

RESPONSIVE BANKING

Investor Update – H1 2023

National Development Bank PLC
NDB.No000

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

18 Aug 2023
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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 - Vice President/ Chief Financial Officer

Niran Mahawatte - Vice President - Treasury

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

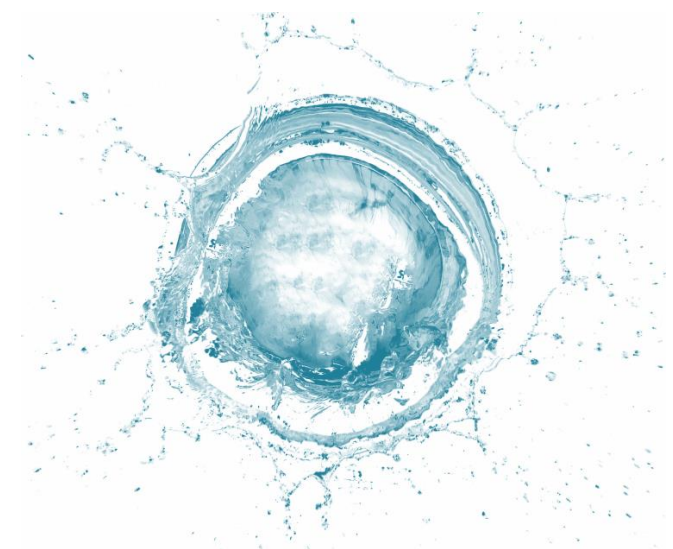
Ishani Palliyaguru - Vice President - Project Finance & Corporate Credit Control

K V Vinoj - Vice President - Wholesale Banking

Bimal Perera - Vice President - Strategy & Business Intelligence

AGENDA

- PART I OPERATING ENVIRONMENT**
- PART II FINANCIAL PERFORMANCE – H1 2023**
- PART III WAY FORWARD**
- PART IV Q & A**
- ANNEXURE NDB PROFILE**
- ANALYST SUPPORT**





PART I - OPERATING ENVIRONMENT
Navigating Turbulences

OPERATING ENVIRONMENT

Economic conditions on a slow but gradual and steady improvement due to

- Relaxed monetary policy
- Improvement in domestic supply conditions
- Certain relaxations of restrictions on imports
- Gradual enhancement in business and investor sentiments
- Impact of policy measures

Inflation

- Disinflation process continues, firming inflation expectations

Headline inflation	Jul 2023	Jun 2023	Mar 2023	Dec 2022	Sep 2022	Mar 2022
CCPI	6.30%	12.0%	50.3%	57.2%	69.8%	18.7%
NCPI	-	10.8%	49.2%	59.2%	73.7%	21.5%

Policy rates

Policy rates – As of date	
SDFR	11.0%
SLFR	12.0%
450 bps reduction since 01 Jun 2023 as a part of CBSL's monetary policy relaxations	
SRR	2.0%
Reduced 2.0% from 4.0% effective from 16 Aug 2023	

Market rates

Market rates	As of date	End Jun 2023	End Mar 2023	FY 2022	Q1 2022
364 d T-Bills rate	13.94%	16.99%	24.31%	29.27%	12.28%
AWPLR	18.20%	20.04%	22.42%	28.19%	9.47%
AWDR	14.67%	15.09%	15.06%	14.06%	5.17%

Announcement of DDO has helped reduced the risk premia on interest rates

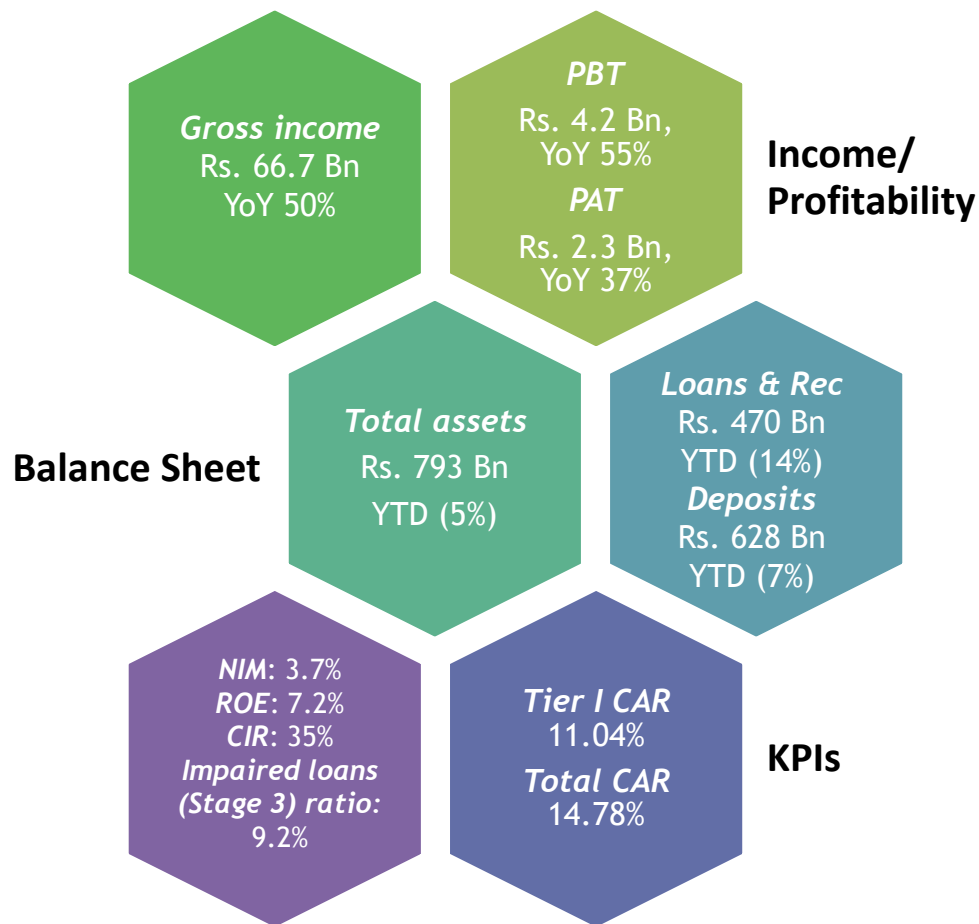
External sector performance

- Resilient amidst challenges
- Total worker remittances – YTD June 23 – USD 2,823 Mn (FY 2022: USD 3,789 Mn)
- Tourist arrivals – 819,507 as of 10 Aug 2023 (vs. 719,978 of 2022)
- Gross Official Reserves on an improving trend
- Exchange rate denoting some volatility but stabilizing around the current level - LKR/USD: Rs. 322
- Inflow of large FX inflows seen
 - IMF-EFF YTD: USD 330 Mn
 - World Bank Funds YTD: USD 250Mn
 - ADB YTD: USD 350 Mn

PART II - FINANCIAL PERFORMANCE REVIEW

A Transformative Journey

FINANCIAL PERFORMANCE OVERVIEW



FINANCIAL PERFORMANCE - INCOME

LKR Mn

	H1 2023	H1 2022	Variance	%
Fund based income				
Gross Income	66,720	44,540	22,180	50
Interest Income	63,205	37,156	26,050	70
Interest Expenses	48,177	22,167	26,010	117
Net Interest Income	15,028	14,989	40	0.3
Non-fund based income				
Net Fee & Commission Income	3,657	3,068	589	19
Other Non-fund Based Income	(144)	4,302	(4,447)	(103)
Total Non-fund Based Income	3,513	7,370	(3,857)	(52)
Total Operating Income	18,541	22,359	(3,818)	(17)

Fund Based Income

- NII largely static over the year
- High interest income driven by – re-pricing of loans in tandem with market rates, increase in investment portfolio at relatively high rates
- NIMs under pressure in reducing interest rate environment
- Best efforts taken to reduce cost of funding at a faster pace than the expected downward re-pricing of the loan book, with the reduction in policy rates

Non-fund Based Income

- Impacted by the revaluation of the FCY book in line with the appreciating exchange rate
- Net fee and commission income growth was driven mainly by trade activities, digital transactions and credit card transactions

FINANCIAL PERFORMANCE – IMPAIRMENT CHARGES

LKR Mn	H1 2023	H1 2022	Variance	%
Impairment Charges	7,871	13,928	(6,057)	(43)

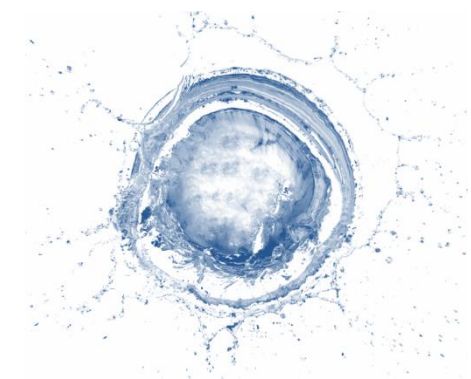
- On a prudent basis, impairment charge for loans and advances increased over the corresponding period, given the heightened economic uncertainty
- In line with such uncertainty, the Bank has continued to review objective evidence of expected stresses on asset quality and has accounted for same
- Bank has taken adequate provisions on ISB investments to date to absorb the potential impact of debt restructuring in line with industry practice

KPIs Denoting Asset Quality of the loan book

Ratio - %	H1 2023	FY 2022
Impaired Loans (Stage 3) Ratio	9.21	6.24
Impairment Cover (Stage 3) to Stage 3 loans Ratio	33.98	37.44
Total Impairment Cover	7.84	5.81

NET OPERATING INCOME

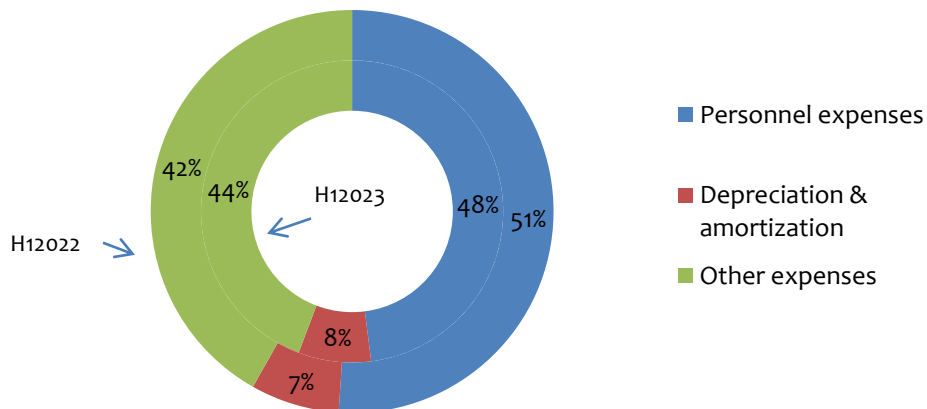
Resultant Net Operating Income – LKR 10.7 Bn up by 27%



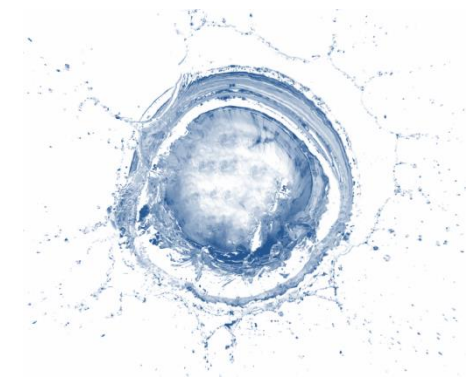
FINANCIAL PERFORMANCE – OPERATING EXPENSES

LKR Mn	H1 2023	H1 2022	%
Personnel expenses	3,127	2,938	6
Depreciation & amortization	507	410	24
Other expenses	2,883	2,405	20
Total operating expenses	6,517	5,753	13

Composition of Operating Expenses



- Total operating expenses increase stemmed at 13% amidst high inflation
- CIR of 35.1% reflecting the wider industry trend

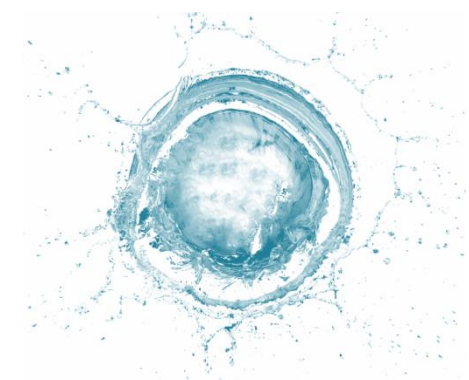


FINANCIAL PERFORMANCE – TAXES AND PROFITABILITY

LKR Mn	H1 2023	H1 2022	%
Operating Profit Before Tax on Financial Services	4,153	2,678	55
Taxes on Financial services	1,203	841	43
Profit Before Taxation	2,950	1,837	61
Income tax expenses	613	132	366
Profit for the period	2,337	1,705	37
Total tax charge	1,817	973	87
Effective tax rate	44%	36%	-

Movement in regulatory tax rates

Tax	As of H1 2023	As of H1 2022
FSVAT	18%	18%
Income tax	30%	24%
SSCL	2.5%	-

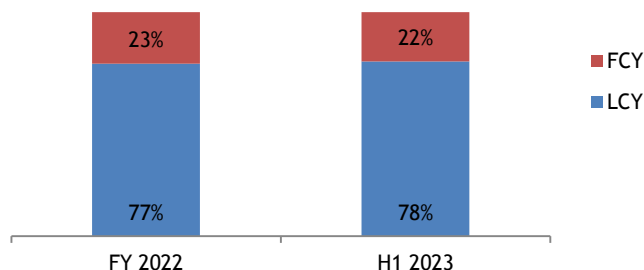


FINANCIAL PERFORMANCE – BALANCE SHEET

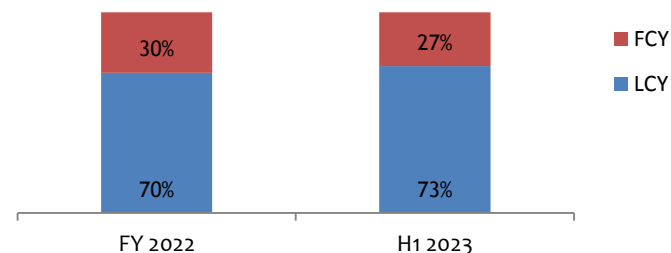
LKR Bn	H1 2023	FY 2022	Variance	
			LKR	%
Total assets	793	833	(40)	(5)
Investments	241	199	42	21
Gross loans	510	580	(70)	(12)
Total deposits	628	672	(45)	(7)
Borrowings	28	81	(52)	(65)
Total equity	67	64	4	6

- Balance sheet movement largely in line with industry-wide trends
- Total assets reduction – due to deflation of the foreign currency denominated asset book with the appreciation of the Sri Lankan Rupee
- Industry-wide credit to private sector reduced in 2023 – reflected in deflation of gross loans
- Reduction in deposits due to appreciation of the Sri Lankan Rupee

Currency-wise composition of loans

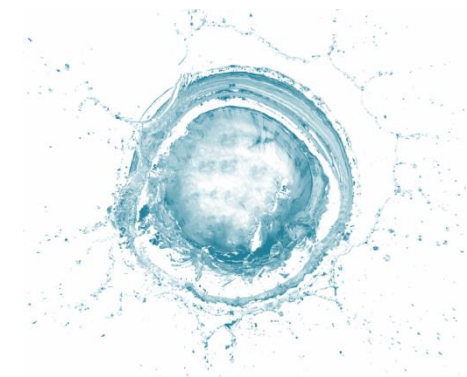


Currency-wise composition of deposits



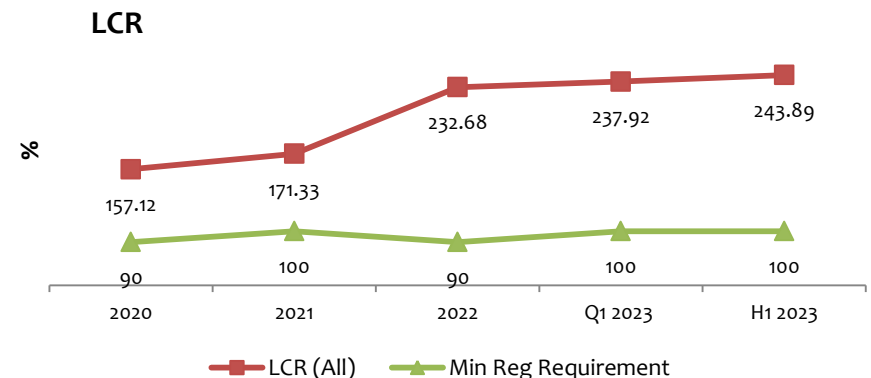
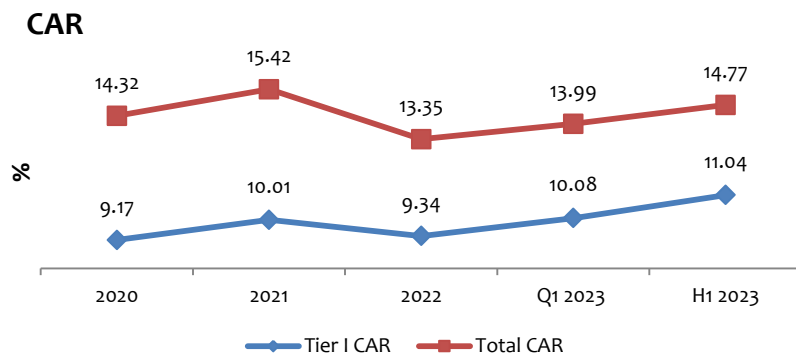
FINANCIAL PERFORMANCE – INVESTOR RATIOS

	Bank		Group	
	H1 2023	FY 2022	H1 2023	FY 2022
Closing Price per Share [LKR]	50.00	32.00	NA	N/A
EPS [LKR]	11.80	7.65	12.07	7.92
ROE [%]	7.20	4.75	6.94	4.62
ROA [%] [Pre-tax]	1.03	0.26	1.07	0.34
Book Value per Share [LKR]	168.69	167.16	178.60	177.60
P/E [times]	4.2	4.18	N/A	N/A
Price to Book Value [PBV] [times]	0.3	0.19	N/A	N/A



FINANCIAL PERFORMANCE – CAPITAL & LIQUIDITY POSITION

Ratio	Bank		Group	
	H1 2023	FY 2022	H1 2023	FY 2022
Common Equity Tier 1 Capital Ratio % [Minimum Requirement -7%]	11.04	9.34	11.57	9.87
Tier 1 Capital Ratio % [Minimum Requirement – 8.5%]	11.04	9.34	11.57	9.87
Total Capital Ratio % [Minimum Requirement – 12.5%]	14.77	13.35	15.22	13.81
Statutory Liquid Assets Ratio - Bank (Minimum Requirement - 20%)	34.35	27.24	N/A	N/A
Liquidity Coverage Ratio [%] – Rupee [Minimum Requirement – 2023-100%, 2022-90%]	253.24	297.08	N/A	N/A
Liquidity Coverage Ratio [%] – All Currency [Minimum Requirement – 2023-100%, 2022-90%]	243.89	232.68	N/A	N/A
Net Stable Funding Ratio [Minimum Requirement – 2023-100%, 2022-90%]	137.76	130.87	N/A	N/A



PART III - WAY FORWARD

Responsive and Agile



- Our strategic priorities
 - Managing NIMs in a low interest rate environment
 - 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
 - Digital drive, empowering the women's market segment, ESG related initiatives to continue unabated



PART IV - 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

Deepal Akuratiyagama - Chief Operating Officer

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

K V Vinoj - Vice President - Wholesale Banking

Bimal Perera - Vice President - Strategy & Business amitha Silva - Assistant Vice President - Digital Financial Services

ANNEX



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)



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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