

# RESPONSIVE BANKING

## Investor Update – Q1 2023

National Development Bank PLC  
NDB.No000

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

23 May 2023  
11.00 am (GMT +0:530)  
Hosted from Colombo, Sri Lanka



## 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 - Chief Financial Officer

Niran Mahawatte - Vice President - Treasury

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

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

K V Vinoj - Vice President - Wholesale Banking

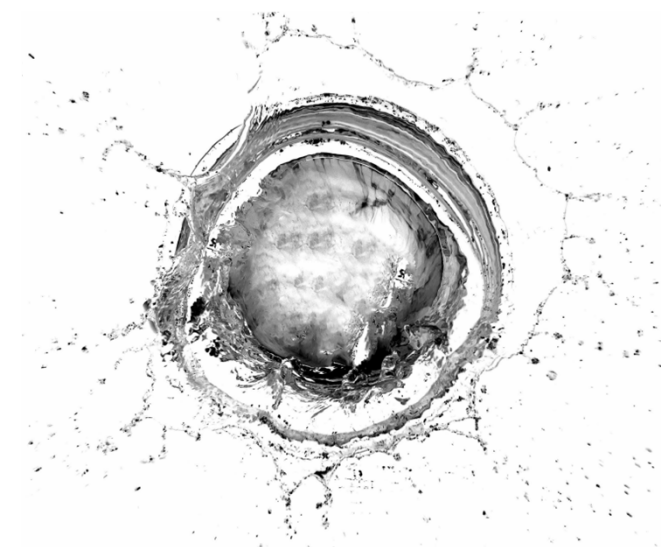
Zeyan Hameed - Vice President - Branch Network Management & Product Development

Bimal Perera - Vice President - Strategy & Business Intelligence

Damitha Silva - Assistant Vice President - Digital Financial Services

## AGENDA

- PART I CORPORATE PROFILE
- PART II OPERATING ENVIRONMENT
- PART III FINANCIAL PERFORMANCE – Q1 2023
- PART IV WAY FORWARD
- PART V Q & A



# PART I - CORPORATE PROFILE



# 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 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 Profile

Credit rating affirmed at A- (Ika)

### Our Integrity

Strong Corporate and ESG frameworks guiding our actions

### Our Wins

Triple top wins from Euromoney, Global Finance USA (2022) & The Banker UK (2020), Most Awarded Corporate in Sri Lanka 2022 (LMD Annual Rankings)



## **PART II - OPERATING ENVIRONMENT**

*Navigating Turbulences*

## OPERATING ENVIRONMENT



Economic conditions on a slow but gradual and steady improvement

- Inflationary pressures easing, due to moderating external pressures, normalisation of supply-side dynamics and lower disposable income following the increases in taxes. Considerable reduction in April 2023 inflation levels.

Headline inflation	Apr 2023	Mar 2023	Dec 2022	Sep 2022	Mar 2022
CCPI	35.3%	50.3%	69.8%	69.80%	18.7%
NCPI	33.6%	49.2%	73.7%	73.70%	21.5%

- Exchange rate - Continues to appreciate against the USD. Approximate 10% appreciation by Q1 2023, 15% appreciation to date since December 2022
- Foreign currency liquidity in the banking sector has considerably enhanced due to tourism income, worker remittances and reduced demand from importers
- CBSL policy rates (SDFR and SLFR), saw a further increase of 100 bps in Q1 2023
- Interest rates on a gradual decline reflecting easing inflation and reduction in the high-risk premia attached to debt restructuring concerns
- IMF Relief programme – Sri Lanka received USD 333Mn in March 2023 under the Extended Fund Facility (EFF) Arrangement

Policy rates – As of date	
SDFR	15.5%
SLFR	16.5%
SRR	4%

Market rates	Most recent	Q1 2023	FY 2022	Q1 2022
365 d T-Bills rate	22.79%	24.31%	29.27%	12.28%
AWPLR	21.80%	22.42%	28.19%	9.47%

Source: CBSL/ Other



## BANKING SECTOR HIGHLIGHTS – Q1 2023



- Marginal growth in total assets at industry level with most banks recording a decline in total assets or marginal growth
- Negative growth in loans and receivables
- Deposits on a moderate growth trend
  - CASA deposits denote a considerable decline
- Enhancement in capital levels
- Continued deterioration in credit quality on account of both loan book, and investment book in the case of banks with exposure to GoSL securities
- Strong liquidity demonstrated in both LCR and All Currency
- Industry-wide decline in profitability
- Further clarity awaited by the industry on debt restructuring measures



**PART III - FINANCIAL PERFORMANCE REVIEW**  
*A Transformative Journey*

## FINANCIAL PERFORMANCE OVERVIEW

### Income/ Profitability

Gross Income – LKR 33.5 Bn - YoY 75%

NII – LKR 8.5 Bn - YoY 38%

Net Operating Income - LKR 4.5 Bn – YoY 24%

Pre-tax profitability LKR 1.4 Bn - YoY 45%

Post-tax profitability LKR 805.3 Mn YoY 33%

### Balance Sheet

Total Assets - LKR 781.9Bn - YTD (6%)

Gross Loans and Receivables – LKR 535.6 Bn - YTD (7%)

Total Deposits – LKR 628.7Bn - YTD (6%)

### KPI Ratios

NIM 4.01% (2022: 4.00%)

Impaired Loans (Stage 3) Ratio 7.30% (2022: 6.24%)

Cost to Income Ratio - 33%

Tier I CAR of 10.08% (Reg. minimum – 8.5%)

Total CAR of 13.99% (Reg. minimum – 12.5%)

LAR 27.76% (Reg. minimum – 20.0%)

## FINANCIAL PERFORMANCE - INCOME



LKR Mn

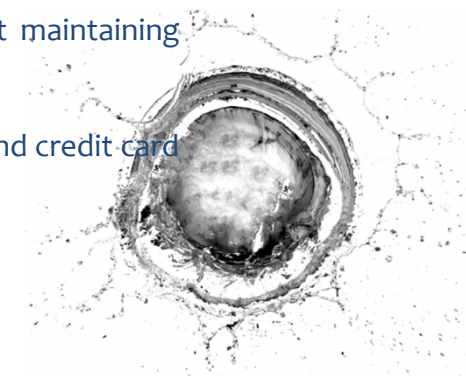
	Q1 2023	Q1 2022	Variance	%
<b>Fund based income</b>				
Gross Income	33,534	19,162	14,372	75
Interest Income	32,774	15,366	17,408	113
Interest Expense	24,229	9,159	15,070	165
Net Interest Income	8,545	6,207	2,338	38
<b>Non-fund based income</b>				
Net Fee & Commission Income	1,937	1,717	220	13
Other Non-fund Based Income	(1,176)	2,072	(3,248)	(157)
Total Non-fund Based Income	760	3,789	(3,029)	(80)
<b>Total Operating Income</b>	<b>9,305</b>	<b>9,996</b>	<b>(691)</b>	<b>(7)</b>

### Fund Based Income

- The Bank effectively deployed the funds raised via deposits in interest efficient products whilst maintaining adequate liquidity, resulting in a net interest margin (NIM) of 4.01%
- Net fee and commission income growth was driven mainly by trade activities, digital transactions and credit card transactions

### Non-fund Based Income

- Impacted by the revaluation of the FCY book in line with the appreciating exchange rate



## FINANCIAL PERFORMANCE – IMPAIRMENT CHARGES



LKR Mn	Q1 2023	Q1 2022	Variance	%
Impairment Charges	4,811	6,367	-1,556	-24%

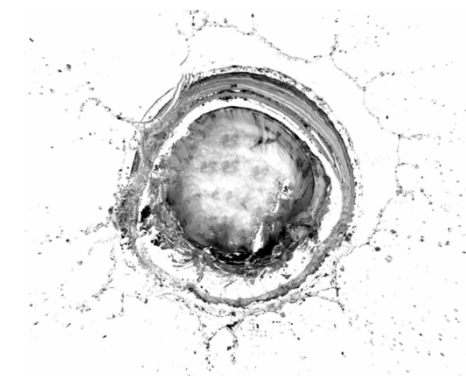
- Despite its negative YoY growth in the quarter, impairment charges continued to weigh down the profits of the quarter
- Impairment charges inclusive of provisions made on Investment Book for foreign currency denominated Government Securities and Loans to customers
- Provisioning made on the Investment Book in line with industry wide norms, anticipating the GoSL FCY debt restructuring during the year
- Prudent loan provisioning made on the Loan Book given the escalated credit risks in the current operating environment; Bank’s prudent balance sheet repurposing in response to rising impairments and exchange rate movement

### KPIs Denoting Asset Quality

Ratio	Q1 2023	FY 2022
Impaired Loans (Stage 3) Ratio	7.30%	6.24%
Impairment (Stage 3) to Stage 3 loans Ratio	37.60%	37.44%
Total Impairment Cover	7.27%	5.81%

## NET OPERATING INCOME

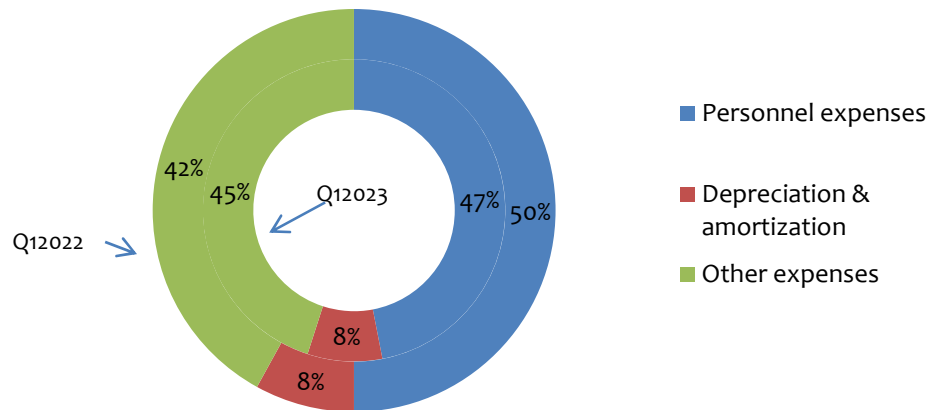
Resultant Net Operating Income – LKR 4.5 Bn up by 24%



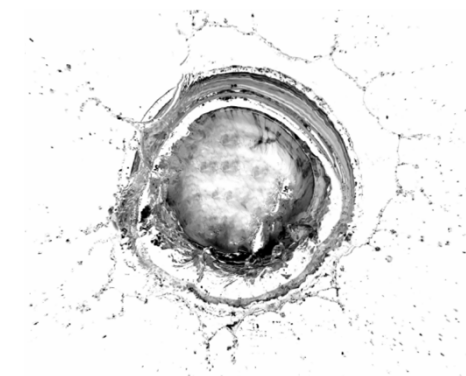
## FINANCIAL PERFORMANCE – OPERATING EXPENSES

LKR Mn	Q1 2023	Q1 2022	%
Personnel expenses	1,454	1,340	9%
Depreciation & amortization	242	193	25%
Other expenses	1,399	1,133	23%
<b>Total operating expenses</b>	<b>3,094</b>	<b>2,666</b>	<b>16%</b>

### Composition of Operating Expenses



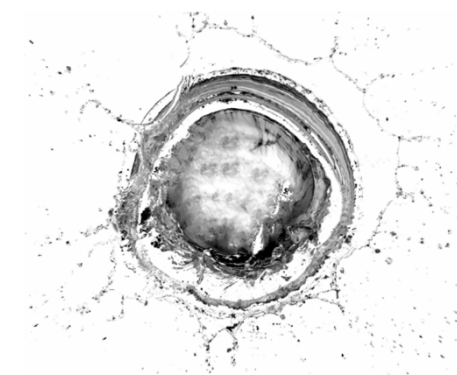
- Controllable costs denoted in total operating expenses - increase stemmed at 16% YoY amidst high inflation , steep depreciation of the Rupee and revisions to taxes
- Staff redeployments, process automations, productivity enhancements, etc., have helped optimize staff cost
- CIR of 33%



## FINANCIAL PERFORMANCE – BALANCE SHEET

LKR Bn	Q1 2023	FY 2022	Variance	
			LKR	%
Total assets	782	833	(51)	-6%
Investments	210	199	11	6%
Gross loans	536	580	(44)	-7%
Total deposits	629	672	(43)	-6%
Borrowings	72	81	(9)	-11%
Total equity	65	64	1	2%

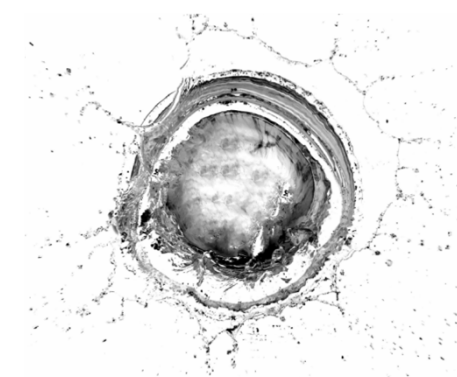
- Balance sheet deceleration – an industry-wide direction
- Similar trend in the loan book and deposits
- Loan growth slowed down across the industry due to
  - Reduced appetite of customers due to high interest rates
  - Reduced economic activity in the country
  - Pressure on capital of banks restricting growth



## FINANCIAL PERFORMANCE – INVESTOR RATIOS



	Bank		Group	
	Q1 2023	FY 2022	Q1 2023	FY 2022
Closing Price per Share [LKR]	44.90	32.00	N/A	N/A
EPS [LKR]	8.59	7.65	9.11	7.92
ROE [%]	5.07	4.75	5.06	4.62
ROA [%] [Pre-tax]	0.70	0.26	0.75	0.34
Book Value per Share [LKR]	172.02	167.16	182.50	177.60
P/E [times]	5.23	4.18	N/A	N/A
Price to Book Value [PBV] [times]	0.26	0.19	N/A	N/A





## FINANCIAL PERFORMANCE – CAPITAL & LIQUIDITY POSITION



Ratio	Bank		Group	
	Q1 2023	FY 2022	Q1 2023	FY 2022
Common Equity Tier 1 Capital Ratio % [Minimum Requirement -7% - 2021-6.5% ]	10.08	9.34	10.62	9.87
Tier 1 Capital Ratio % [Minimum Requirement – 2022-8.5% - 2021-8.0%]	10.08	9.34	10.62	9.87
Total Capital Ratio % [Minimum Requirement – 2022-12.5%, 2021 - 12.0%]	13.99	13.35	14.46	13.81
Statutory Liquid Assets Ratio - Bank (Minimum Requirement - 20%)	27.76	27.24	N/A	N/A
Liquidity Coverage Ratio [%] – Rupee [Minimum Requirement – 2022-90%, 2021-100%]	301.03	297.08	N/A	N/A
Liquidity Coverage Ratio [%] – All Currency [Minimum Requirement – 2022-90%, 2021-100%]	237.92	232.68	N/A	N/A
Net Stable Funding Ratio [Minimum Requirement – 2022-90%, 2021-100%]	131.95	130.87	N/A	N/A

- Well maintained liquidity levels as denoted in related ratios
- All regulatory/mandated minimum levels are met

# PART IV - WAY FORWARD

## *Responsive and Agile*



## WAY FORWARD



- Our strategic priorities
  - maximizing fee based income and enhancing revenue mix
  - driving cost rationalizations to preserve profitability and enhance shareholder returns
  - preserving asset quality
  - Cautious loan book growth with risk efficient lending
  - supporting customers maintain resilience
  - managing a strong liquidity position
  - preserving capital in current conditions and augmentation of capital when market conditions improve
    - Basel III compliant Tier II Listed Rated Unsecured Subordinated Redeemable debenture issue up to LKR 10 Bn announced
  - generating best possible returns to shareholders in the context of current challenged market conditions

**PART V - Q & A**

## Q & A



*Please use the [Chat Option](#) to pose your questions to the CEO and Panel*

### **Dimantha Seneviratne**

Director/ Chief Executive Officer

### Panelists

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

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Damitha Silva – Assistant Vice President – Digital Financial Services

## 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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