Corporate and ESG frameworks guiding our actions

Our Wins

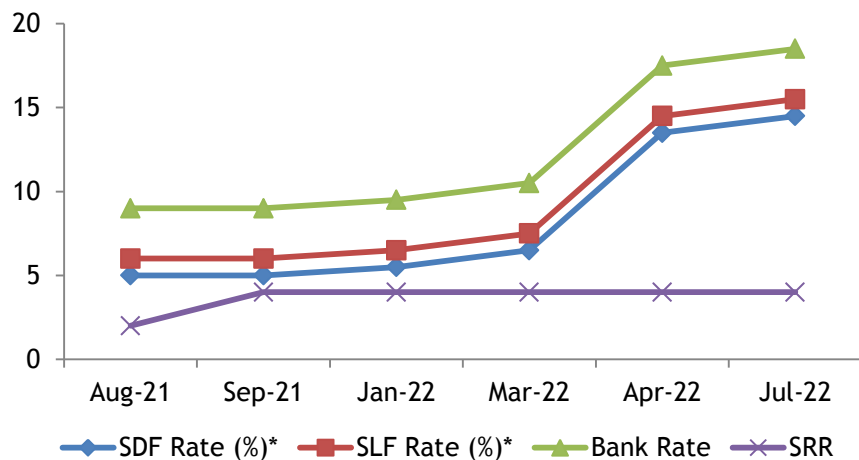
Triple top wins from Euromoney, Global Finance USA & The Banker UK 2020-2022

PART II - OPERATING ENVIRONMENT

Context to operating landscape in H1 2022

- Further tightening of monetary policy, 850 bps increase in SDFR, SLFR and Bank Rate in H1 2022
- LKR 200 peg for USD removed by CBSL, causing sharp rupee depreciation
Rupee now stabilized at around LKR 360/-
- Restrictions on importation of goods affecting import customers and export customers reliant on imports
- Pressure from power outages and fuel shortages continue, though alleviated to a certain extent
- Sovereign rating downgrade by international rating agencies
- Inflationary pressures escalates
 - June 2022 (NCPI) - Headline inflation 58.90% and Core inflation 49.30%
 - July 2022 (NCPI) - Headline inflation 66.70% and Core inflation 57.30%

Recent CBSL Policy Rates



Date/ %	SDF Rate	SLF Rate	Bank Rate	SRR
Aug 2021	5	6	9	2
Sep 2021	5	6	9	4
Jan 2022	5.5	6.5	9.5	4
Mar 2022	6.5	7.5	10.5	4
Apr 2022	13.5	14.5	17.5	4
Jul 2022	14.5	15.5	18.5	4

Sources: DCS, CBSL

PART III - FINANCIAL PERFORMANCE OVERVIEW

Income/ Profitability

Total operating income LKR 22.4 Bn - YoY 46%
 Impairment charges LKR 13.9 Bn - YoY 235%
 Pre-tax profitability LKR 2.7 Bn - YoY (56%)
 Post-tax profitability LKR 1.7 Bn - YoY (57%)

Profits moderated at an equitable level given the significant increase in impairment charges

Balance sheet

Total assets - LKR 816 Bn - YTD 16%
 Gross loans and receivables - LKR 609 Bn YTD 16%
 Total deposits - LKR 645 Bn - YTD 17%

Group performance

Group PAS - LKR 1.7 Bn - YoY (58%)
 Group ROE - 5.34% (2021: 12.47%)
 Group Total Assets - LKR 822 Bn -YTD 16%

KPIs

NIM - 3.77% (2021: 3.25%)
 Impaired Loans (Stage 3) Ratio - 5.70% (2021: 4.55%)

Capital

Tier I CAR of 8.63% (Reg. minimum - 8.5%)
 Total CAR of 13.02% (Reg. minimum - 12.5%)

PART III - FINANCIAL PERFORMANCE INCOME

<i>LKR Mn</i>	H1 2022	H1 2021	Variance	%
Gross Income	44,540	30,473	14,067	46
Interest Income	37,156	25,461	11,695	46
Interest Expense	22,167	15,119	7,048	47
Net Interest Income	14,989	10,342	4,647	45
<i>LKR Mn</i>	H1 2022	H1 2021	Variance	%
Net fee & comm income	3,068	2,580	488	19
Other non-fund based income	4,302	2,432	1,870	77
Total Non-fund based income	7,370	5,012	2,358	47
Total operating income	22,359	15,354	7,005	46

Fund based income

- Simultaneous growth in interest income and expenses triggered by increase in policy rates
- Net interest margin improved - 3.77% (2021: 3.25%)
- Non-fund based income reflective of revaluation gains on the Bank's foreign currency denominated reserves from Rupee depreciation

PART III - FINANCIAL PERFORMANCE

IMPAIRMENT CHARGES

<i>LKR Mn</i>	H1 2022	H1 2021	Variance	%
Impairment charges	13,928	4,152	9,776	235

- Impairment charges inclusive of provisions made for foreign currency denominated government securities and loans to customers
- Impairment provisions for loans strengthened, given heightened economic uncertainty exacerbated by political instability and social unrest, that impacted customer debt serviceability

KPIs Denoting Asset Quality

%	H1 2022	FY2021
Impaired Loans (Stage 3) Ratio	5.70	4.55
Impairment (Stage 3) to Stage 3 loans Ratio	32.07	32.81

PART III - FINANCIAL PERFORMANCE

OPERATING EXPENSES

Cost composition %

<i>LKR Mn</i>	H1 2022	H1 2021	%	H1 2022	H1 2021
Personnel expenses	2,938	2,794	5	51	55
Depreciation & amortization	410	428	-4	7	8
Other expenses	2,405	1,886	28	42	37
Total operating expenses	5,753	5,108	13	100	100

- Inflationary pressure mainly drove expenses up, with a certain aspect of it off-set by large cost benefits achieved through automations (RPA, workflow solutions, digitization)
- CIR at <30%, reflecting both cost efficiencies and revenue enhancements

Profitability

<i>LKR Mn</i>	H1 2022	H1 2021	%
Profit before all taxes	2,678	6,094	-56
VAT & Income Tax	973	2,167	-55
Profit after tax	1,705	3,927	-57
Group PAS	1,725	4,096	-58

Profitability levels challenged in the context of rising impairment charges

PART III - FINANCIAL PERFORMANCE

BALANCE SHEET

<i>LKR Bn</i>	H1 2022	FY 2021	YTD LKR	YTD %
Total assets	816	704	112	16
Investments	164	146	18	12
Gross loans	609	526	83	16
Total deposits	645	552	93	17
Borrowings	89	79	10	13
Total equity	64	59	5	8

- Total assets, loans and deposits growth inclusive of inflationary impact from Rupee depreciation
- Continued traction seen in granular retail deposits
- Total shareholder equity - strengthened by a Tier I equity capital infusion of LKR 9.5 Bn in 2021
- Basel III compliant Tier II debentures - LKR 8 Bn - raised in November 2021, the timing helped the Bank optimize its cost of funds noting sharp increase in rates in 2022

PART III - FINANCIAL PERFORMANCE INVESTOR RATIOS

	Bank		Group	
	H1 2022	FY 2021	H1 2022	FY 2021
Closing price per share [LKR]	35.00	68.90	-	-
EPS [LKR] [Annualized]	9.05	20.68	9.15	22.44
ROE [%] [Annualized]	5.61	12.27	5.34	12.47
ROA [%] [Pre-tax] [Annualized]	0.71	1.55	0.76	1.67
Book value per Share [LKR]	167.62	165.02	177.83	175.65
P/E [times] Investor	3.86	3.33	-	-
Price to Book value [PBV] [times]	0.2	0.4	-	-

PART III - FINANCIAL PERFORMANCE CAPITAL & LIQUIDITY POSITION

	Bank		Group	
	H1 2022	FY 2021	H1 2022	FY 2021
Common Equity Tier 1 Capital Ratio % [Minimum Requirement - 7% - 2021-6.5%]	8.63	10.01	8.99	10.53
Tier 1 Capital Ratio % [Minimum Requirement - H1 2022-8.5% - 2021-8%]	8.63	10.01	8.99	10.53
Total Capital Ratio % [Minimum Requirement - H1 2022-12.5%, 2021 -12%]	13.02	15.42	13.23	15.82
Statutory Liquid Assets Ratio (Minimum Requirement -20%) - DBU	21.57	23.14	21.57	23.14
Statutory Liquid Assets Ratio (Minimum Requirement -20%) - Off-shore	24.49	25.31	24.49	25.31
Liquidity Coverage Ratio [%] - Rupee [Minimum Requirement - H1 2022-90%, 2021-100%]	241.02	193.03	241.02	193.03
Liquidity Coverage Ratio [%] - All Currency [Minimum Requirement - H1 2022-90%, 2021-100%]	156.50	171.33	156.50	171.33
Net Stable Funding Ratio [Minimum Requirement - H1 2022-90%, 2021-100%]	117.49	118.27	117.49	118.27

- All key ratios maintained above regulator stipulated minimum levels
- Capital ratios inclusive of the upside impact on total capital arising from the reclassification of debt portfolios to Amortized Cost from Fair Value through Other Comprehensive Income, as permitted under SLFRS 9 as a one-off option

PART IV - WAY FORWARD

- Challenged conditions ahead despite certain level of political stability
- Tactical adjustments to the Bank's strategy underway
- Cautious growth in the loan book prioritizing on capital efficient products given weaker credit sentiments
- Priorities will be on
 - preserving asset quality
 - supporting customers maintain resilience
 - managing liquidity with greater focus on deposits mobilization
 - preserving capital in current conditions and augmentation of capital when market conditions improve
 - generating best possible returns to shareholders

PART V - Q&A

Please use the chat option to pose your questions to the CEO and Panel.

Dimantha Seneviratne
Director/ Chief Executive Officer

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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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