

STRATEGY

Responding to A Changing Landscape



Enabling Dynamic Growth

We're relying on our inherent dynamism and energy to conquer strong headwinds, and remain agile and responsive in the face of changing conditions.

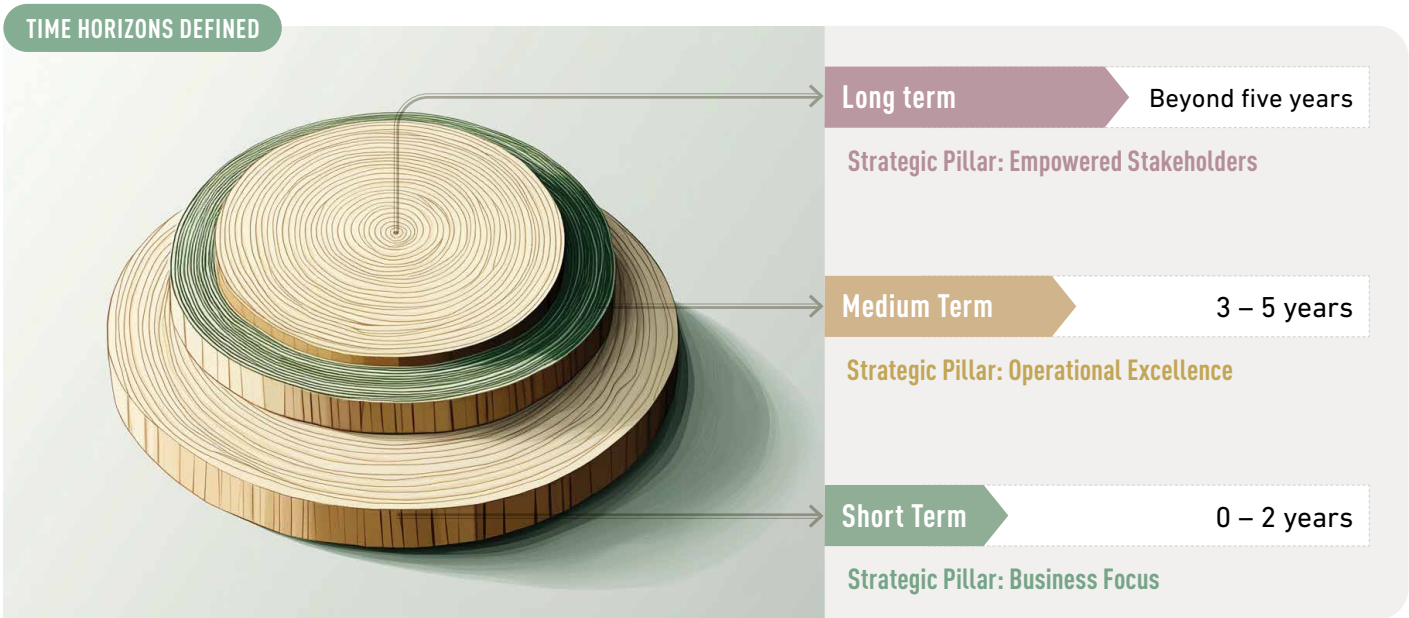
In Japanese gardens, trees such as the willow or cherry are trained or pruned to create a cascading, sweeping form that represents elegance and the beauty of movement. This 'weeping' form signifies the transience and impermanence of life – correlating to an environment that is constantly shifting and evolving. The trees' graceful movement embodies the nature of water, representing responsiveness and adaptability in the face of change.

OUR BLUEPRINT FOR SMART GROWTH - STRATEGY

As Sri Lanka gradually emerges from the economic crisis, NDB as a leading financial institution in the country, is determined to play a pivotal role in the country’s resurgence by providing customer focused banking solutions that empower individuals, businesses, consumers and broader communities. At the core of these efforts lies our carefully crafted time-bound strategy, aimed at fostering sustainable bottom-line growth while cultivating a more resilient and inclusive economic ecosystem in the long term.

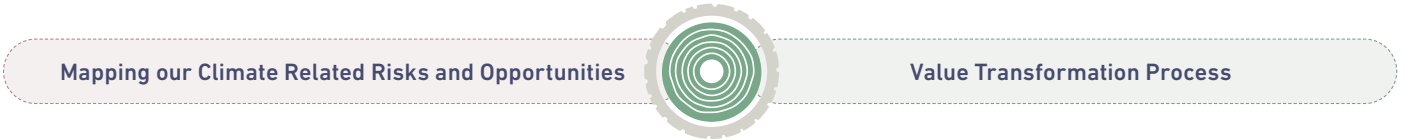
Strategy formulation entails a diligent process wherein amidst other multiple factors, material matters that affect the business, key risks and opportunities identified as critical in business performance, the Group’s sustainability agenda, commitment to United Nation’s Sustainability Development Goals and interests of our key stakeholder groups are embedded. This approach to strategy formulation, execution and monitoring and follow-ups ensures that the Group is constantly and consistently directed by a strong strategic agenda which propels our wider purpose of delivering sustainable impact and supporting our stakeholders in unlocking prosperity.

In presenting our Strategy in this Annual Report with greater clarity, relevance to key users of the Annual Report and enhanced readability, we have condensed our strategic focus on to a time-bound frame, across the three key strategic pillars of Business Focus, Operational Excellence and Empowered Stakeholders. Whilst each strategic pillar will have its own short to long term focus, the purpose of this depiction is to demonstrate how all of the Group’s efforts are ultimately directed towards empowering our valued stakeholders and supporting them in unlocking sustainable prosperity.



EMBEDDING SUSTAINABILITY IN OUR STRATEGY

For a comprehensive review of this presentation under Our Blueprint for Smart Growth, the following sections should be read in conjunction.












OUR BLUEPRINT FOR SMART GROWTH - STRATEGY



MEASURING OUR PROGRESS

The following section provides an overview of the progress achieved across each of our strategic pillars. While monitoring progress in each of these areas through specific KPIs that reflect the value generated to our stakeholders, we also identify risks and opportunities likely to impact each of our strategic priorities. By doing so, we are able to remain agile and responsive to evolving market dynamics, stakeholder needs, and emerging challenges, ensuring that our strategies remain effective and aligned with our long-term goals.





STRATEGIC PILLAR : BUSINESS FOCUS

Resource Allocation and Capital Trade Off	Key Actions in 2024	Output (KPIs)	Outcomes
<ul style="list-style-type: none"> Enhancements to client transacting platforms, core banking system and other related systems to enable smoother and more transactions Investments to improve data analytics capabilities Additional resources allocated to monitor portfolio quality <p>Capital Trade-offs</p> <p> + Financial Capital</p> <p> + Intellectual Capital</p>	<ul style="list-style-type: none"> Leveraging existing relationships to drive transaction volumes Prioritisation of capital efficient lending across business segments Focused efforts to drive cost and process efficiencies through RPAs Strengthening of risk management and monitoring mechanisms. Driving CASA growth in new customer segments 	<p>18% Total transaction growth</p> <p>20% Digital transaction growth</p> <p>20% Total transaction growth</p> <p>340 bps Enhancement in impaired loans (Stage 3 to total loans ratio to 5.18%)</p> <p>7% NII Growth</p> <p>38 bps Improvement in NIM to 4.34%</p>	<p>Stakeholders Impacted</p> <p> Investor</p> <p> Customers</p> <p> Employees</p> <p>SDG's Impacted</p> <p> 8 <small>DECENT WORK AND ECONOMIC GROWTH</small></p> <p> 9 <small>INDUSTRY, INNOVATION AND INFRASTRUCTURE</small></p>
<p>Risks and Opportunities Likely to Impact Strategic Pillar</p> <p>Risks</p> <ul style="list-style-type: none"> Macro-economic risk Credit risk Market risk Climate risk <p> Refer page 180 for more information.</p>		<p>Opportunities</p> <ul style="list-style-type: none"> Products and services Markets Downstream (customer and market side) <p> Refer page 183 for more information.</p>	

OUR BLUEPRINT FOR SMART GROWTH - STRATEGY

















STRATEGIC PILLAR : OPERATIONAL EXCELLENCE

Resource Allocation and Capital Trade Off	Key Actions in 2024	Output (KPIs)	Outcomes
<ul style="list-style-type: none"> Investment in digital infrastructure and technology upgrades Training investment Deployment of employees with stronger IT skills <p>Capital Trade-offs</p> <ul style="list-style-type: none">  Financial Capital  Intellectual Capital  Digital Capital 	<ul style="list-style-type: none"> Enhancements to digital value proposition including NEOS Digital Banking Platform Driving process automation and business re-engineering initiatives to drive cost and resource efficiencies Continued remote working models for employees Introduction of Service Level Agreement (SLA) turnaround times for each business line in driving customer service excellence Ongoing training to improve customer service levels Structural re-alignment of key business verticals for better service delivery 	<p>4.5/5.0 Customer Satisfaction Rate</p> <p>94% Increase in digitally active customer base</p> <p>24 Total RPAs in operation</p> <p>8.04% GHG emissions reduction</p>	<p>Stakeholders Impacted</p> <ul style="list-style-type: none">  Investor  Customers  Employees  Suppliers and Business Partners <p>SDG's Impacted</p> <ul style="list-style-type: none">  
<p>Risks and Opportunities Likely to Impact Strategic Pillar</p> <p>Risks</p> <ul style="list-style-type: none"> Operational risk IT and cyber security risk <p> Refer page 180 for more information.</p>		<p>Opportunities</p> <ul style="list-style-type: none"> Resource efficiency Energy source Products and services Resilience Core business operations Downstream (customer and market side) <p> Refer page 183 for more information.</p>	



STRATEGIC PILLAR : EMPOWERED STAKEHOLDERS

Resource Allocation and Capital Trade Off	Key Actions in 2024	Output (KPIs)	Outcomes
<ul style="list-style-type: none"> Added support to the SMEs sector Employee training and development investment Investment in strategic Corporate Sustainability initiatives <p>Capital Trade-offs</p> <p> Social and Relationship Capital</p> <p> Intellectual Capital</p>	<ul style="list-style-type: none"> Entered into strategic partnerships with key stakeholders such as National Enterprise Development Authority, Export Development Board, International Finance Corporation and Asian Development Bank to support SMEs and women entrepreneurs in the country Continued to enhance Banking on Women proposition Improvements to employee value proposition to empower employees Corporate sustainability initiatives designed to address prevailing social and environmental issues and contribute to United Nation's Sustainability Development Goals 	<p>LKR 109 Bn</p> <p>SME Loan Portfolio</p> <p>28%</p> <p>Female representation in senior management</p> <p>Wide range of beneficiaries of corporate sustainability initiatives carried out by the Bank</p>	<p>Stakeholders Impacted</p> <p> Suppliers and Business Partners</p> <p> Customers</p> <p> Employees</p> <p>SDG's Impacted</p> <p>   </p> <p>  </p>
<p>Risks and Opportunities Likely to Impact Strategic Pillar</p> <p>Risks</p> <ul style="list-style-type: none"> Macro-economic risk Climate risk <p> Refer page 180 for more information.</p>		<p>Opportunities</p> <ul style="list-style-type: none"> Upstream (supply side) Downstream (customer and market side) <p> Refer page 183 for more information.</p>	

OUR BLUEPRINT FOR SMART GROWTH - STRATEGY

STRATEGIC RESILIENCE – CURRENT STATUS AND GEARING UP

At NDB we recognise the evolving landscape of sustainability-related risks and opportunities and are committed to ensuring the resilience of our strategy and business model in adapting to these uncertainties. Our approach to resilience is guided by a structured assessment of risks, allowing us to navigate potential financial, regulatory, and environmental shifts. The presentation below identified initiatives already underway and initiatives with potential to be implemented which enhance the Group's resilience.

1

Capacity to Adjust to Sustainability-Related Risks

The Group has developed a multi-faceted approach to assess and enhance its capacity to adapt to climate and sustainability risks, ensuring business continuity and long-term value creation.

- ⊙ **Governance and oversight:** The Group is making progress towards establishing sustainability related oversight under a Board subcommittee thereby further strengthen embedding sustainability-related risks in strategic decision-making. Exposure to environmental and social risks via lending is already addressed through a comprehensive Environment and Social Risk Management (ESRM) framework with dedicated oversight of the Board Integrated Risk Management Committee.
- ⊙ **Risk Identification and management:** The Group's Integrated Risk Management Framework incorporates conventional risks and evolving regulatory expectations. The framework will be further strengthened to include sustainability risks, including physical climate risks and transition risk.
- ⊙ **Sustainable finance strategy:** The Bank actively diversifies its portfolio to include funding to renewable energy sector, women's market segment, climate-smart agriculture, etc. ensuring resilience amid market shifts towards a low-carbon economy. The Bank's Sustainable Bond Framework obtained an independent assessment and "Good" rating from Sustainable Fitch based on internationally recognised principles and guidelines set by the International Capital Market Association (ICMA), aptly placing us to issue sustainable bonds.

2

Qualitative and Quantitative Assessment of Resilience

- ⊙ **Sectoral exposure and transition readiness:**
 - The Group is supporting sectors investing in sustainable energy, agriculture, and infrastructure. Additionally, in the medium to long run, the Bank will set targets to reduce exposure to high-carbon industries.
 - Our credit approval processes include a comprehensive Environmental and Social Due Diligence check-list.
- ⊙ **Operational and supply chain resilience:**
 - NDB is committed to operational sustainability, through energy efficiency, resource efficient processes supported by technology and paperless/ resource efficient banking via its digital platforms available for all business segments.

The Group will set following quantitative targets as a part of streamlining its ESG endeavours, in the medium to long term.

- ⊙ **Green finance growth:**
 - Over a set percentage of the Group's corporate lending portfolio to be allocated to sustainability-linked finance, targeting industries adopting low-carbon practices.
- ⊙ **Carbon footprint reduction:**
 - An annual carbon emissions reduction target is to be set, to be achieved through a combination of measures such as energy-efficient branches, renewable energy investments, deployment of digital and AI means in processes, etc.

3

Time Horizon for Resilience Planning

The Group plans to employ a time-based risk evaluation model to assess resilience:

- ⊙ **Short-term (1 - 2 years)** : Focus on regulatory compliance, ESG reporting enhancements, and risk integration into investment decisions.
- ⊙ **Medium-term (3 - 5 years)** : Expansion of sustainable finance products, integration of climate risk into capital allocation, and innovation in green technology financing.
- ⊙ **Long-term (>5 years)** : Deeper integration of ESG factors into financial models, and alignment with Sri Lanka's and global climate goals (Paris Agreement, SDGs).

4

Scenario Analysis and Strategic Adjustments

The Group will also embark on climate-related scenario analyses by 2027, and may cover;

- ⊙ A 2°C or lower warming scenario, assessing risks and opportunities in a low-carbon economy
- ⊙ A high-carbon transition risk scenario, evaluating financial impacts if carbon pricing and climate regulations increase
- ⊙ Extreme weather event simulations, examining the implications of floods, droughts, and hurricanes on credit risk and asset performance.

Insights from these analyses inform capital allocation, risk mitigation strategies, and product innovation, ensuring our resilience to sustainability-related risks.

NDB is committed to embedding resilience into its strategic decision-making, financial products, and risk management framework. By proactively integrating sustainability risk assessments, scenario analysis, and targeted resilience measures, we aim to ensure our long-term adaptability and continued competence in sustainable finance and related areas.