INVESTOR WEBINAR
Q1 2018

National Development Bank PLC
[CSE Stock Code - NDB.N0000]
14 May 2018 : 1430 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/ 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

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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 in to a fully fledged commercial bank in 2005
- A network of 107 branches and 124 ATMs [including 3 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 2,000 NDBers strengthened by gender diversity
- A group asset base exceeding LKR 400 billion
- National Long Term Rating of A+ (lka) by Fitch Ratings Lanka Limited
- First Sri Lankan corporate to commit to EDGE Certification - a global certification for gender equality in work place

Awards - 2018

- Best Bank in Sri Lanka - 2018
  Global Finance Magazine USA
- Best SME Bank Sri Lanka 2018
- Best Bank for Credit Cards Sri Lanka 2018
- Best Retail Banking Product - (Personal Loan Product - Dream Maker Loans) Sri Lanka 2018
  Global Banking & Finance & Review - UK
- Silver Award for Best Celebrity Endorsement for NDB Araliya Women’s Savings product
  7th Global Customer Engagement Awards
  Asian Customer Engagement Forum (ACEF) - Mumbai
“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

Developed with the professional input of the International Finance Corporation (IFC) and launched in mid 2017

Involves a wide span of changes including the business focus, business processes, organizational structure, employee mindset and culture

The Strategy is well on track and has delivered the intended results so far

Key focus areas of the Transformation 2020 Strategy...

- CASA
- NIMs
- Fee income
- Segmental mix of the loan book
- Currency mix of the loan book
Agenda

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**Q1 2018 - Key Performance Indicators [Bank]**

**Profitability Indicators [Vs. Q1 2017]**
- NII up by 44% - LKR 3,351 mn
- Net fee & comm income by 28% - LKR 710 mn
- Total op. income up by 44% - LKR 5,410 mn
- Total op. expenses increase managed at 12% - LKR 1,932 mn
- PAT up by 35% - LKR 1,561 mn
- Group PAS up by 56% - LKR 1,152 mn

**Balance Sheet Indicators [Vs. FY 2017]**
- Total assets growth of 3% - LKR 396 bn
- Net loans to customers growth of 3% - LKR 282 bn
- Customer deposits growth of 4% - LKR 284 bn
- Total assets [Group] exceeds LKR 400 bn

**Efficiency & Return Ratios [Vs. FY 2017]**
- Cost to Income Ratio improved to 35.8% from 45.5%
- Net Interest Margin improved to 3.49% from 3.0%
- Return on Average Equity improved to 16.78% from 16.27%
- Return on average assets improved to 1.26% from 1.21%

**Business Capacity Ratios [Vs. FY 2017]**
- Loans to Deposits Ratio improved to 101%
- Tier I Capital and Total Capital Adequacy ratios well above the statutory minimum requirements applicable for 2018 (Tier I - 8.73% ; Tier II - 13.35%)
- Liquidity Coverage Ratios [Rupee & All currency] well above the statutory minimum requirements
### Income Statement [Bank]

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>Q1-2018</th>
<th>Q1-2017</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income</td>
<td>11,943</td>
<td>9,986</td>
<td>1,957</td>
<td>20</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>3,351</td>
<td>2,334</td>
<td>1,017</td>
<td>44</td>
</tr>
<tr>
<td>Net Fee and Commission Income</td>
<td>710</td>
<td>554</td>
<td>156</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td>5,410</td>
<td>3,765</td>
<td>1,645</td>
<td>44</td>
</tr>
<tr>
<td>Impairment charges for loans and other losses</td>
<td>800</td>
<td>134</td>
<td>666</td>
<td>497</td>
</tr>
<tr>
<td><strong>Net operating income</strong></td>
<td>4,610</td>
<td>3,631</td>
<td>979</td>
<td>27</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,932</td>
<td>1,718</td>
<td>214</td>
<td>12</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>2,678</td>
<td>1,912</td>
<td>766</td>
<td>40</td>
</tr>
<tr>
<td>Taxes</td>
<td>1,117</td>
<td>753</td>
<td>364</td>
<td>48</td>
</tr>
<tr>
<td><strong>PAT</strong></td>
<td>1,561</td>
<td>1,159</td>
<td>402</td>
<td>35</td>
</tr>
<tr>
<td>Group PAS</td>
<td>1,152</td>
<td>738</td>
<td>414</td>
<td>56</td>
</tr>
</tbody>
</table>

- Notable improvement in NII
- Well managed operating costs
- PAT and PAS exceeds LKR 1 billion - A good indication for the remainder of the year
Revenue Analysis - Fund Based Income

- NII of LKR 3,351 million in Q1 2018, an increase of 44%
- Faster growth in interest income
- NII supported by enhanced NIMs and enhancements in Balance Sheet funding
- NIM continued to benefit from timely revalidation of the loan and deposits books

<table>
<thead>
<tr>
<th>LK Mn</th>
<th>Q1 2018</th>
<th>Q1 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>9,984</td>
<td>8,556</td>
<td>16</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6,533</td>
<td>6,221</td>
<td>5</td>
</tr>
<tr>
<td>NII</td>
<td>3,351</td>
<td>2,334</td>
<td>44</td>
</tr>
<tr>
<td>NIM (%)</td>
<td>3.49</td>
<td>2.78</td>
<td>71 bps</td>
</tr>
</tbody>
</table>

Industry NIM as of Q1 2018 - 3.7%

CBSL reduced the SLFRS by 25 bps in early April 2018. Interest rates are anticipated to stabilize as a result. Short term rates have declined and other market rates are also likely to gradually follow course.
### Revenue Analysis - Other Income

#### Segmental composition

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>Q1 2018</th>
<th>Q1 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Fee and Commission Income</td>
<td>710</td>
<td>554</td>
<td>28</td>
</tr>
<tr>
<td>Net gain from trading</td>
<td>355</td>
<td>273</td>
<td>30</td>
</tr>
<tr>
<td>Net gain from financial investments</td>
<td>310</td>
<td>0.1</td>
<td>292,583</td>
</tr>
<tr>
<td>Other operating income</td>
<td>683</td>
<td>603</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total non-interest income</strong></td>
<td><strong>2,058</strong></td>
<td><strong>1,430</strong></td>
<td><strong>44</strong></td>
</tr>
</tbody>
</table>

- All business segments have generated improved fee based income
- Core focus would be on Retail Banking and Business Banking segments (whilst growing the Corporate book as well)
- Comparatively high gains made from ALM under Net gains from financial investments due to the favourable movement in interest rates

The net fee & commission income classification is as per the Bank’s new segmentation which is effective from 01 January 2018.
Operating Expenses [Bank]

- Operating expenses growth of 12%
- 42% of expenses in Other expenses category, comprising premises & establishment expenses, and marketing expenses.
  - 3 new Privilege Centres established [for HNW customers]
  - 3 off-site cash Recycle Machines installed
  - One branch relocation
  - Focused marketing campaigns carried out
- Static composition of the operating expenses in Q1 2018 vs. Q1 2017

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>Q1 2018</th>
<th>Q1 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>1,015</td>
<td>918</td>
<td>11</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>105</td>
<td>103</td>
<td>2</td>
</tr>
<tr>
<td>Other expenses</td>
<td>811</td>
<td>697</td>
<td>16</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,932</td>
<td>1,718</td>
<td>12</td>
</tr>
</tbody>
</table>

Vast improvement in Cost to Income Ratio due to improvement in core banking income and better cost management

Composition of Operating Expenses

Cost to Income Ratio
## Balance Sheet [Bank]

<table>
<thead>
<tr>
<th>LKR Bn</th>
<th>Q1 2018</th>
<th>FY 2017</th>
<th>YTD growth %</th>
<th>Quantum growth</th>
<th>Industry YTD growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>396</td>
<td>383</td>
<td>3.3</td>
<td>12.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Net loans and receivables from customers</td>
<td>282</td>
<td>274</td>
<td>2.9</td>
<td>8</td>
<td>4.6</td>
</tr>
<tr>
<td>Total deposits from customers</td>
<td>284</td>
<td>273</td>
<td>3.8</td>
<td>10.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Stated capital</td>
<td>3</td>
<td>2</td>
<td>36.7</td>
<td>0.8</td>
<td>-</td>
</tr>
<tr>
<td>Total equity</td>
<td>29.7</td>
<td>28.7</td>
<td>3.3</td>
<td>1.0</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total Assets - Group - Crossed LKR 400 billion**

<table>
<thead>
<tr>
<th>LKR Bn</th>
<th>Q1 2018</th>
<th>FY 2017</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>401</td>
<td>389</td>
<td>3</td>
</tr>
</tbody>
</table>

Preserved market share in total assets from FY 2017 to Q1 2018.

### Market share - Total assets

**Y-o-Y growth : NDB vs. Industry**

<table>
<thead>
<tr>
<th>KPI</th>
<th>NDB</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>13.9%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Net loans and receivables from customers</td>
<td>16.8%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Total deposits from customers</td>
<td>24.6%</td>
<td>17.1%</td>
</tr>
</tbody>
</table>
• Moderated YTD loan growth due to high competition
• Term loans, trade financing facilities, consumer loans, credit cards and pawning recorded higher growth within the portfolio
• Corporate banking [including Project Financing] account for the highest portion
• Composition expected to gradually shift towards Retail and Business Banking
• Currency composition of the loan book improved; LCY:FCY ratio of 78:22 in Q1 2018 vs. 76:24 in FY 2017

As per the new business segments, Retail Banking includes mass and HNW clients, whilst Business Banking includes SMEs, Middle Market and Islamic Banking.
Asset Quality

Sector-wise Loan book composition*

- Manufacturing 24%
- Consumption & Education 9%
- Construction & Infrastructure Development 18%
- Wholesale & Retail Trade 10%
- Financial Services 9%
- Agriculture, Forestry & Fishing 21%
- Tourism 3%
- Lending to Overseas Entities 4%
- Other 1%

*As per CBSL classifications.

NPL ratio

<table>
<thead>
<tr>
<th></th>
<th>Bank FY 2017</th>
<th>Bank Q1 2018</th>
<th>Industry Q1 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.83%</td>
<td>2.46%</td>
<td>3.0%</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 35-40%.

- A well diversified portfolio with minimized concentration risk
Customer Deposits

- Total deposits of LKR 284 billion.
- 3.9% YTD growth - Quantum increase of LKR 10.8 Bn
- 82:18 composition of LCY:FCY mix of the deposits
- CASA continues to be challenging in the prevailing market conditions
- The Bank’s strategic initiatives to yield improvements in CASA during the year

5 year CAGR of 20% maintained in customer deposits up to 2017. The same momentum is expected to be maintained in 2018 as well.
### Capital Management

<table>
<thead>
<tr>
<th>BASEL III – Q1 2018</th>
<th>Bank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 Capital Ratio (Minimum Requirement -6.375%)</td>
<td>8.73%</td>
<td>10.14%</td>
</tr>
<tr>
<td>Tier 1 Capital Ratio (Minimum Requirement - 7.875%)</td>
<td>8.73%</td>
<td>10.14%</td>
</tr>
<tr>
<td>Total Capital Ratio (Minimum Requirement - 11.875%)</td>
<td>13.35%</td>
<td>14.44%</td>
</tr>
</tbody>
</table>

- Capital adequacy ratios metrics remain well above the minimum Basel requirements applicable for 2018
- Capital infusion plans in place, to be carried out during the year
<table>
<thead>
<tr>
<th>Investor Ratios</th>
<th>Bank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1 2018</td>
<td>FY 2017</td>
</tr>
<tr>
<td>Price per share (LKR)</td>
<td>133.10</td>
<td>136.40</td>
</tr>
<tr>
<td>EPS (LKR) (Annualized)</td>
<td>27.62</td>
<td>24.52</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>16.78</td>
<td>16.27</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>1.26</td>
<td>1.21</td>
</tr>
<tr>
<td>Book value per Share (LKR)</td>
<td>167.31</td>
<td>167.58</td>
</tr>
<tr>
<td>Dividend per Share (LKR)</td>
<td>-</td>
<td>9.00</td>
</tr>
<tr>
<td>P/E (times)</td>
<td>4.82</td>
<td>5.57</td>
</tr>
<tr>
<td>Price to Book value (times)</td>
<td>0.80</td>
<td>0.81</td>
</tr>
</tbody>
</table>

- Continuous improvement ROE recorded in Q1 2018. NDB ROE compares with the industry ROE of 17.1%
- With envisaged accelerated profitability for the remainder of the year, ROE to further improve
- NDB share continues to be a attractive BUY at a PB < 1
Agenda

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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 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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