

Earnings Call Q1 2021

National Development Bank PLC
NDB.N0000

17 May 2021
2.30 pm
Colombo - Sri Lanka



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

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NATIONAL DEVELOPMENT BANK PLC

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



AGENDA

- PART I - CORPORATE PROFILE
- PART II - OPERATING ENVIRONMENT
- PART III - FINANCIAL PERFORMANCE - Q1 2021
- PART IV - NDB'S RESPONSE TO THE PANDEMIC
- PART V - WAY FORWARD
- PART VI - Q&A



PART I - CORPORATE PROFILE

PART II - OPERATING ENVIRONMENT

PART III - FINANCIAL PERFORMANCE - Q1 2021

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PART V - WAY FORWARD

PART VI - Q&A

PART I - CORPORATE PROFILE

- 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



Awards and accolades

Best Bank in multiple-spheres as adjudged by seminal financial publications in the world

Overall Excellence

- **Global Finance USA** - Best Bank in Sri Lanka 2021 [For the third year]
- **The Banker Magazine UK** - The Bank of the Year Sri Lanka 2020 [For the second year]
- **AsiaMoney Magazine** - **Country Best Bank Awards** - Best Digital Bank Sri Lanka 2021
- **Global Finance's World's Best Digital Bank Awards 2020** - The World's Best Consumer Digital Banks - Winner - Sri Lanka [For the second consecutive year]
- **AsiaMoney Magazine** - **Country Best Bank Awards** - Best Domestic Bank Sri Lanka [For the second consecutive year]
- **Global Banking & Finance Review UK** - Best financial services Group Sri Lanka 2021 [For the fourth consecutive year]



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PART II - OPERATING ENVIRONMENT

- Sri Lankan economy contraction (in real terms) by 3.6% in 2020 - the deepest recession since independence, owing to the effects of the COVID-19 pandemic [2019 - 2.3% growth]
- Subdued inflationary pressure and well-anchored inflation expectations allowed a significantly relaxed monetary policy since 2020 for CBSL, Inflation - Maintained within policy target rates of 4-6%
- Accommodative monetary policy measures by CBSL in stimulating economic activities during 2020
 - Policy rates reduced by 250 bps
 - SRR reduced by 300 bps
 - Bank Rate reduced at 650 bps
- Policy rates remain unchanged at
 - Standing Deposit Facility Rate (SDFR) 4.50%
 - Standing Lending Facility Rate (SLFR) 5.50%
 - Bank Rate 8.50%
 - Statutory Reserve Ratio (SRR) 2.00%
- AWPLR - Stabilized at low levels - 5.65% April 2021
- Deposit rates Continued decline, expected to stabilize at current rates AWFDR - 6.09%, AWDR - 5.07% April 2021
- Approximate Rupee depreciation of 6% since Dec 2020 - USD exchange rate at around LKR 200/-
- Growth of credit to the private sector increased notably in March 2021, supported by low interest rates and excess liquidity in the domestic money market
- Total credit to the private sector grew by 7.5% YoY in March 2021

Source: Central Bank of Sri Lanka

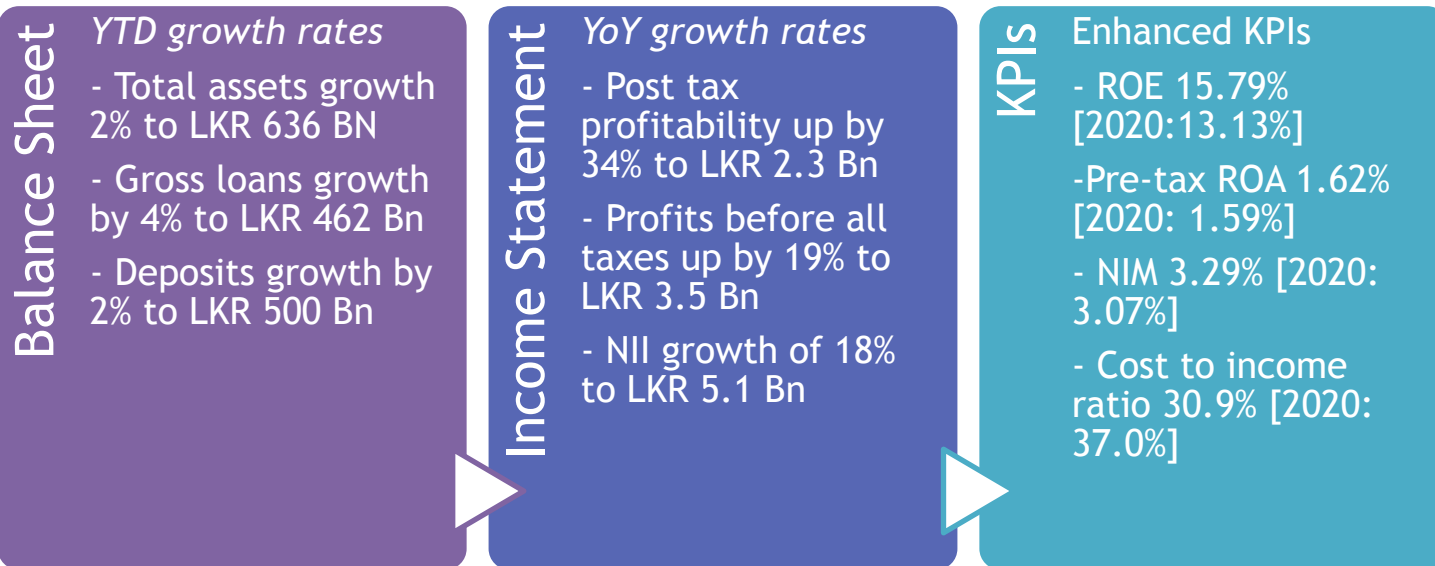
With the outbreak of the third wave of the pandemic, and worsening conditions across Asia, macro-economic conditions expected to be further challenged



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PART III - PERFORMANCE OVERVIEW

- Resilient performance in turbulent environment
- Sustained healthy growth in the Balance Sheet
- Impressive profitability
- Enhanced KPIs

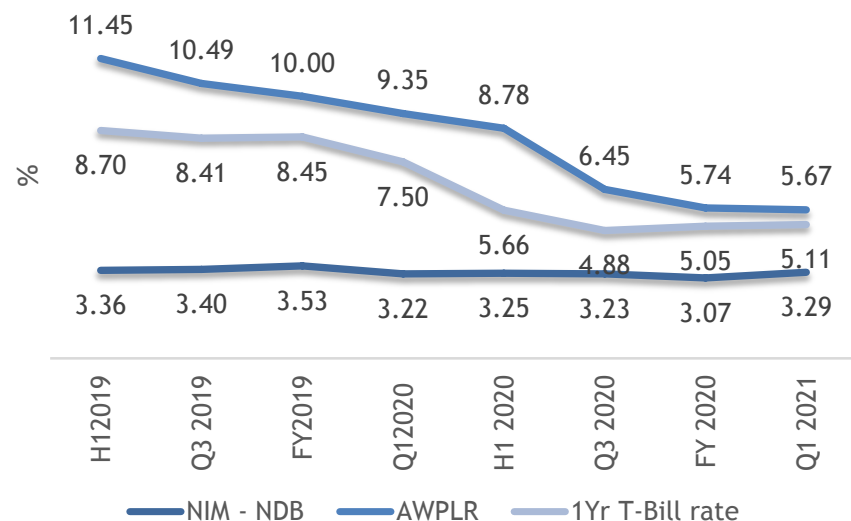


PART III - INCOME STATEMENT - FUND BASED INCOME

LKR Mn	Q1 2021	Q1 2020	Variance	%
Interest Income	12,666	13,747	(1,081)	(8)
Interest Expense	7,536	9,417	(1,881)	(20)
Net Interest Income	5,129	4,330	800	18

Highlight:
Enhanced NIM of 3.29%

Trend in Market Rates and Bank NIM

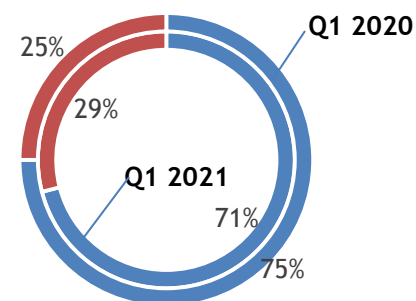


- Reduction in interest income reflective of lowering interest rates
- Dip in interest income more than offset by larger dip in interest expenses
- 58% growth in CASA base YoY (LKR 47 Bn) benefitting interest expenses - Movement in CASA ratio 20% to 26%

PART III - INCOME STATEMENT - NON-FUND BASED INCOME

LKR Mn	Q1 2021	Q1 2020	Variance	%
Net fee and commission income	1,325	1,026	299	29
Other non-fund based income	1,721	1,272	449	35
Total non-fund based income	3,046	2,298	748	33

Fund to Non-fund Based* Income Composition



■ Fund-based ■ Non-fund based*

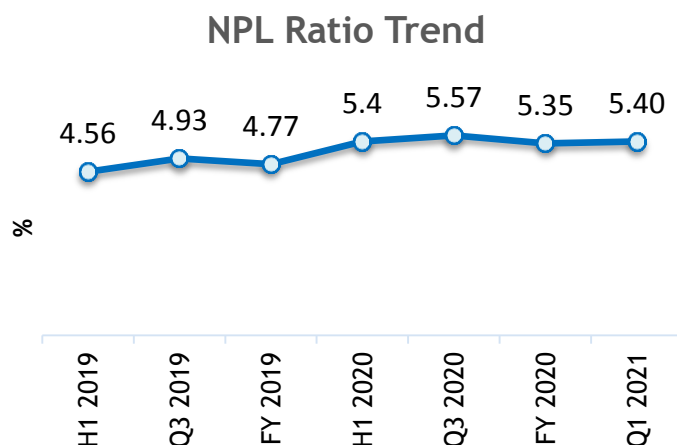
*Excluding Other Operating Income

- Net fee and commission income driven by
 - Expansion in credit portfolios
 - Continued exponential growth in digital financial services
 - Strategic focus in driving fee income
- Vast improvement in Non-fund based income [excluding other operating income] to Fund based income ratio

Outcome: Enhanced operating income by 23% to LKR 8.2 Bn

PART III - INCOME STATEMENT - IMPAIRMENT

LKR Mn	Q1 2021	Q1 2020	Variance	%
Total impairment charges	2,183	1,287	897	70



Provision charges increased in line with

- the growth in the loan book
- provisions made at both collective and individual levels in response to elevated risks caused by the pandemic and other stresses

The Bank cognizant of further potential stresses on asset quality stemming from the third wave of the pandemic Further strengthened risk management framework to mitigate and manage the impact

Measures in place to preserve asset quality

- Close relationships with customers and monitoring for early warning signals
- Advisory support to customers to maintain financial health

PART III - INCOME STATEMENT - OPERATING EXPENSES

LKR Mn	Q1 2021	Q1 2020	%	Cost composition %	
				Q1 2021	Q1 2020
Personnel expenses	1,378	1,269	9	55	52
Depreciation & amortization	140	139	0.2	5	6
Other expenses	1,006	1,008	(0.2)	40	42
Total operating expenses	2,524	2,417	4		

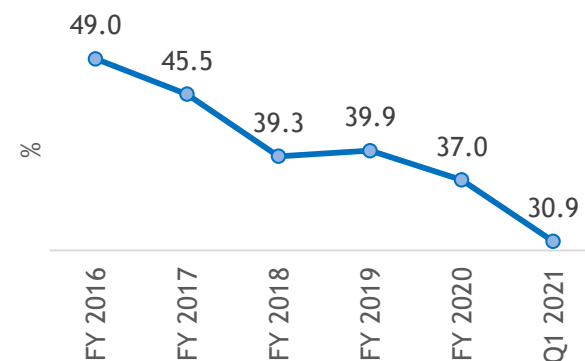
Improved Cost to Income ratio benefitted by;

Revenue enhancements in line with the Bank's strategic targets

Well managed expenses through

- Organization Efficiency and Effectiveness Improvement program
- migration of a large number of processes to automated platforms (RPA and workflow)
- conversion of transactions performed by customers to digital platforms - c. 80%

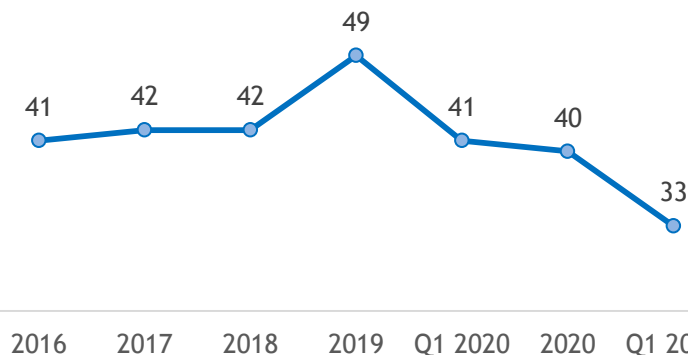
Cost to Income Ratio



PART III - INCOME STATEMENT - TAXATION & PROFITABILITY

TAXATION - LKR Mn	Q1 2021	Q1 2020	%
VAT on Financial services	613	556	10
Income tax	521	631	(18)
Total taxes	1,134	1,187	(5)

Effective Tax Rate %



Income tax rate - 24% down from 28%

PROFITABILITY - LKR Mn	Q1 2021	Q1 2020	%
Profit before all taxes	3,468	2,924	19
Profit before income tax	2,856	2,368	21
Profit after tax	2,335	1,737	34
Profit attributable to shareholders (PAS) (Group Level)	2,363	1,243	90

Enhanced PAS at Group level complemented by improved performance of the NDB Group's capital market cluster

PART III - BALANCE SHEET PERFORMANCE

LKR Bn	Q1 2021	FY 2020	Q1 2020	YTD Quantum growth	YTD % growth	YoY Quantum growth	YOY % growth
Total assets	636	627	553	9.6	2	83	15
Investments	161	159	106	2	1	55	53
Gross loans	462	444	425	18.6	4	37	9
Total deposits	500	490	414	9.2	2	85	21
Borrowings	79	80	87	(0.6)	(1)	8	9
Total equity	46	45	41	1.7	4	5	12

Assets

- Dynamic Balance Sheet - Resilient in external shocks
- Loan Book growth of 4% amidst subdued economic conditions
- Growth stemming from all segments alike - Retail, SME and Wholesale Banking
- Currency composition of Loan Book preserved at 83:17 (LCY:FCY)

Liabilities

- Total deposits base of LKR 500 Bn
- ADR of 93%, vastly improved from over 100% level inherited from the DFI background
- Exceptional growth in the CASA base to LKR 129 Bn
 - YoY growth of 58% (Quantum of LKR 47 Bn)
 - CASA ratio improved to 26% (FY 2020: 25%, Q1 2020: 20%)
- Deposits growth propelled by
 - Dynamic savings solutions catering to varying segments (women's market, children, ultra high and high net worth customers, business accounts)
 - Customer service and advisory support

PART III - CAPITAL RAISING

Capital

-EXPECTED CAPITAL RAISING OF LKR 9.5 BN VIA RIGHTS ISSUE AND PRIVATE PLACEMENT

-Rights Issue announced in October 2020

- 28 new ordinary voting shares for every 61 ordinary voting shares held
- A total of 106,780,489 shares issue under Rights Issue (RI)
- Consideration LKR 75/-

-Private Placement announced in March 2021

- Norwegian Investment Fund - Norfund to invest up to 9.99% in NDB by way of subscribing for unsubscribed shares of the Rights Issue and a Private Placement (PP)
- PP priced at a 10% premium to the Rights Issue at LKR 82.50

-OUTCOME

	Number of shares	LKR
Rights Entitlement Shares and Additional Shares	88,809,764	6,660,732,300
Rights Shares available to be offered to Norfund	17,970,725	1,347,804,375
Total shares to be allotted and issued under the RI	106,780,489	8,008,536,675
PP shares to be issued to Norfund	17,705,927	1,460,738,977/50
Total funds expected to be raised by the RI & PP		9,469,275,652/50

PART III - REGULATORY RATIOS ON CAPITAL & LIQUIDITY

BASEL III - Q1 2021	Bank	Group
Common Equity Tier 1 Capital Ratio % [Minimum Requirement -6.5%]	9.00	9.47
Tier 1 Capital Ratio % [Minimum Requirement - 8.0%]	9.00	9.47
Total Capital Ratio % [Minimum Requirement - 12.0%]	13.74	14.09
Liquidity Coverage Ratio [%] - Rupee [Minimum Requirement - 90%]	167.91	167.91
Liquidity Coverage Ratio [%] - All Currency [Minimum Requirement - 90%]	158.41	158.41
Net Stable Funding Ratio [Minimum Requirement- 90%]	114.53	114.53

□ All regulator mandated ratios well above the minimum requirements, affirming stability and strength of the Bank

PART III - INVESTOR RATIOS

Ratios	Bank		Group	
	Q1 2021	FY 2020	Q1 2021	FY 2020
Closing price per share [LKR]	80.80	78.10	-	-
EPS [LKR] [Annualized]	30.98	23.77	33.62	21.99
ROE [%] [Annualized]	15.79	13.13	16.01	11.20
ROA [%] [Pre-tax] [Annualized]	1.62	1.59	1.76	1.58
Book value per Share [LKR]	199.81	192.49	213.73	206.23
P/E [times] Investor	2.61	3.29	-	-
Price to Book value [PBV] [times]	0.4	0.4	-	-

- ❑ Enhanced investor ratios
- ❑ Uptick in the share price in end Q1 2021 following a continuous dip
- ❑ Current share price - LKR 75.50 reflecting the market sentiments stemming from the impact of the 3rd wave of the pandemic



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PART IV - NDB'S RESPONSE TO THE PANDEMIC

- Digital financial services functional in full force to ensure access to safe banking
c. 80% of the transactions via digital modes
- Branches opened in selected localities amidst restrictions imposed within highest health safety guidelines
- “Bank2U” branchless banking proposition taking services to the door-step of customers, specially those in the vulnerable category
- Moratoria extended to eligible customers
- Customers under moratoria coming down to 17% in March 2021 from c. 40% in 2020
 - Result of Bank’s support and customers’ resilience and discipline in revival
- Close liaison with customers affected by the pandemic in guiding them with customized financial solutions and advisory support
- NDB Jayagamu Sri Lanka, supporting SMEs, exporters and investors - NDB has entered in to a number of agreements with expert institutions in bringing their technical expertise to the Bank’s customers - E.g: Maersk Shipping, Daraz online platform, Export Development Board
- With the daily cases rising and the onset of the third wave of the pandemic, NDB is fully geared to extended necessary support to all customers



PART IV - OTHER INITIATIVES

- Continued equilibrium in performance without compromising on any aspect
- Value generated to all stakeholders alike
 - Sound financial results to shareholders
 - Customer-centric solutions
 - Considerable strides made in digital sphere - E.g: NEOS PAY
 - Concerted efforts in empowering the women's market segment - *NDB Vanithabhimana (The Pride of Women)* - National-level recognition award held in March 2021, marking the International Women's Day, platform created to over 3,000 women to showcase their talents
 - Employee safety and wellbeing ensured through the developing pandemic
 - Contribution to the communities and environment

E.g:

Assistance to fight the COVID-19 pandemic

Grow NDB Reforestation Project in Himbiliyakada, Matale Central Province

Removal of invasive plants in the Pitawala Pathana area in Matale, a protected environment site

Mangroves plantation in Mannar and Puttlam districts

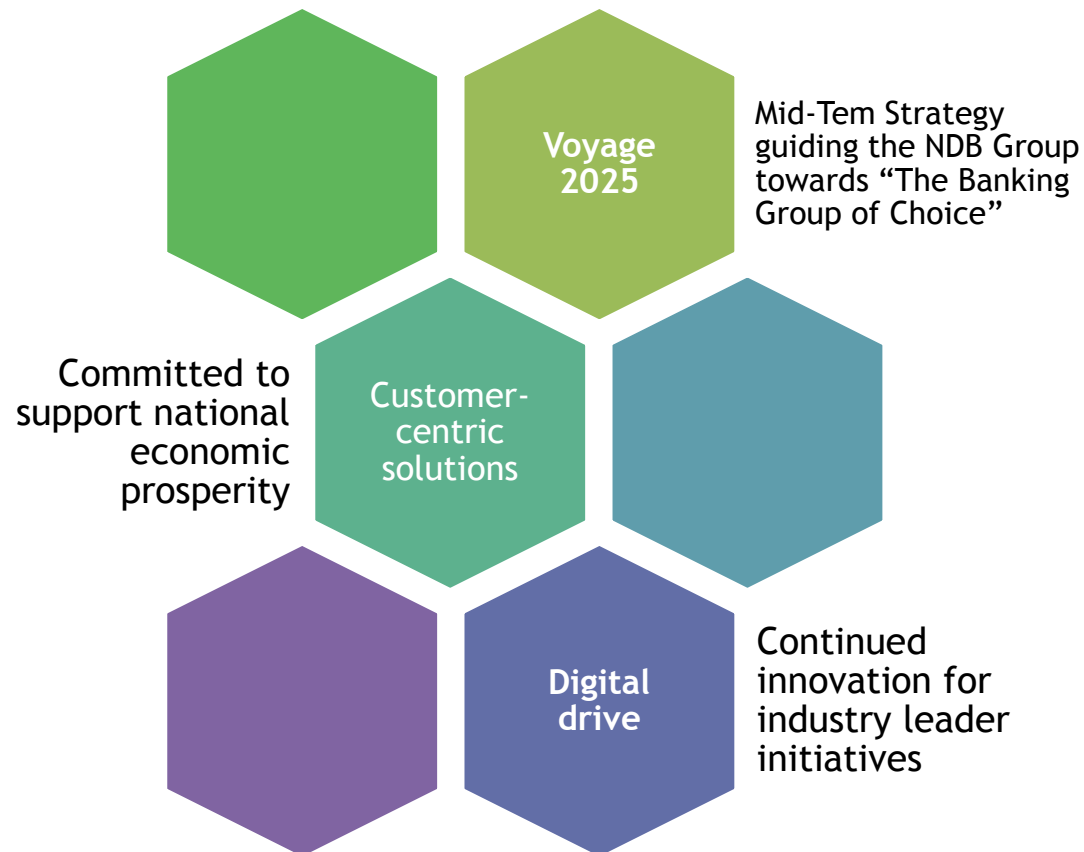
"Smart-Agri" program launched with a bid to introduce smart agriculture techniques to target farmers, which would improve productivity in farming and cultivations





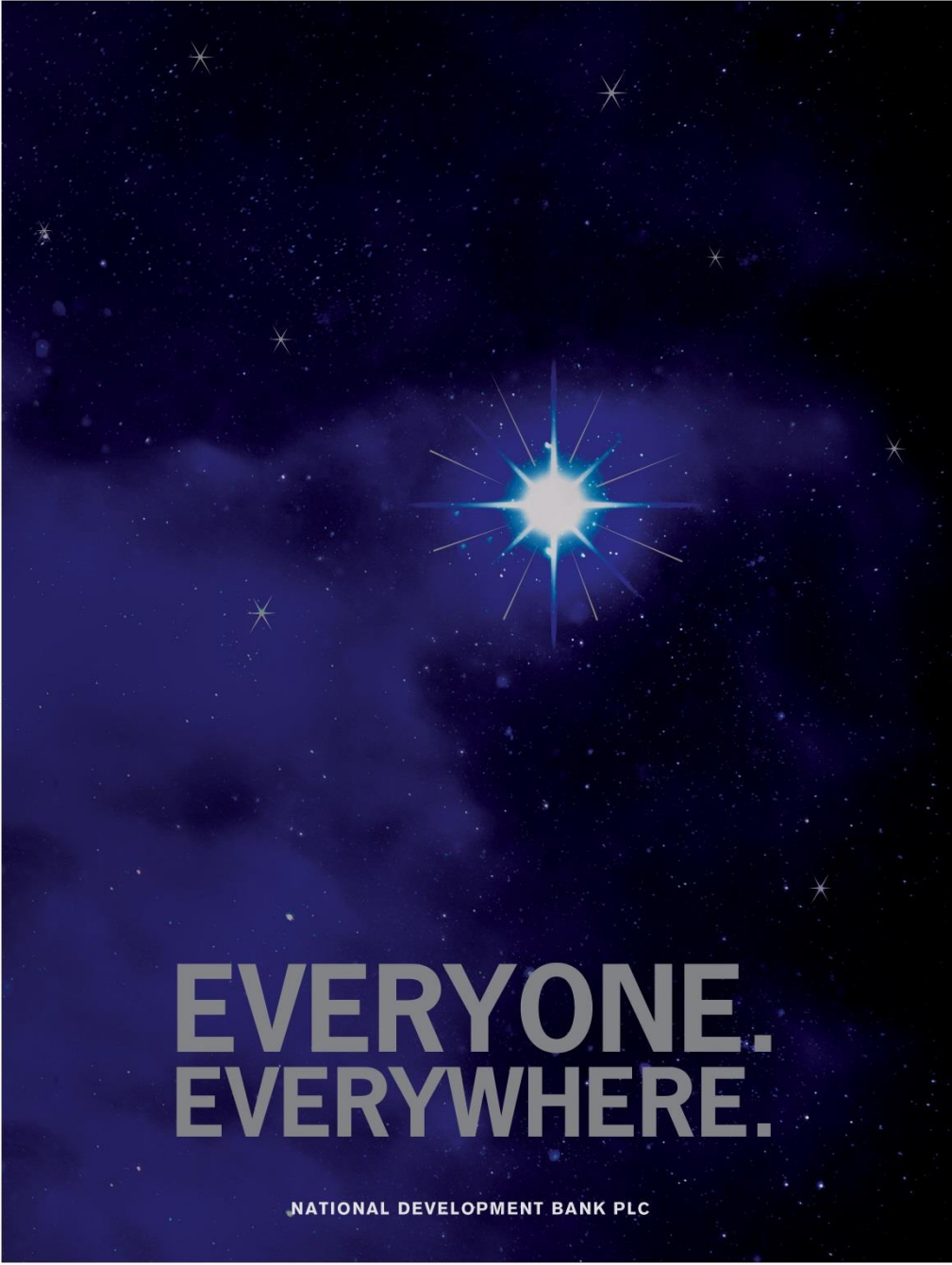
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PART V - WAY FORWARD



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Please use the chat option in the MS Teams window to pose your questions to the GCEO and Panel.



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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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