Earnings Call FY 2020

National Development Bank PLC
NDB.N0000

19 February 2021
10.00 am
Colombo – Sri Lanka

The Banker
Bank of the Year 2020
SRI LANKA

20th Annual Best Digital Bank Awards 2019
Global Finance

Best Bank Awards 2020
Asiamoney
Best Domestic Bank, Sri Lanka

NDB bank
Our Commitment. Your Success.

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

AGENDA

- Part I – CORPORATE PROFILE
- PART II - OPERATING ENVIRONMENT OUTLOOK
- PART III – NDB FINANCIAL PERFORMANCE – FY 2020
- PART IV –COVID-19 AND NDB'S RESPONSE
- PART V – OVERALL PERFORMANCE
- PART VI – WAY FORWARD
- PART VII – 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

- **The Banker Magazine UK -** The Bank of the Year Sri Lanka 2020 [For the second year]
- **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 2020 [For the third consecutive year]
- **ICCSL, Daily FT and CIMA Top 10 Most Admired Companies 2020 -** Winner
- **Business Today Top 30 2019/2020 -** Ranked 9th [Defended the ranking from 2019]
- **Finance Derivatives - The Netherlands** - Best Domestic Bank Sri Lanka 2020

1979

National Development Bank of Sri Lanka established under Act No. 2. of 1979 of Parliament

1993

NDB was privatized in 1993 under consequential Provisions Act No. 1 of 2005, converted into National Development Bank Ltd under Companies Act No. 17 of 1982

2001

NDBSL incorporated a commercial bank under the Companies Act No. 17 of 1982 under the name 'NDB Bank Limited' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch

2005

In August 2005, NDB acquired commercial operations, business, assets and liabilities of NBL subsequently in July 2007 it was re-registered as National Development Bank PLC

2019

In 2019 NDB crossed the LKR 500bn mark in total asset becoming the 4th largest listed bank in Sri Lanka

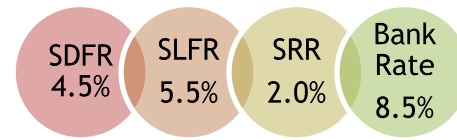
2020

Best Bank in the country, as adjudged by seminal institutions across the globe. Asset base exceeds LKR 600 Bn

PART II - OPERATING ENVIRONMENT OUTLOOK

Easing monetary policy by the Central Bank of Sri Lanka in stimulating economic activities during 2020

- Policy rates reduced by 250 bps (in addition to 100 bps in 2019)
- SRR reduced by 300 bps (in addition to 100 bps in 2019)
- Bank Rate reduced at 650 bps



Country economic performance

GDP growth expected to have contracted by 3.9% in 2020

2021 – Economy expected to rebound

- supported by the unprecedented policy stimulus measures introduced by the Government and the Central Bank
- improved domestic economic sentiments
- improving prospects of the global economy

Inflation – Maintained within policy target rates of 4-6%

***Exchange rate* -** USD/ LKR rate currently in LKR 194/- range, having depreciated by c. LKR 8/- during 2021

Trade deficit and Current Account deficit – Estimated to have narrowed considerably in 2020

Rebound in worker remittances – 5.8% growth in 2020

***MSME sector* -** Focus on MSMEs as a priority sector lending which is the mainstay of the economy

Source: Central Bank of Sri Lanka

PART III – NDB FINANCIAL PERFORMANCE – FY 2020

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Balance Sheet

- Total assets LKR 627 Bn - 18% growth (2019: LKR 530 Bn)
- Gross Loans LKR 444 Bn – 8% growth (LKR 409 Bn)
- Customer deposits LKR 490 Bn - 21% growth (2019: LKR 405 Bn)

Income Statement

- Operating income LKR 25 Bn – up by 7%
- Total operating expenses – LKR 9.4 Bn static
- Operating profit before all taxes – LKR 9.2 Bn – down by 8%
- PAT of LKR 5.5 Bn – up by 8%

KPIs

- NIM 3.1% (2019: 3.5%)
- ROE 13.13% (2019: 13.73%)
- ROA 1.6% (2019: 2.0%)
- NPL 5.35% (2019: 4.77%)
- Cost to income ratio – 37% (2019: 40%)

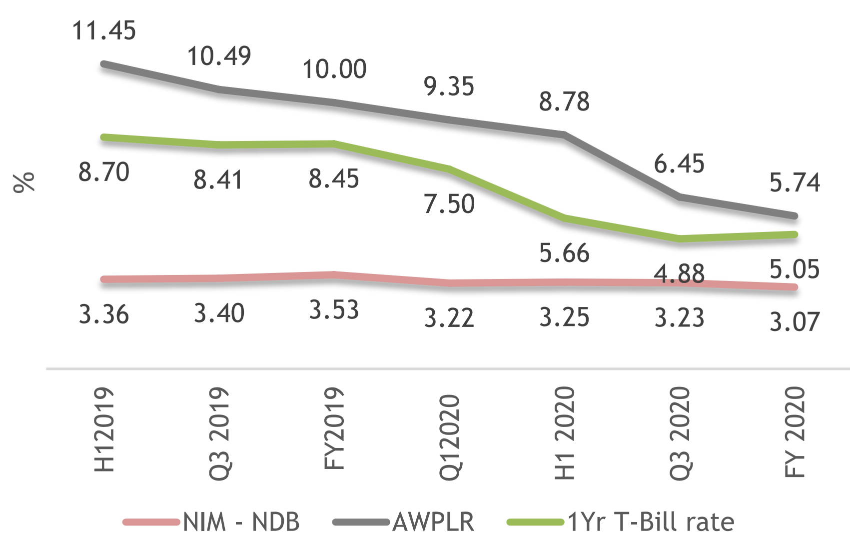
PART III – NDB FINANCIAL PERFORMANCE – FY 2020

Income Statement – Fund Based Income

LKR Mn	FY 2020	FY 2019	Variance	%
Interest Income	53,004	53,175	(171)	(0.3)
Interest Expense	35,255	35,467	(212)	(0.6)
Net interest income	17,748	17,708	41	0.2

Highlight:
Dip in NIM by 46 bps vs. 2019

Movement in Market Rates and Bank NIM



- Marginal growth in NII amidst challenging conditions
- NII impacted by
  - Narrowing NIMs reflecting reduction in market rates
  - Modification losses on moratoria where significant interest concessions were given

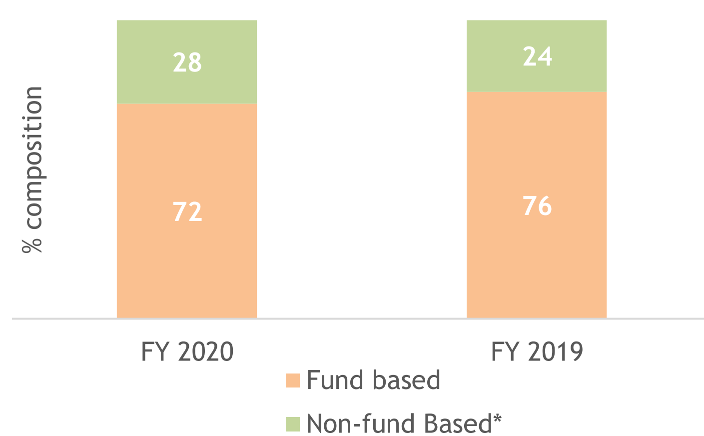
Income Statement – Non - Fund Based Income

LKR Mn	FY 2020	FY 2019	Variance	%
Net fee and commission income	4,250	3,909	341	9
Other non-fund based income	3,404	2,029	1,374	68
Total non-fund based income	**7,654**	**5,939**	**1,695**	**29**

- Net fee and commission income driven by
  - Exponential growth in digital financial services
  - Strategic focus in driving fee income
- Net gains from trading - LKR 967 Mn - down by 2%
- Net gains from derecognition of financial assets – Capital gains from Government Securities portfolio as a result of effective portfolio management
- Vast improvement in Non-fund based income [excluding other operating income] to Fund based income ratio

Outcome: Enhanced operating income by 7% to LKR 25.4 Bn

Fund to Non-fund Based* Income Composition



*Excluding Other Operating Income

PART III – NDB FINANCIAL PERFORMANCE – FY 2020

Income Statement – Impairment

LKR Mn	FY 2020	FY 2019	Variance	%
Individual Impairment	3,841	2,722	1,119	41
Collective Impairment	2,391	1,124	1,266	113
Other	565	312	253	81
Total impairment charges	**6,796**	**4,158**	**2,639**	**63**

NPL
2020: 5.35%
2019: 4.77%

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
- significant provisions for financial investments owing to the decline in macro economic indicators *(other provisions)*

PART III – NDB FINANCIAL PERFORMANCE – FY 2020

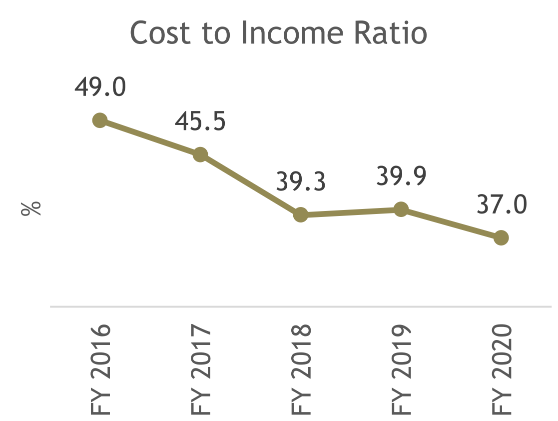
Income Statement – Operating Expenses

LKR Mn	FY 2020	FY 2019	%	Cost composition % FY 2020	Cost composition % FY 2019
Personnel expenses	5,172	4,958	4	55	53
Depreciation & amortization	819	761	8	9	8
Other expenses	3,409	3,716	(8)	36	39
Total operating expenses	9,399	9,434	(0.4)		

Highlight:
CIR - 37%
(2019: 40%)

Marginal *reduction* in Operating expenses despite enhanced operations

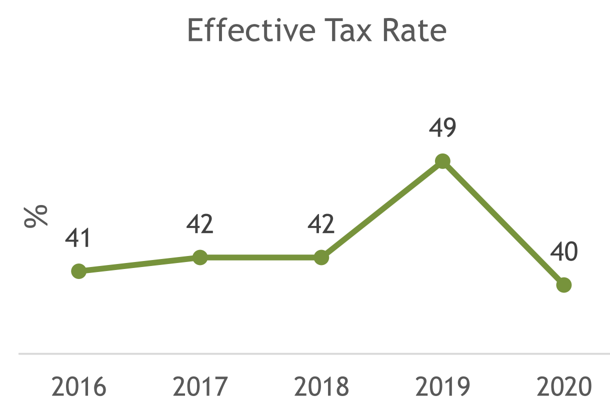
- Organization Efficiency and Effectiveness Improvement program
- migration of a large number of processes to automated platforms (RPA and workflow)
- conversion of transactions performed by customers to digital platforms - 80% (2019: 71%)



PART III – NDB FINANCIAL PERFORMANCE – FY 2020

Income Statement – Taxation & Profitability

Taxation - LKR Mn	FY 2020	FY 2019	%
VAT on Financial services	1,819	1,838	(1)
NBT on Financial services	-	231	(100)
Debt repayment Levy	-	1,003	(100)
Income tax	1,857	1,871	(1)
Total taxes	**3,676**	**4,943**	**(26)**



Changes in the Tax regime in 2020

- Nation Building Tax (NBT) on Financial Services and Debt Repayment Levy abolished

Profitability - LKR Mn	FY 2020	FY 2019	%
Profit before all taxes	9,206	10,054	(8)
Profit before income tax	7,388	6,983	6
Profit after tax	5,530	5,112	8
Profit attributable to shareholders (PAS) (Group Level)	5,117	4,776	7

PART III – NDB FINANCIAL PERFORMANCE – FY 2020

Balance Sheet

LKR Bn	FY 2020	FY 2019	YoY Quantum growth	YOY % growth
Total assets	627	530	97	**18**
Investments	159	95	63	**66**
Gross loans	444	409	34	**8**
Total deposits	490	405	85	**21**
Borrowings	80	72	8	**11**
Total equity	45	39	5	**13**

Enhanced indicators
- ✓ ADR - 90%
- ✓ CASA - 25%

Assets

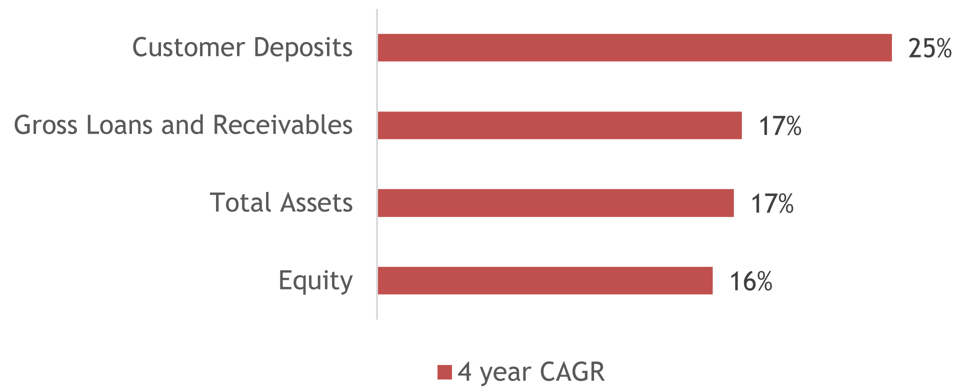
-Dynamic Balance Sheet – Resilient in external shocks
-Solid Loan Book growth of 18% amidst subdued economic condition
-Growth stemming predominantly from Retail, SME and Commercial Banking sectors
-Enhanced currency composition of Loan Book (LCY:FCY) 83:17 (2019: 80:20)
-Increase in investment due to excess funds deployed given the moderate credit growth climate

Liabilities

-Impressive deposits growth of 21% amidst low interest rates climate
-Significant CASA growth – 53%, LKR 42 Bn to LKR 123 Bn
-CASA Ratio of 25%
-Capital
Tier II Capital of LKR 6.5 Bn raised
Tier I capital infusion of LKR 8 Bn via a Rights Issue announced in October 2020

PART III – NDB FINANCIAL PERFORMANCE – FY 2020

Balance Sheet Indicators – 4 year CAGR



- Consistent and solid growth maintained over the years
- Enabled the Bank to become the 4th largest listed commercial bank in the country in a relatively shorter period
- On a concerted trajectory towards the LKR 1 Trn mark in total assets in the medium term

PART III – NDB FINANCIAL PERFORMANCE – FY 2020

Capital & Liquidity

BASEL III - FY 2020	Bank	Group
Common Equity Tier 1 Capital Ratio % [Minimum Requirement -6.5%]	9.17%	9.73%
Tier 1 Capital Ratio % [Minimum Requirement – 8.0%]	9.17%	9.73%
Total Capital Ratio % [Minimum Requirement – 12.0%]	14.32%	14.75%
Liquidity Coverage Ratio [%] – Rupee [Minimum Requirement - 90%]	161.97%	161.97%
Liquidity Coverage Ratio [%] – All Currency [Minimum Requirement - 90%]	157.12	157.12
Net Stable Funding Ratio [Minimum Requirement- 90%]	112.52%	112.52

NDB Rights Issue

- Announced in latter part of October 2020
- Capital to be raised - LKR 8.0 Bn
- Ratio - 28 new ordinary voting shares for every 61 ordinary voting shares held (up to 106,780,489 shares to be issued)
- Consideration - LKR 75/- per share
- Purposes - Further strengthen the equity base of the Bank and thereby improve Capital Adequacy Ratios in line with Basel lll guidelines and to part finance the growth in the loan portfolio of the Bank

PART IV – COVID-19 AND NDB'S RESPONSE

Offering banking services at customer convenience and safety

- Digital financial services functional in full force to ensure access to safe banking
  80% of the transactions 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

PART IV – COVID-19 AND NDB'S RESPONSE

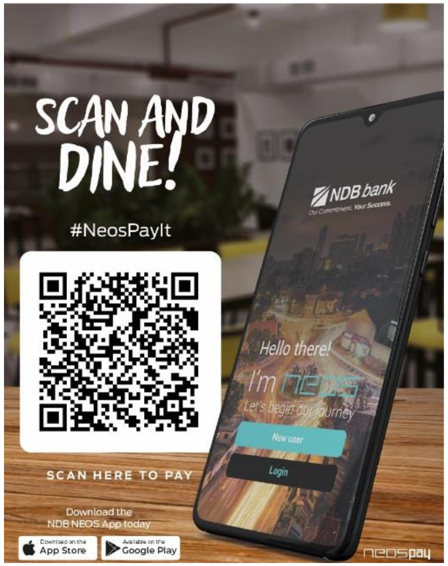
Support extended to affected customers

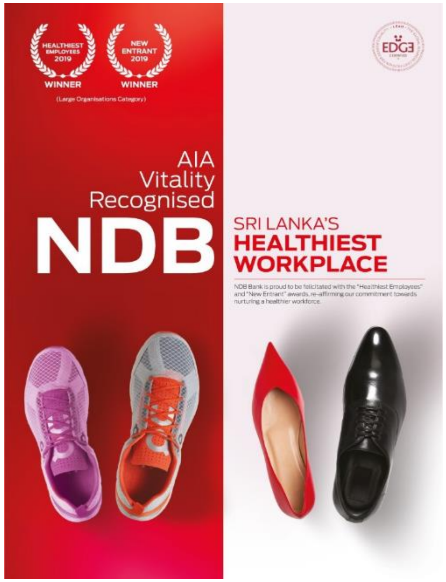
- Extension of financial assistance through Government refinancing scheme – Saubhagya COVID-19 Renaissance Loan Facility - *Over LKR 18 Bn approved - the fourth highest amount approved by a bank in the country*
- Close to 30% of the Bank's loan book extended the Regulator stipulated debt moratorium
- 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
- Dedicated initiatives carried out in support of female customers through the NDB Aaraliya platform

PART V – OVERALL PERFORMANCE

- A year marked by many challenges
- NDB continued an 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 Vanithabhimama (The Pride of Women)*
  - Employee safety and wellbeing ensured
  - Contribution to the communities and environment

  E.g: *Grow NDB Reforestation Project* in Himbiliyakada, Central Province





PART VI – WAY FORWARD

Voyage 2025

Mid-Tem Strategy guiding the NDB Group towards "The Banking Group of Choice"

Committed to support national economic prosperity

Customer-centric solutions

Digital drive

Continued innovation for industry leader initiatives

PART VII – Q&A

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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