

CHIEF EXECUTIVE OFFICER'S REVIEW



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Kelum Edirisinghe

Director/ Chief Executive Officer

Dear Stakeholders,

I am pleased to present to you a summary of the performance of your Bank for the year 2024. Throughout the year, our performance reflected the focus we placed, on long-term financial stability and sustainable value creation, contributing to a stronger and more resilient Sri Lanka.



CHIEF EXECUTIVE OFFICER'S REVIEW

TURNING THE CORNER - GRADUAL RESURGENCE OF THE BANKING SECTOR

The gradual stabilisation of macroeconomic conditions in the country positively impacted the banking sector, with key indicators such as credit quality, liquidity, and capital adequacy showing significant improvement in 2024. Private sector credit growth started to show a gradual resurgence amidst declining market interest rates and rising domestic demand. Similarly, Net Interest Margins (NIM) witnessed an upward momentum, driven by a notable decline in interest expenses. The decline in non-performing loans, as reflected by a decrease in Stage 3 loans, signalled improving credit quality and reduced default risk, a welcoming sign considering the continued shocks the sector weathered since 2019. Liquidity constraints of the previous year also started to ease off partly attributable to prudent foreign currency liquidity management by banks. Additionally, sector capital adequacy improved with the issuance of Tier-2 capital instruments and internal capital generation. These positive developments further reinforced resilience of the banking sector by enhancing profitability and strengthening capital buffers.

A ROBUST FINANCIAL PERFORMANCE DRIVEN BY FOCUS ON FUNDAMENTALS

We are extremely pleased with the financial performance the NDB Group posted in 2024. The record-breaking profit reported for the year made a significant milestone in the Group's growth trajectory, with all key performance indicators (KPIs) and shareholder metrics showing substantial improvements. The results were driven by a focused strategy that improved operational efficiency and enhanced customer engagements. During the year, we focused our efforts on three key performance areas, which were fundamental to our planned growth, viz. increasing net interest margins, driving transactions and enhancing portfolio quality. Our efforts came in to fruition with the Bank delivering healthy growth in the respective areas which translated to enhanced profitability.

For the period under review the Bank reported a pre-tax profit of LKR 24.3 Bn up 141% over 2023 (YoY) inclusive of the one-off gain of LKR 11.5 Bn stemming from the ISB restructure. Excluding this gain, our pre-tax profit from the underlying business grew 28% year-on-year, affirming the resilience of our business model. Bank level post-tax profit was LKR 9.0 Bn, a 68% increase over the prior year. Group profit attributable to shareholders was LKR 9.8 Bn, again an impressive growth of 70% YoY. This was the highest-ever profitability figures the Bank and the Group have posted in its 45 years plus history.

INCREASING NET INTEREST MARGINS

Driven by strong strategic focus, the Bank achieved an impressive NIM of 4.34% the highest ever in its recent history. This success was underpinned by targeted actions to optimise the cost of funds, enhance the quality of our asset book, and effectively reprice our deposit portfolio.

DRIVING TRANSACTIONS

Concerted efforts to increase fee-based income by driving transaction volumes particularly in trade related services contributed significantly to the growth in net operating income during the year. Ongoing enhancements to NEOS Corporate, our dedicated online banking platform for corporate customers along with the launch of TradeLinc, our tailor-made digital value chain financing solution, and the deployment of a dedicated team to address Business Banking trade and transaction needs, were key propellers of the growth in transactions during the year. The results were reflected in a net fee and commission income of LKR 7.8 Bn, which saw a 9% growth YoY.

ENHANCING PORTFOLIO QUALITY

Enhanced underwriting standards, greater focus on monitoring and more risk and capital efficient lending meanwhile enabled the Bank to maintain portfolio quality while actively pursuing growth opportunities. Efforts to strengthen our

monitoring capabilities and the increased use of data analytics also enabled the early identification of portfolio stresses, allowing for proactive remedial action. Resultantly, the impairment charge on the loan book in 2024 was down by LKR 2.7 Bn, translating to a 17% reduction compared to 2023. Impaired Loans (Stage 3) to Total Loans Ratio improved by 340 bps to 5.18% whilst Impairment (Stage 3) to Stage 3 loans ratio increased by 13.37 percentage points to 54.48% over the end 2023 position, continuing the progress maintained since 3Q 2023. Another noteworthy achievement was the 13% reduction in Stage 3 loans portfolio, gradually migrating our loan book to a healthy composition in staging.

In addition to the above, a strong cost discipline across the organisation enabled us to maintain our cost to income ratio at 36.91%. Enhanced profitability in turn led to enhanced value to our shareholders, as reflected in a Return on Equity of 12.22% (2023: 8.03%) and an Earnings per Share of LKR 21.73 (2023: LKR 12.92). Please refer the Financial Capital section on pages 114 to 122 for a more detailed review of our financial performance.

GEARING FOR GROWTH, POWERED BY DIGITISATION

As the Bank prepares for its next growth phase, our focus is rooted on enhancing customer centricity and operational efficiency through a robust digital strategy. This includes leveraging cost-effective technology, optimising infrastructure, and forming strategic partnerships. Recent upgrades to the Bank's core banking system and the integration of Robotic Process Automation and workflows in our processes have considerably improved decision-making, efficiency, and productivity across the Bank. Our organisational structure is aptly positioned to drive smart growth. The Transformation Unit drives smart process improvements, while a data-driven culture and enhanced analytics capabilities support better decision-making. The Product Lifecycle Management Unit integrates technology across the banking product lifecycle.

We also continue to make significant strides in our digital value proposition with future focused developments. A key development during the year was Sri Lanka's first wearable payment device, the NDB WristPay band developed to cater to needs of our increasingly digitally savvy customer base. Ongoing enhancements to our digital platform NEOS and branch modernisation efforts are aimed at enhancing our customer experience to suit evolving requirements.

IT security remains a key priority and we continue to invest in enhancing our IT security infrastructure and capabilities. During the year, NDB obtained the latest ISO 27001:2022 for its Information Security Management System (ISMS) making it the first commercial bank in the country to achieve these three main globally recognised ISO certifications for IT operations and IT security (ISO 27001:2022, ISO 22301:2019 and ISO 20000: 2018).

EMPOWERING OUR CUSTOMERS

We play a critical role in driving the economy forward by empowering individuals and businesses to move beyond recovery to sustainable, accelerated growth. In further strengthening our support to the SME sector, we entered into strategic partnerships with key stakeholders as was elaborated in the Reflections from the Chair, Board of Directors on page 24. These strategic partnerships serve to build capacity and enhance the resilience and competitiveness of the SME sector in Sri Lanka. During the year we also launched the 'SME Re-Energizer' loan in collaboration with the Sri Lankan Government targeting export orientated, women-led SMEs in key sectors such as manufacturing, construction, tourism, apparel, agriculture, and agro-based industries.

Women's empowerment remains a key focus of the Bank, as we believe that fostering financial independence and creating opportunities for women to excel contribute to a more equitable and prosperous future for Sri Lanka. Through our signature 'Banking on Women' platform, NDB offers a comprehensive banking proposition for

women that includes targeted banking solutions, access to affordable financing, skills development opportunities, and advisory support to overcome barriers faced by women-owned businesses. NDB's flagship awards programme 'Sri Lanka Vanithabhimana' meanwhile continues to recognise high performing female entrepreneurs and support them through their growth journey.

During the year we launched an Internet Payment Gateway to facilitate cross-border transactions for Business Banking clients. We also introduced Host-to-Host connectivity enabling seamless integration between corporate customers' digital platforms and the Bank's systems. Connecting our digital platforms with the LankaPay Government Payment Platform, now allows our customers to swiftly process payments to Government institutions. We also continue to conduct awareness sessions for SMEs to support them through their digitalisation journey.

UNLEASHING EMPLOYEE POTENTIAL

As a player in the service industry, attracting, developing and retaining the best talent in the country is our main focus as we seek to continuously enhance our employee value proposition. This proposition focuses on creating a supportive and empowering work environment, which affords our team targeted training and development opportunities based on comprehensive competency and skills mapping, aligned with both employee career aspirations and organisational goals. During the year, our team was provided with training on behavioural, structural, and technical skills to drive strategic priorities and foster a culture of innovative thinking.

NDB's commitment to gender parity and female empowerment is highlighted by receiving Economic Dividends for Gender Equity (EDGE) certification for the third consecutive time in 2024. The Bank has implemented initiatives to ensure gender balance, equal pay, and career advancement for women, including leadership training,

flexible work arrangements, and health and well-being support. Additionally, the Bank's latest initiative, "Fearlessly Female," is specifically designed to provide support to NDB's emerging female talent within the Bank. NDB's dedication to diversity and gender equality earned us the Best Bank for Diversity and Inclusion award at the Euromoney Awards 2024.

In 2024, we also introduced a new rewards strategy, designed to better reflect current market conditions and bring greater alignment between individual performance and organisational goals. The remuneration strategy is complemented by NDB's employee wellness proposition, which seeks to provide our employees with a more holistic offering that includes financial, physical and mental wellbeing.

SUPPORTING THE TRANSITION TO A LOW-CARBON ECONOMY

Climate action is a key pillar of our sustainability agenda, and we continue to take meaningful action to minimise our own carbon footprint and facilitate the transition to a low-carbon economy. As part of the journey towards achieving carbon neutrality we engaged the Sri Lanka Climate Fund (SLCF) for the fifth consecutive year to undertake a comprehensive Greenhouse Gas (GHG) assessment verification for the year 2024. This exercise enables us to understand our impact whilst helping to continue to identify tangible ways to reduce our carbon footprint. Ongoing efforts such as branch solarisation, energy-efficient lighting, optimised air conditioning systems, and digital banking solutions continue to reduce the carbon footprint of our operation. More information on our sustainability journey is found in the Natural Capital section on page 180.

CHIEF EXECUTIVE OFFICER'S REVIEW

A STRONG INTUITION

As detailed in the Reflections from the Chair, Board of Directors, your Bank is founded on strong ethics and governance. This has enabled us to forge ahead even in the most tumultuous conditions with perseverance and resilience. We are also well capitalised through organic equity capital generation and timely infusion of debt capital. By the end of the year the Bank level regulatory capital adequacy ratios of Tier I and Total Capital enhanced to 13.68% and 19.09%, 518 bps and 659 bps above the minimum requirement respectively. Our strength is our firm conviction that we are poised to forge ahead and power our stakeholders in unlocking lasting prosperity.

WAY FORWARD

The Central Bank of Sri Lanka's (CBSL) prudent policies and reforms have corrected macro-financial imbalances, setting Sri Lanka's economy on a recovery path. The upgrade of the country's Long-Term Foreign-Currency Issuer Default Rating to CCC+ reflects this progress and boosts global investor confidence. Despite challenges in the banking sector, such as pressure on margins and high NPL ratios, the Bank remains committed to socio-economic progress through sustainable value creation.

Strategic actions that we have implemented over the years, such as building capital buffers, enhancing digital services, and fostering a future-ready workforce have positioned the Bank well for future opportunities. The Bank's upgraded national credit rating of A(lka) and numerous awards won further affirm our stature as we navigate the future. In 2025 we will continue to focus on our strategy revolving around Business Focus, Operational Excellence and Empowered Stakeholders. Simultaneously we will continue to embed sustainability more deeply into our core business by prioritising SME and women's empowerment, advancing financial inclusivity, and actively supporting

Sri Lanka's transition to a low-carbon economy, as we grow and empower our stakeholders to grow smart.

ACKNOWLEDGEMENTS

In conclusion, I would like to take this opportunity to extend my gratitude to the Chairman and Board of Directors for their unwavering support and guidance throughout the year. I also wish to place on record my sincere appreciation to Mr. Dimantha Seneviratne, who relinquished his duties as the Chief Executive Officer of the Bank on 31 January 2024. His vision and leadership have placed us in a stronger position, and we remain deeply grateful for his invaluable contribution. I extend my sincere gratitude to the Leadership Team and all our employees for their steadfast support, dedication, and exemplary commitment to the Bank's success. It is truly a privilege to lead such a dynamic, resilient, and passionate team. My thanks also go to the Governor and officials of the CBSL, as well as the Sri Lanka Banks' Association, for their continued collaboration and support. I also extend my deepest appreciation to our valued customers, shareholders, business partners, and other stakeholders for their enduring trust and loyalty.

As we look ahead, I am excited to continue this journey of growth and success together, in which we will enable our stakeholders in unlocking lasting prosperity and empower a future of smart growth.



Kelum Edirisinghe
Director/ Chief Executive Officer

20 February 2025
Colombo