Best Bank in Sri Lanka 2018

NDB bank
Our Commitment. Your Success.

INVESTOR WEBINAR
H1 2018

National Development Bank PLC
[CSE Stock Code - NDB.N0000]
30 July 2018: 1330 HRS (UTC + 0530) : Colombo Sri Lanka

Forward Looking Statements

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/ Group 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

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Business Overview

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- 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 125 ATMs [including 6 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 2,300 NDBers strengthened by gender diversity
- A group asset base exceeding LKR 420 billion
- National Long Term Rating of A+ (lka) by Fitch Ratings Lanka Limited

Awards - 2018 [Bank]

Global Finance Magazine USA
Best Bank in Sri Lanka – 2018

Global Banking & Finance & Review - UK
Best Project Finance Bank Sri Lanka
Best SME Bank Sri Lanka
Best Bank for Credit Cards Sri Lanka
Best Retail Banking Product - (Personal Loan Product - Dream Maker Loans) Sri Lanka
Best Financial Group of the Year Sri Lanka

Asian Banking & Finance - Singapore
Under Retail Banking Awards Category
Best Domestic Retail Bank of the Year [for the sixth consecutive year]
Best SME Bank of the Year [For the sixth consecutive year]
Best Financial Inclusion Initiative of the Year
Under Wholesale Banking Awards Category
Best Domestic Project Finance Bank of the Year [for the fourth consecutive year]
Under Corporate & Investment Banking Awards Category
Best Debt Deal of the Year
Best Corporate Client Initiative of the Year
Best Syndicated Loan of the Year

7th Global Customer Engagement Awards Asian Customer Engagement Forum (ACEF) - Mumbai
Silver Award for Best Celebrity Endorsement for NDB Araliya Women's Savings product

CFA Sri Lanka Capital Market Awards 2018
Gold award for Best Investor Relations [For the third consecutive time]

Awards - 2018 [Group companies]

NDB Investment Bank Limited
Euromoney Magazine Awards for Excellence
Sri Lanka's Best Investment Bank [For the seventh consecutive year]

FinanceAsia's Annual Country Awards
Best Investment Bank in Sri Lanka [For the second consecutive year]

Global Brands Magazine
Most Trusted Investment Banking Brand, Sri Lanka [For the fourth year]

Asiamoney Banking Awards - 2018
Best Corporate and Investment Bank, Sri Lanka [For the second consecutive year]

NDB Securities [Pvt] Ltd
CFA Sri Lanka Capital Market Awards 2018
Bronze award for Best Equity Research Report

Business Overview - Strategic Focus - Update

NDB bank

- “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

- Involves a wide span of changes including the business focus, business processes, organizational structure, employee mindset and culture
- Majority of the strategic initiatives are now implemented
- Results are reflected in the financial numbers recorded for H1 2018
- Greater results to be derived in the near future
- Already strategized the way forward beyond 2020 as a systemically important bank

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TRANSFORMATION 2020
ONE NDB

Agenda

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H1 2018 – Key Performance Indicators [Bank]

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Profitability Indicators [Vs. H1 2017]

Core banking profits up by 53% - LKR 4.25 bn
NII up by 43% - LKR 6.8 bn
Net fee & comm income by 27% - LKR 1.45 bn
Total op. income up by 30% - LKR 10.1 bn
Total op. expenses increase 19% - LKR 3.97 bn
PAT growth of 20% - LKR 2.8 bn

Group PAS up by impressive 63% - LKR 2,42 bn

Balance Sheet Indicators [Vs. FY 2017]

Total assets crosses LKR 400 bn – 9% growth up to 417 bn
Net loans to customers growth of 10% - LKR 301 bn
Customer deposits growth of 9% - LKR 297 bn
Total assets [Group] exceeds LKR 421 bn

Efficiency & Return Ratios [Vs. FY 2017]

Cost to Income Ratio improved to 39.4% from 45.5%
Net Interest Margin improved to 3.43% from 3.0%
Return on Average Equity improved to 17.15% from 16.27%
Return on average assets improved to 1.28% from 1.21%

Business Capacity Ratios [Vs. FY 2017]

Loans to Deposits Ratio of 103%

Tier I Capital and Total Capital Adequacy ratios well above the statutory minimum requirements applicable for 2018 (Tier I – 8.48% ; Tier II – 12.80%)

Liquidity Coverage Ratios [Rupee & All currency] well above the statutory minimum requirements

Income Statement [Bank]

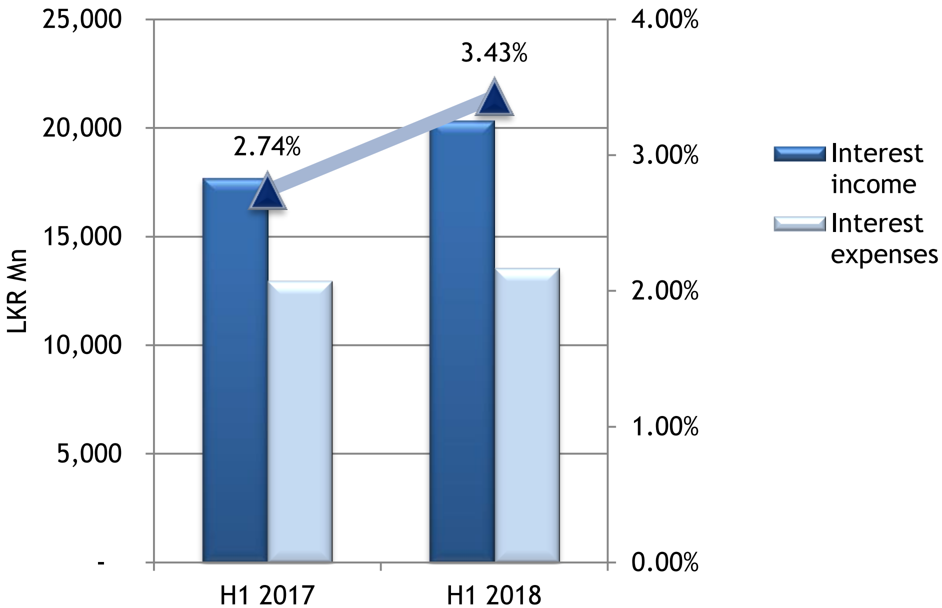
NDB bank

LKR Mn	H1-2018	H1-2017	Variance	%
Gross Income	23,649	20,696	2,953	*14*
Net Interest Income	6,797	4,746	2,051	*43*
Net Fee and Commission Income	1,447	1,141	306	*27*
Total Operating Income	**10,093**	**7,738**	**2,355**	***30***
Impairment charges for loans and other losses	1,314	581	733	*126*
Net operating income	**8,779**	**7,157**	**1,622**	***23***
Total operating expenses	3,968	3,343	625	*19*
Operating Profit	4,811	3,814	997	*26*
Taxes	2,041	1,500	541	*36*
PAT	**2,770**	**2,314**	**456**	***20***
Group PAS	2,421	1,486	936	*63*

- NII benefitted from enhanced NIMs
- Growth in profits from core banking operations [excluding equity income] up by 53% to LKR 4.3 bn from LKR 2.8 bn
- PAT growth of 20% to comfortably exceed LKR 2 billion
- Group share of profits in overall banking profitability up by 20%

Revenue Analysis – Fund Based Income

LK Mn	H1 2018	H1 2017	% growth
Interest income	20,352	17,703	15
Interest expenses	13,556	12,958	5
NII	6,797	4,746	43
NIM (%)	3.43	2.74	69 bps



- Considerable improvement in interest income due to
  - enhanced loan volumes
  - effective pricing of the loan book
- Interest expenses of 5%, achieved through
  - improved funding mix of the Bank, with greater reliance on customer deposits – Impressive YoY deposits growth of LKR 57.8 bn

*Loan book enhanced by LKR 49 bn YoY, supporting the interest income growth
*The loans to deposits ratio improved to 103% from 108% helping maintain the interest cost at 5%

Revenue Analysis – Other Income

LKR Mn	H1 2018	H1 2017	% growth
Net Fee and Commission Income	1,447	1,141	27
Net gain from trading	588	533	10
Net gain from financial investments	390	122	221
Other operating income [excluding equity income]	342	169	102
Total non-interest income from core banking operations [excluding equity income]	**2,767**	**1,965**	**41**
Other operating income from equity investments	529	1,028	-49
Total non-interest income	**3,297**	**2,993**	**10**

- Net fee and commission income growth due to;
  - aggressive drive in retail products including credit card business, mobile banking on-boarding and other fee generating services
  - overall loan portfolio growth

- Other operating income excluding equity income benefitted from
  - enhanced performance of core banking operations
  - revaluation gains in the foreign currency book resulting from movements in exchange rates

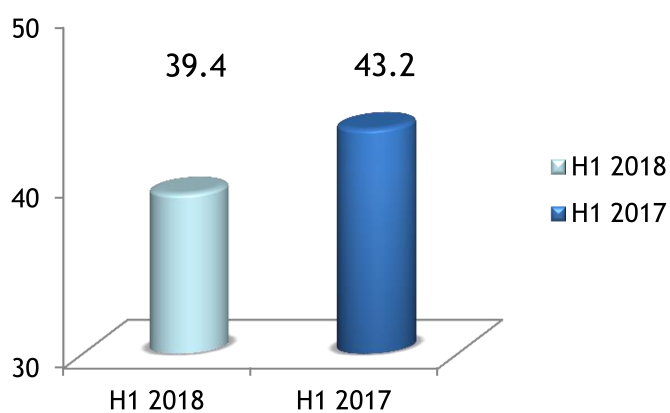
Operating Expenses [Bank]

LKR Mn	H1 2018	H1 2017	% growth
Personnel expenses	2,138	1,703	26
Depreciation & amortization	212	206	3
Other expenses	1,618	1,433	13
Total operating expenses	**3,968**	**3,343**	**19**

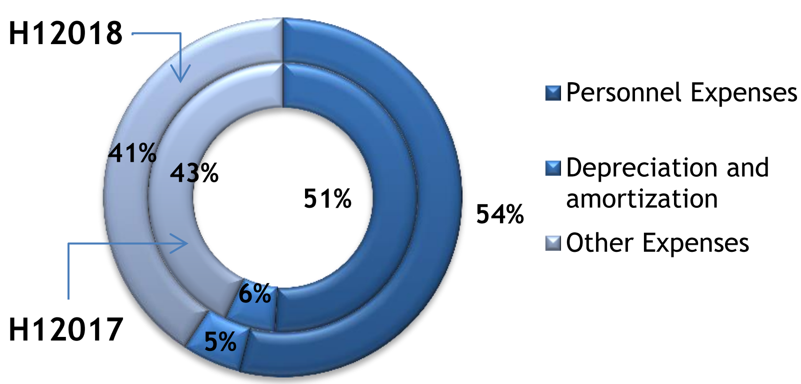
- Operating expenses increase of 19%
- Incurred capital expenditure to support business expansion and enhanced customer experience
  - network expansion
  - 6 Cash Recycle Machines [CRMs]
  - 5 new NDB Privilege Banking Centers
  - 3 branch relocations to new spacious locations
  - dedicated Business Banking Unit at the NDB Head Office premises
- 26% growth in personnel expenses due to increase in recruitments and annual remuneration revisions [composition increase from 51% to 54%]

Cost to Income Ratio well managed at 39.4% due to
- improvement in core banking income
- better cost management

Cost to Income Ratio



Composition of Operating Expenses



Balance Sheet [Bank]

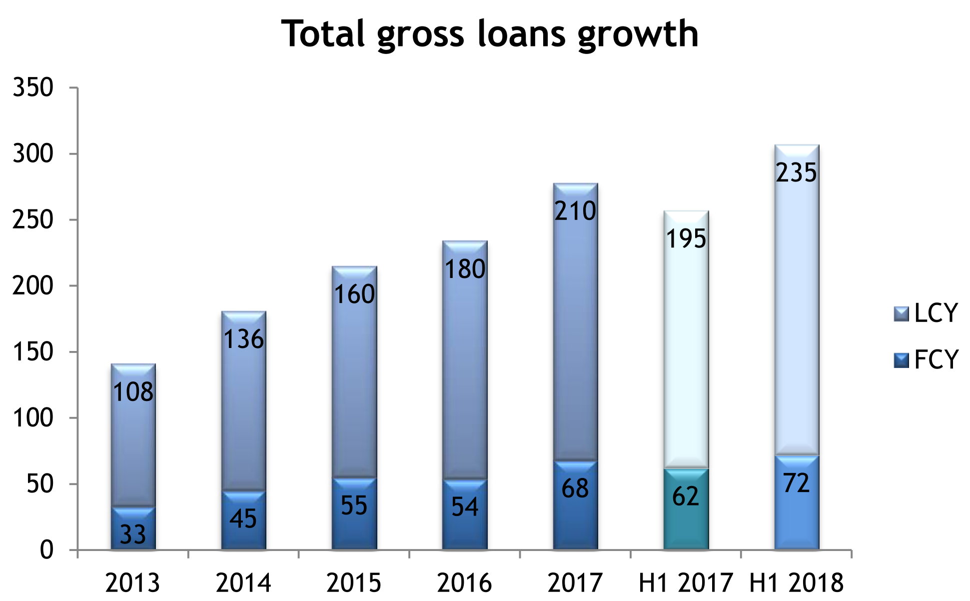
LKR Bn	H1 2018	FY 2017	YTD Quantum growth	YTD percentage growth	H1 2017	YoY Quantum growth	YoY percentage growth
Total assets	**417**	383	34	9%	365	52	14%
Net loans and receivables from customers	**301**	274	27	10%	252	49	19%
Total deposits from customers	**297**	273	24	9%	239	58	24%
Total equity	**30.9**	28.7	2	8%	27.4	3.5	13%

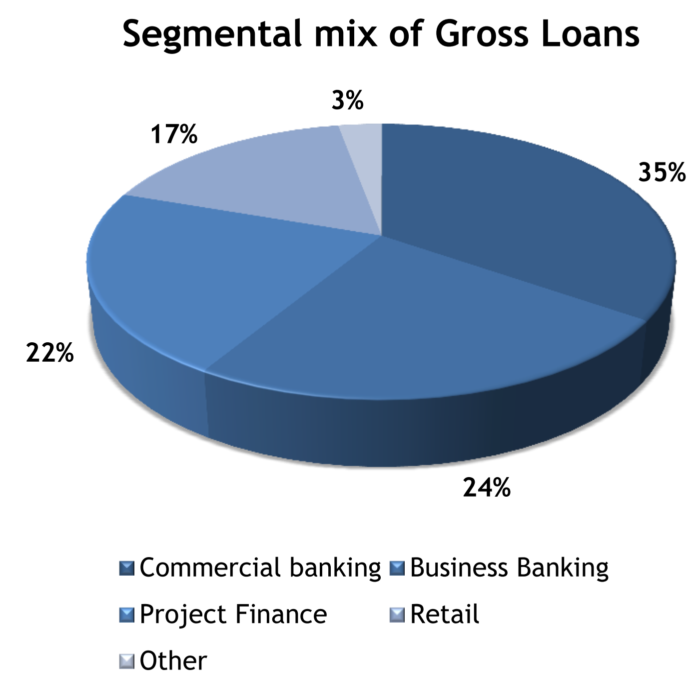
- Accelerated balance sheet growth of 9% indicating sound momentum for the rest of the year
- Net loans exceeds LKR 300 bn

Total Assets – Group

LKR Bn	H1 2018	FY 2017	% YTD growth
Total assets	**422**	**389**	**9**

Loans & Receivables [Bank]





- YTD loan growth of 9% - satisfactory and promises sound growth for the full year
- All business segments contributed towards the loan book upscale

Asset Quality

NDB bank

Impairment analysis

	H1 2018	H1 2017
Individual impairment	749	338
Collective impairment	544	196

- Collective impairment increase due to the expansion in the loan book [LKR 48 bn YoY]
- Individual impairment increase due to precautionary provisions which the Bank made for a few selective individually significant facilities, on a prudent basis.

Impairment & NPLs expected to improve due to the Bank's

- robust and focused recoveries mechanism in place
- prudent risk management strategies
- well diversified loan portfolio with minimized concentration risk

NPL ratio analysis

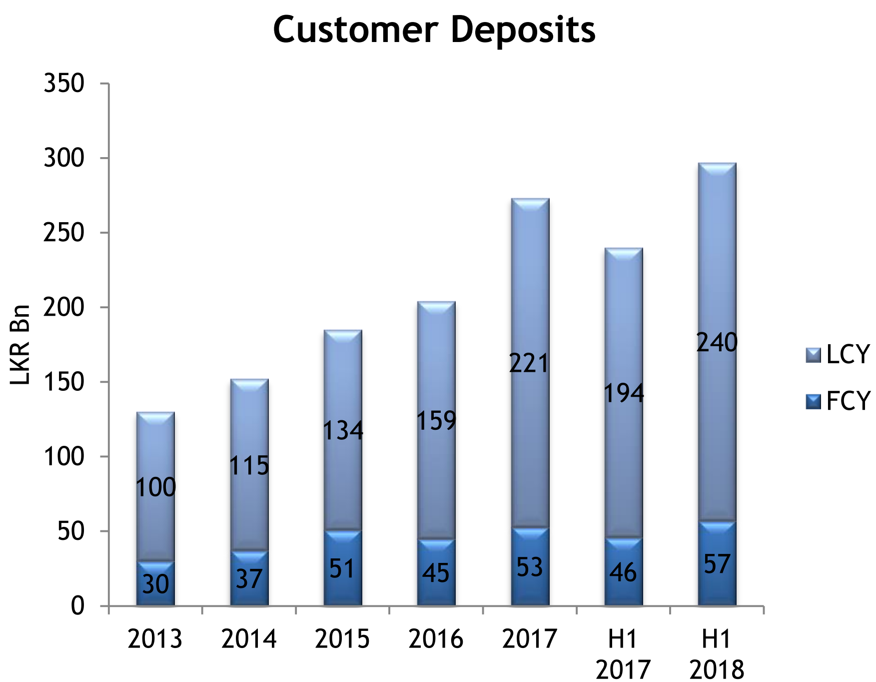
Bank FY 2017	Bank H1 2018	Industry As of May 2018
1.83%	2.54%	3.3%

- 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 40-50%.

Customer Deposits



- Quantum increase from FY 2017 – LKR 24 billion
    - Increase in CASA base – LKR 6.5 billion
- Key attributes supporting the CASA growth
    - New CASA deposit products introduced during 2017
    - Digital platform enhancing customer convenience

5 year CAGR of 20% maintained in customer deposits up to 2017.

Institutional Borrowings

NDB bank

- Obtained a loan of up to USD 75 million from Commerzbank Germany
- Entered in to an agreement with the IFC for a loan up to USD 50 million [fixed rupee equivalent of LKR 8 bn]
    - Purpose : Lending to borrowers in the SME sector including climate smart agriculture sector

NDB maintains close ties with foreign lending institutions, from the time the Bank was a development financing institution

Capital Management

Equity capital

BASEL III – H1 2018	Bank	Group
Common Equity Tier 1 Capital Ratio % (Minimum Requirement -6.375%)	8.48	9.85
Tier 1 Capital Ratio % (Minimum Requirement - 7.875%)	8.48	9.85
Total Capital Ratio % (Minimum Requirement - 11.875%)	12.80	13.87

- Further to intimations of plans to raise equity capital NDB announced a Rights Issue on 19 June to the CSE
- Features of the Rights Issue
    - One new ordinary voting share to be issued for every three ordinary voting shares held
    - Up to 59,154,354 shares are to be issued in this proportion
    - Approximately LKR 6.2 billion in equity capital to be raised
    - Proceeds will
        - further strengthen the equity base of the Bank thereby improve the capital adequacy levels
        - part finance the growth in the Bank's loan portfolio

Investor Ratios

NDB bank

Investor Ratios	Bank		Group	
	H1 2018	FY 2017	H1 2018	FY 2017
Closing price per share (LKR)	120.80	136.40	NA	NA
EPS (LKR) (Annualized)	28.81	24.52	27.51	19.66
ROE (%)	17.15	16.27	14.38	11.09
ROA (%)	1.28	1.21	1.20	0.96
Book value per Share (LKR)	174.14	167.58	196.53	192.51
P/E (times)	4.19	5.56	NA	NA
Price to Book value (times)	0.69	0.81	NA	NA

- Share price traded in the range of a low of LKR 120/- and a high of 138/- during the April – June quarter
- Dividend payout ratio consistently maintained above internally specified minimum levels, to ensure value generated to shareholders
- NDB share continues to be a attractive BUY at a PB < 1

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NDB Investor Relations

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Our Commitment. **Your Success.**

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 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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