



Earnings Call Q3 2020

National Development Bank PLC
NDB.N0000

13 November 2020
10.00 am
Colombo - Sri Lanka

OUR VOYAGE BEYOND

National Long Term Rating:
A+(lka) Stable Outlook by Fitch Ratings Lanka Limited

Forward Looking Statements

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Presented by

Dimantha Seneviratne
Director/ Group Chief Executive Officer

Panelists

Sanjaya Perera - Senior Vice President - Personal Banking & Branch Network
Deepal Akuratiyagama - Chief Operating Officer
Suvendrini Muthukumarana - Vice President - Finance
Niran Mahawatte - Vice President - Treasury
Indika Ranaweera - Vice President - SME, Middle Market & Business Banking
Ishani Palliyaguru - Vice President - Project Finance and Corporate Credit Control
K V Vinoj - Vice President - Wholesale Banking
Zeyan Hameed - Vice President - Branch Network Management & Product Development
Damitha Silva - Assistant Vice President - Digital Financial Services
Shanka Abeywardene - Assistant Vice President - Corporate Planning & Business Intelligence



- Part I - Corporate Profile



- Part II - NDB Historic Financial Performance



- Part III - Operating Environment Outlook



- Part IV - NDB Financial Performance - Q3 2020



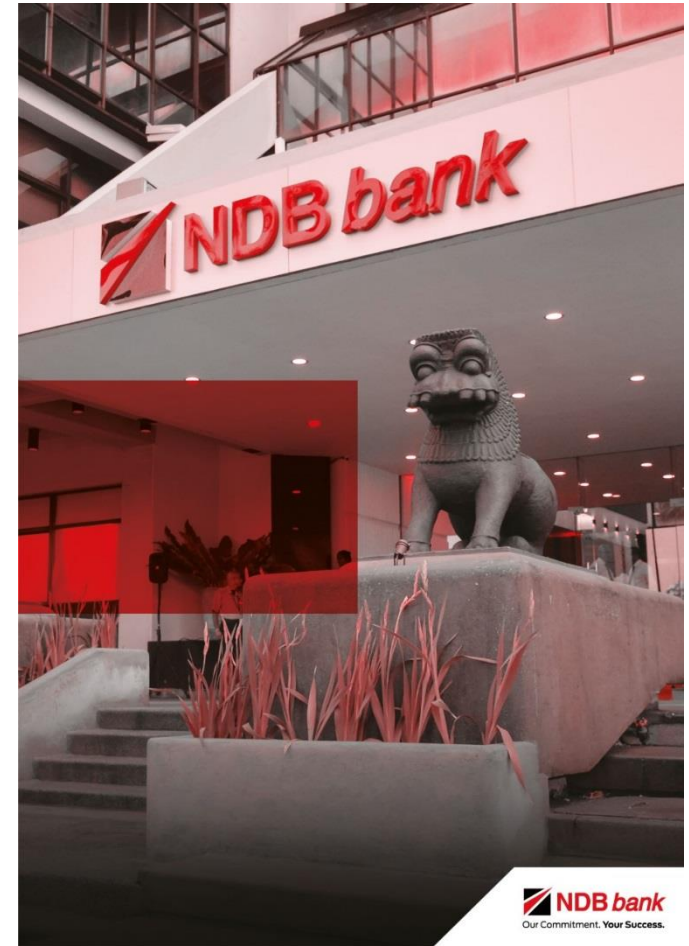
- Part V - Impact of COVID-19 and NDB's Response



- Part VI - Q&A

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- Over forty years of banking supremacy since 1979
- Fourth largest listed commercial bank in Sri Lanka
- Credit rating of A+ LKA with a Stable Outlook by Fitch Ratings Lanka Limited
- Over 3,000 NDBers
- 113 branches and a strong digital banking platform
- Only financial services conglomerate of its kind with subsidiaries of NDB Investment Bank Limited, NDB Wealth Management Limited - market leaders in their respective segments, and NDB Securities Limited and NDB Zephyr Partners Limited
- Only EDGE certified corporate in Sri Lanka for workplace gender equality
- Best Bank in multiple-spheres as adjudged by seminal financial publications in the world
 - Best Domestic Bank Sri Lanka 2020 - AsiaMoney
 - Best Digital Consumer Bank Sri Lanka 2020 - Global Finance USA
 - Best Islamic Bank Sri Lanka 2020 - The Banker Magazine UK
 - Best Financial Services Group Sri Lanka 2020 - Global Banking & Finance Review UK
 - Twin awards - Best Bank in Sri Lanka by Global Finance USA and The Bank of the Year by The Banker Magazine UK in 2018
 - NDB Investment Bank Limited - Best Investment Bank Sri Lanka by EuroMoney in 2020 for the ninth consecutive years



Shareholder Milestones





- Part I - Corporate Profile



- **Part II - NDB Historic Financial Performance**



- Part III - Operating Environment Outlook



- Part IV - NDB Financial Performance - Q3 2020



- Part V - Impact of COVID-19 and NDB's Response

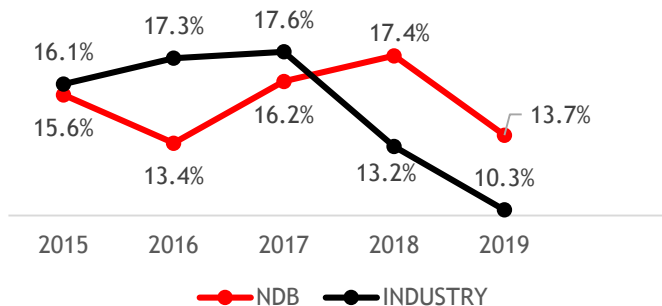


- Part VI - Q&A

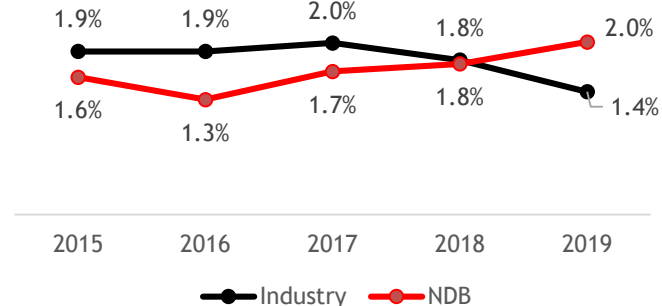
NDB Historic Financial Performance



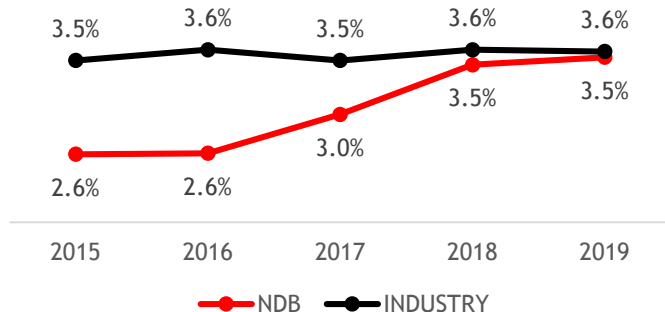
ROE



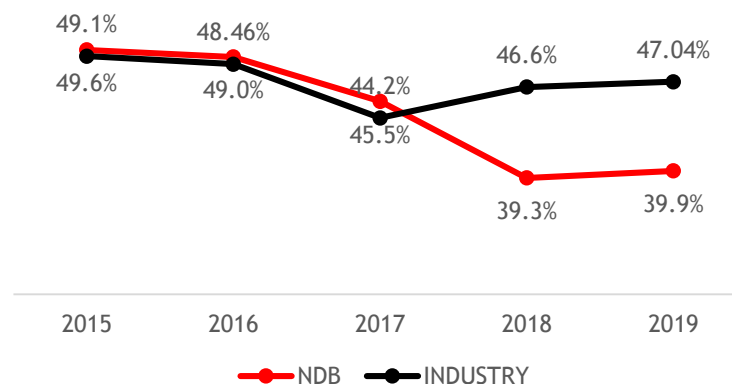
ROA



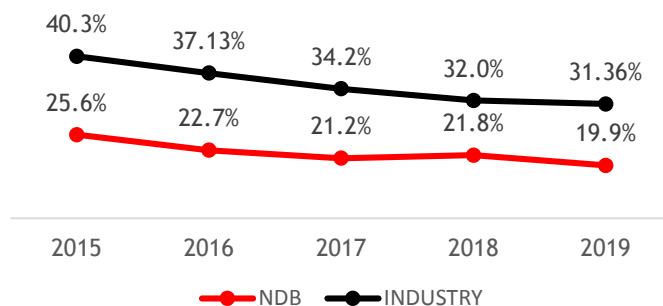
NIM



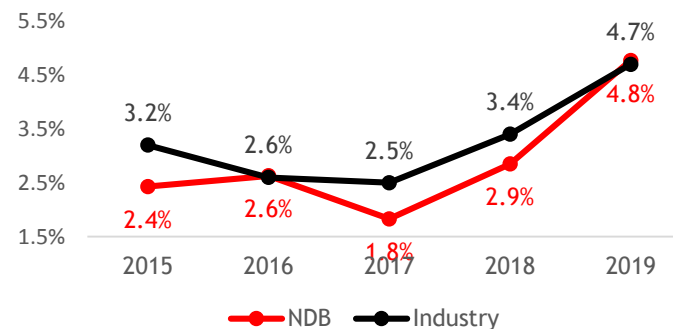
Cost to Income Ratio



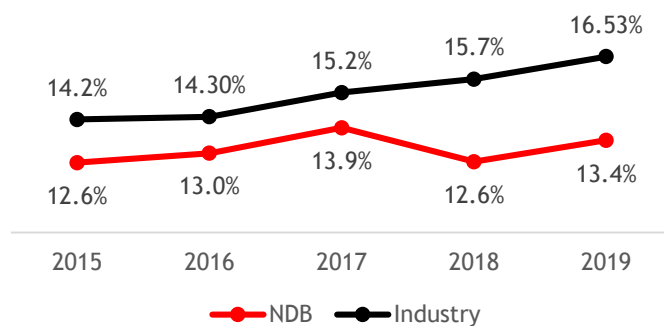
CASA Ratio



NPL Ratio



Total CAR



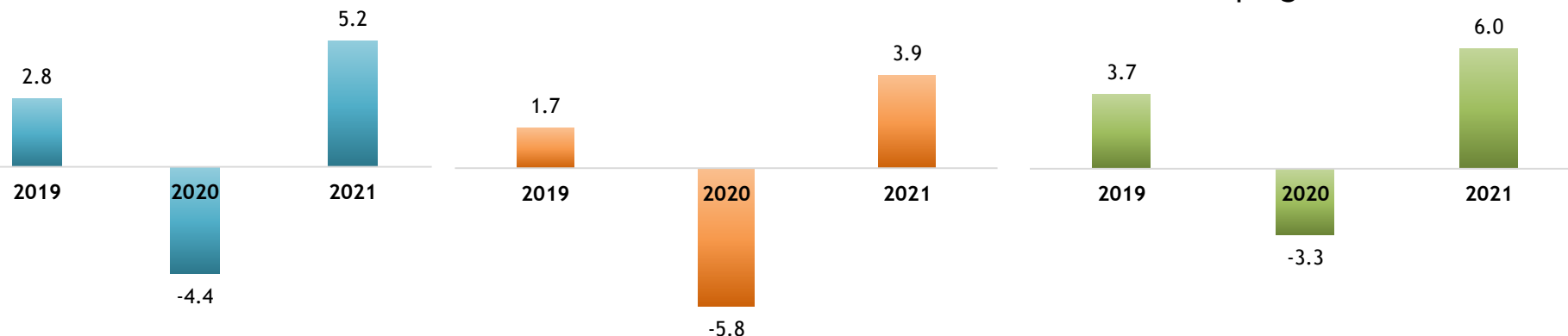
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Growth projections in percentage

World Output

Advanced Economies

Emerging Market and
Developing Economies



- Global growth projection for 2020 -4.4%
- Global growth projection for 2021 is 5.4% a 0.2% revision down compared to June 2020 forecast of 5.4%
- After the rebound in 2021, the baseline forecast for the global economy envisages growth to slow to about 3.5% into the medium term
- These growth rates are largely dependent on the behavior of the pandemic and resultant lockdown/ distancing measures imposed by the countries, as most countries in the world are fighting a second wave of the pandemic.

Macro economic indicators - Sri Lanka

- Trade deficit improved in Sep 2020 to USD 4.3 due to contractions in imports being larger than contraction in exports (Imports - USD 11.7 Bn Exports - USD 7.4 Bn)
- Worker remittances increased steadily since June 2020 indicating some positive signs and was USD 703 Mn for September 2020
- YoY headline inflation as measured by CCPI - 4.0% on October 2020 (Jan 2020 - 5.7%)
- Rupee stabilizing to a great extent (current Buy Rate c.182/- ; End October - LKR 184.27)
- Deposits and lending rates on low ranges
 - AWPLR - 6 Nov - 5.96% (Jan 2020 - 9.68%)
 - AWDR (Monthly) - Oct 2020 - 6.23% (Jan 2020 - 8.14%)
- Yields on government securities remain at low levels
 - 91 day T Bill rate - 4.57%
 - 182 day T Bill rate - 4.69%
 - 364 day T Bill rate - 4.96% (October 2020)
- Credit to private sector expanded notably in September 2020
 - As of 15 October, LKR 178 Bn approved by CBSL under the Saubhagya COVID-19 Renaissance Facility

GDP growth rate forecasts for Sri Lanka

CBSL

2020: -1.7%

2021: 5.0%

ADB

2020: -5.5%

2021: 4.1%

Accommodative monetary policy stance of the Central Bank of Sri Lanka

Timeline of policy rate easing in 2020

30 Jan	17 Mar	17 Mar	03 Apr	06 May	16 Jun	09 Jul	22 Oct
Policy rates reduced by 50 bps	SRR reduced by 100 bps	Policy rates reduced by 25 bps	Policy rates reduced by 25 bps	Policy rates reduced by 50 bps	SRRR reduced by 200 bps	Policy rates reduced by 100 bps	Policy rates remain unchanged at current low levels

Target measures introduced by the CBSL in support of economic revival at the threat of the pandemic

- Policy rates easing - SDFR: 4.5% SLFR: 5.5% SRR: 2%
- 18% maximum interest rate on credit cards
- 16% maximum interest rate on pre-arranged temporary overdrafts
- 10% maximum interest rate on pawning facilities
- Penal interest rate - 2% over regular interest rates
- Latest initiatives:
 - Extension of the debt moratorium by another six months starting 01 October 2020. Interest and capital falling due starting from this date for a period of six months to be converted to a term loan, payable starting 01 April 2021 within 24 months
 - Extension of the grace period on the Saubhagya COVID-19 Renaissance Facility by three months more - accordingly total grace period of 9 months within the 24 months repayment period

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Performance Highlights



		Q3 2020	Q3 2019	%
Profitability (LKR Bn)	Operating Income	19.6	17.6	11
	Operating Expenses	7.0	7.2	-2
	Profit before All Tax	7.7	7.6	2
	Profit after Tax	4.5	3.4	34

		Q3 2020	FY 2019	%
Financial Position (LKR Bn)	Total Assets	600	530	13
	Total Gross Loans	443	409	8
	Total Deposits	464	405	15

		Q3 2020	FY 2019	Movement
Efficiency & Return (%)	Cost to Income Ratio	35.9	39.9	▼
	NPL Ratio	5.57	4.77	▲
	Net Interest Margin	3.23	3.53	▼
	Return on Average Assets (B/T)	1.70	2.01	▼
	Return on Average Equity	13.37	13.73	▼

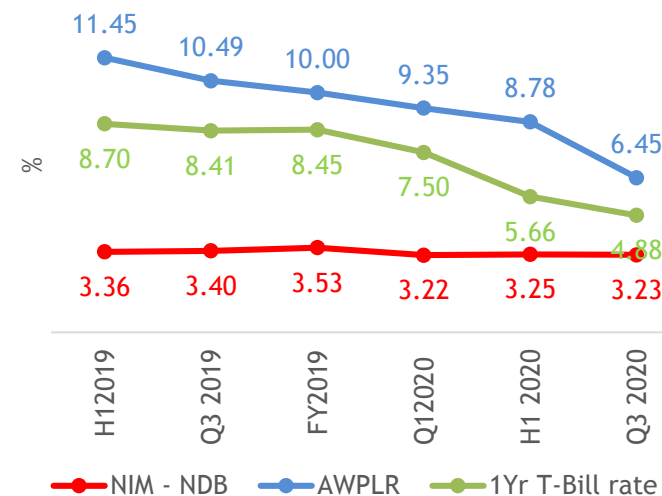
Fund based income

LKR Mn	Q3 2020	Q3 2019	Variance	%
Interest Income	40,808	39,424	1,384	4
Interest Expense	27,141	26,332	809	3
Net interest income	13,667	13,092	576	4

Highlight:
Decline in NIM by 30 bps in Q3 2020 vs 2019

- Moderate growth in NII amidst challenging conditions
- NII impacted by
 - Narrowing NIMs reflecting reduction in market rates
 - Interest rate caps introduced on certain products, impact of the moratorium on interest, restructuring of facilities, etc.

Movement in Market Rates and Bank NIM



Non Fund based income

LKR Mn	Q3 2020	Q3 2019	Variance	%
Net fee and commission income	2,904	2,753	151	5
Other non-fund based income	2,986	1,737	1,249	72
Total non-fund based income	5,890	4,489	1,400	31

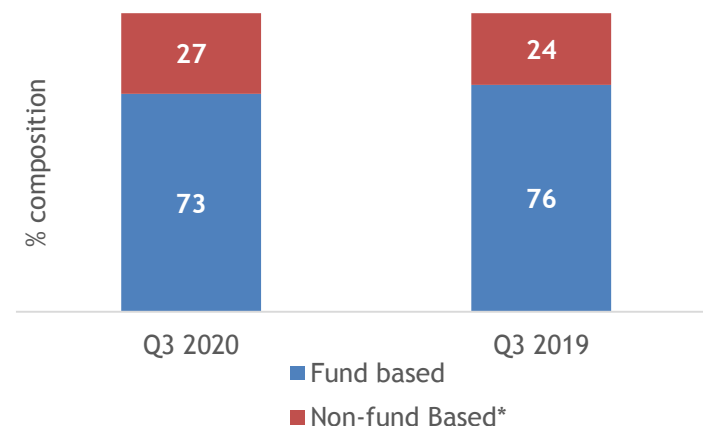
Highlight:

Net fee & commission income growth due to uptick in volumes

- Net gains from trading - LKR 779 Mn an increase of 2%
- Net gains from derecognition of financial assets - Capital gains from Government Securities portfolio as a result of effective portfolio management
- Non-fund based income [excluding other operating income] to Fund based income ratio improved from Q3 2019 to Q3 2020

Resultant Total Operating Income - LKR 19,557 Mn - Up by 11% in Q3 2020

Fund to Non-fund Based* Income Composition



*Excluding Other Operating Income

Impairment charges

LKR Mn	Q3 2020	Q3 2019	Variance	%
Individual Impairment	2,690	2,119	571	27
Collective Impairment	1,458	561	896	160
Other provisions - charge	677	186	492	265
Total impairment charges	4,825	2,866	1,959	68

Highlights:

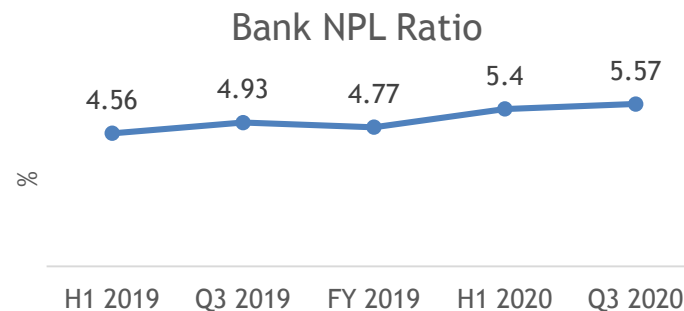
- NPL on the increasing trend, reflecting wider market movements
- LKR 583 Mn accounted for, in other impairment charges for Day 01 impact on the moratoriums

Collective impairment driven by

- the growth in the loan book (YoY growth of LKR 53 Bn)
- Provisions at individual levels considering elevated risks due to stressed market conditions

Non performing loans

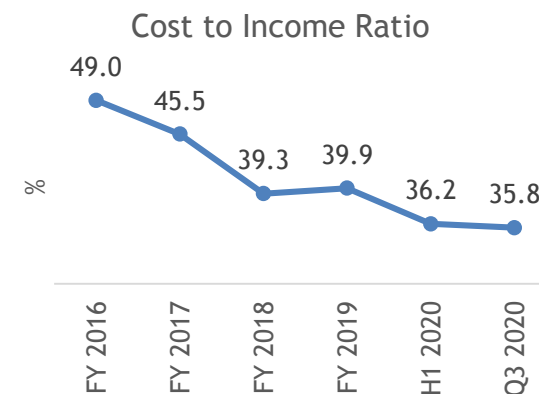
- Gross NPL ratio of 5.57% for the period under review



Operating Expenses

LKR Mn	Q3 2020	Q3 2019	%	Cost composition %	
				Q3 2020	Q3 2019
Personnel expenses	3,855	3,702	4	55	52
Depreciation & amortization	411	393	5	6	5
Other expenses	2,752	3,058	-10	39	43
Total operating expenses	7,019	7,153	-2		

- Total operating expenses reduction of 2%
- Year-on-year headcount increase marginal at 22 amidst business growth - supported by process automations and efficiency enhancements
- Large cost savings achieved through larger uptake in digital banking - Over 400% YoY increase in value of digital transactions in September 2020
- Further cost management initiatives introduced to preserve returns in the post pandemic scenario



Highlight:

Continued improvement in Cost to Income ratio - One of the best in the industry at 35.8%

Taxation

LKR Mn	Q3 2020	Q3 2019	%
VAT on Financial services	1,473	1,374	7
NBT on Financial services	-	185	-100
Debt repayment Levy	-	757	-100
Income tax	1,763	1,894	-7
Total taxes	3,236	4,211	-23

Highlight:
Effective tax rate of 42% [Down from 56% in Q3 2019]

- Considerable reduction in taxes due to Removal of NBT and DRL

Profitability

LKR Mn	Q3 2020	Q3 2019	%
Profit after tax (Bank level)	4,477	3,351	34
Profit attributable to shareholders (PAS) (Group Level)	3,869	2,937	32

Balance Sheet Performance



LKR Bn	Q3 2020	FY 2019	Q3 2019	YTD Quantum growth	YTD % growth	YoY Quantum growth	YOY % growth
Total assets	600	530	505	71	13	95	19
Investments	141	95	91	45	47	50	55
Gross loans	443	409	390	34	8	53	14
Total deposits	464	405	374	59	15	90	24
Borrowings	80	72	80	8	11	0	0
Total equity	44	39	37	5	11	7	17

- Diversified loan book - A strength which helps preserve quality in external shocks
- Growth in Loan Book recorded across all business segments
- Currency composition
LCY:FCY - 83:17
Improved over 80:20 composition in FY19

*As per classifications for CBSL reporting

Funding - Deposits

- Currency composition of deposits - LCY:FCY - 79:21 static in Q3 2020 over FY 2019
- CASA base crosses LKR 100 Bn
- LKR 21 Bn/ 26% increase in the CASA base over FY 2019
- CASA ratio of 22% [FY 2019 - 20%]

Funding - Other

- LKR 6.5 Bn Tier II debentures issued in Sep 2020
- LKR 10 Bn Tier II debentures redeemed in Jun 2020

Highlights:

- ❑ Loans to deposits ratio improved to 95% [FY 2019: 101% Q3 2019: 104%]
- ❑ CASA Base crosses LKR 100 Bn to LKR 101.8 Bn
- ❑ NDB Group Assets - LKR 605 Bn

BASEL III - Q3 2020

	Bank	Group
Common Equity Tier 1 Capital Ratio % [Minimum Requirement -6.5%]	9.21	9.77
Tier 1 Capital Ratio % [Minimum Requirement - 8.0%]	9.21	9.77
Total Capital Ratio % [Minimum Requirement - 12.0%]	14.21	14.62
Liquidity Coverage Ratio [%] - Rupee [Minimum Requirement - 90%]	138.83	138.83
Liquidity Coverage Ratio [%] - All Currency [Minimum Requirement - 90%]	139.16	139.16
Net Stable Funding Ratio [Minimum Requirement- 90%]	108.09	108.09

- The Bank's capital, liquidity and funding levels are reflective of the Bank's strength to steer through the stresses
- The CBSL has announced the option for banks to resort to lower mandatory capital adequacy levels as a relief measure in response to COVID-19 related stresses. NDB will continue to be governed by the original capital levels

Highlight:

Rights Issue announced in October 2020

- To raise LKR 8.0 Bn via a Rights Issue at the ratio of 28 new ordinary voting shares for every 61 ordinary voting shares held (up to 106,780,489 shares to be issued), at a consideration of LKR 75/- per share
 - Objectives of the Rights Issue:
 - To be utilized are to further strengthen the equity base of the Bank and thereby improve Capital Adequacy Ratios in line with Basel III guidelines
 - To part finance the growth in the loan portfolio of the Bank

Investor Ratios	Bank		Group	
	Q3 2020	FY 2019	Q3 2020	FY 2019
Closing price per share [LKR]	89.00	100.00	-	-
EPS [LKR] [Annualized]	23.92	23.05	21.01	21.53
ROE [%]	13.37	13.73	10.85	11.59
ROA [%] [Pre-tax]	1.70	2.01	1.65	1.97
Book value per Share [LKR]	187.97	178.02	200.85	195.60
P/E [times]	3.7	4.3	-	-
Price to Book value [PBV] [times]	0.47	0.56	-	-

- Share price reduced in tandem with wider market movements

Highlight: PBV < 1

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Offering banking services at customer convenience and safety

- Digital financial services functional in full force to ensure access to safe banking
 - *On average, 80% of the transactions of the Bank are carried out via digital modes
- 3 mobile ATM trucks deployed across the country during the peak of the lockdown in early 2020
- Branches opened in selected localities amidst curfew imposed within highest health safety guidelines
- “Bank2U” branchless banking proposition taking services to the door-step of customers, specially those in the vulnerable category



Impact of COVID-19 & NDB's Response

Support extended to affected customers

- Extension of financial assistance through Government refinancing scheme – Saubhagya COVID-19 Renaissance Loan Facility - **Over LKR 18 Bn approved - the fourth highest amount approved by a bank in the country**
- Over 30% of the Bank's loan book extended the Regulator stipulated debt moratorium
- Extension of financial assistance through own funds
- Prompt extension of regulator stipulated other assistance to eligible customers
- Launch of dedicated proposition – NDB Jayagamu Sri Lanka (*Bringing Victory to Sri Lanka*) in support of affected SMEs, financial, advisory support and strategic alliances with third parties for the benefit of MSMEs – E.g:
 - Daraz online platform – To open up new markets to SMEs
 - Maersk Shipping Line – To support exporters and to benefit exporters with services and expertise in the shipping sector
 - iLoan Lanka Pvt Ltd - to provide SMEs with better access to Trade Finance, by providing trade credit to the Underbanked and Unbanked MSMEs in their trade with the distributors of Large Manufacturers in Sri Lanka
 - ThinkCube - to increase the business robustness of the MSME sector through the adoption of cutting edge technology, business tools and insights, including Cloud technology
- Dedicated initiatives carried out in support of female customers through the NDB Aaraliya platform



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For more details please contact:
Taniya 077 354 7425

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NDB Bank is a member of the NDB Group, the largest financial services conglomerate in Sri Lanka.

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NDB Investor Relations



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 four consecutive years in 2019, 2018, 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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