Edited Transcript

Webinar with investors and analysts

Full year financial results – 2019
February 2020 – 03.30 PM

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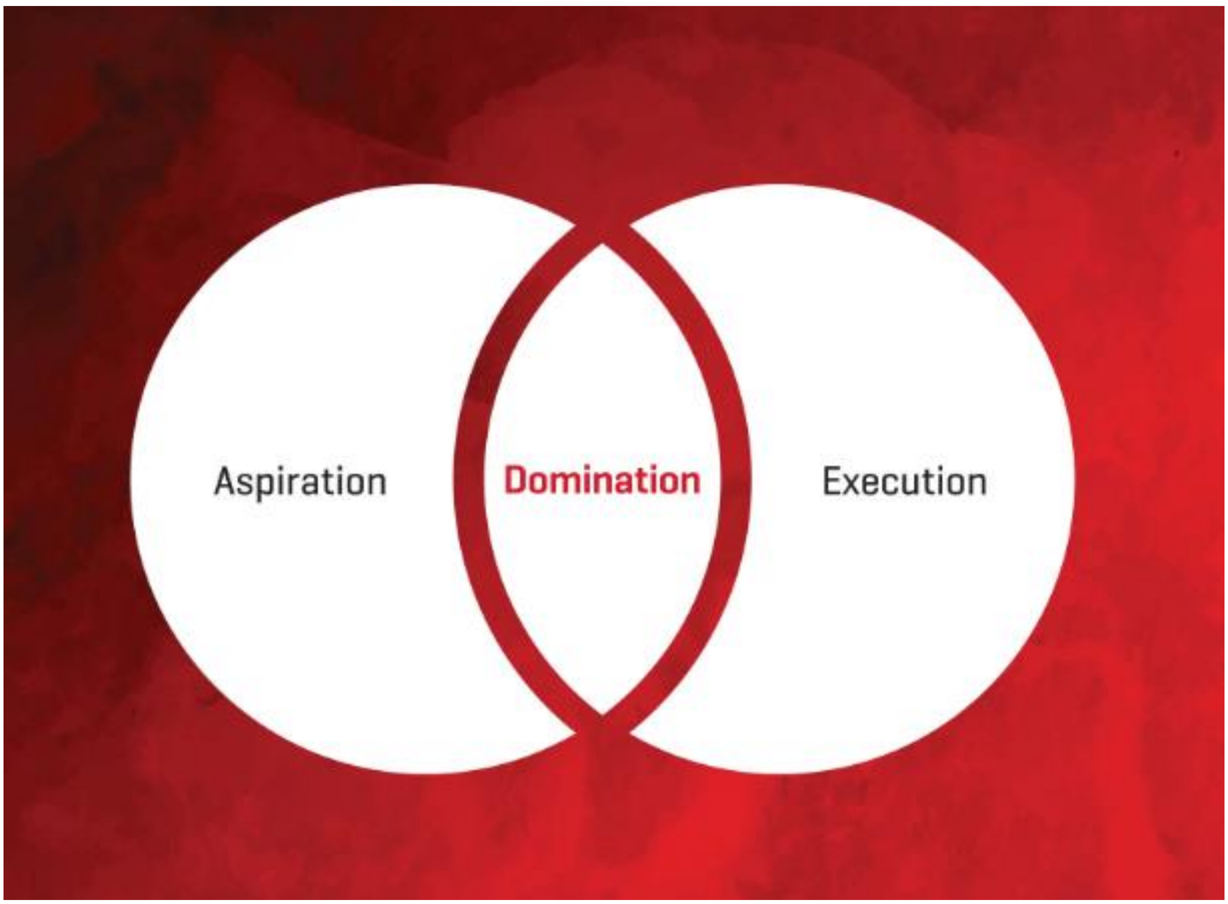

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Corporate Participants

Presented by Dimantha Seneviratne - Director/ Group Chief Executive Officer

Panelists

- Buwaneka Perera – Senior Vice President - Corporate Banking
- Sanjaya Perera – Senior Vice President – Personal Banking & Branch Network
- Deepal Akuratiyagama – Chief Operating Officer
- Niran Mahawatte – Vice President – Treasury
- Indika Ranaweera – Vice President – SME, Middle Market & Business Banking
- Suvendrini Muthukumarana - Vice President –Finance
- Shanka Abeywardene - Assistant Vice President - Corporate Planning & Business Intelligence

Investor Presentation

GCEO - Dimantha Seneviratne

Opening Remarks

Welcome all to our investor webinar

Good afternoon everyone, welcome to our investor webinar, to discuss the full year results for 2019. With me, I have some of Leadership team members, Senior Vice President Corporate Banking – Mr. Buwaneka Perera, Vice President of Treasury – Mr. Niran Mahawatte, Assistant Vice President – Corporate Planning & Business Intelligence - Mr.Shanka Abeywardene, and then we have Vice President of Finance – Ms.Suvendrini Muthukumarana, Senior Vice President Retail Banking – Mr. Sanjaya Perera, and Vice President Business Banking and SME – Mr. Indika Ranaweera.

I will take you through the presentation and then we'll leave room for question and answers at the end of the presentation.

In terms of Key Strengths, the bank is offering all universal banking products, with the strength of our NDB Group companies comprising NDB Capital, NDB Investment Bank, NDB Wealth Management and also the Stock Broking. With the Digitalized Solutions that we have started to offer, we recorded around 71% of all our banking transactions through digital channels.

In terms of our physical presence, as of December 2019, we had 112 branches, and added a new branch in Hikkaduwa which was opened in January, so now altogether we have 113 branches,100 ATMs of which above Off-site - 20 ATMS. 54 Recycling Machines and also 80+ Bank2U locations. We also opened 2 NDB NEOS Digital Branches last year, first in January and then in last quarter Shangri-La Colombo. We also relaunched our highly popular NDB Mobile App during the latter part of the year which is doing very well.

In terms of Recognition (International and local), we received close to 50 awards last year; among them are some of the key awards as well. So Global Finance Magazine of USA recognized us as the World's Best Consumer Digital Bank for Sri Lanka, that was one of the key awards on the digital front. The Asiamoney Magazine awarded us as the best domestic bank in Sri Lanka and also Global Bank and Finance, as the best financial services conglomerate and also we were awarded as the best SME Bank and best Project Finance Bank.

Governance and Management structure of NDB is very strong at NDB, we have a very competent and diversified Board of Directors with an independent Chairman with experience and dynamic top management with a commitment to the higher standards of ethics.

Slide 08 – Movement in KPIs – Snapshot

So that's a brief overview about the bank and the group.

Now I am moving onto the Financial Performance. Despite 2019, being a very challenging year where the industry also went through lot of pressure, NDB has done exceptionally well I would say compared to the industry. year-on-year Gross Income level, was a 16% growth to LKR 59 Bn, Interest Income reflected 20% Growth, Net Fee and Commission Income again 25% growth to reach LKR 3.9 Bn. So all in all, Pre-tax core banking profit, reflects a 8% growth to LKR 9.6 Bn, the total operating expenses, grew by 11% to LKR 9.6 Bn and as a result the overall profit before tax, figure has a 6% growth. This is the first time NDB has crossed the LKR 10 Bn mark out of the operating banking operations. And when you compare the industry numbers, I believe that this is more significant as Industry Profit Before Tax is at very low levels, in that scenario 6% growth in Profit Before Tax is a quite a good achievement. Profit after Tax, compared to last year, has a 8% drop, mainly due to the introduction of new taxes. LKR 1 Bn alone was the tax payment on the Debt Service Levy. As a result the Profit After Tax was LKR 1.1 Bn which was the negative growth of 8%.

In terms of the Balance Sheet, significant achievements was done in terms of the growth, all in all 12% growth in Total Assets took us LKR 530 Bn. 2019 marked a NDB crossing the LKR 500 Bn Asset base and at the end of the year we crossed LKR 530 Bn. For Deposits, we have achieved 17% growth, crossing LKR 400 Bn, where we ended with LKR 405 Bn deposits. Under gross loans, again 16% growth was noted reaching LKR 409 Bn .So I think all in all under reduced growth activity that we saw with low overall GDP and industry growth NDB has done well to have quite a sizeable growth in our asset book and also the deposit base.

Slide 08 – Fund and Non Fund Based Revenue Analysis

Now we are moving on to the more detailed assessment of the above summary, if you go into the fund and non-fund based income analysis, interest income we have 20% growth from LKR 44 Bn to LKR 53 Bn, and interest expense again 20% growth from LKR 29 Bn to LKR 35 Bn. So as a result, the net interest income is again 20% growth from LKR 14.8 Bn to LKR 17.7 Bn. You would have seen that asset growth or lending growth rate was 16% as I mentioned earlier. Net fee and commission income again 25% growth, in terms of quantum LKR 773 Mn growth coming from fee and commission income, but an area that I think I was updating at various industry forums that we are concentrating on growing the pre base income and that is quite a good with 25% growth.

Trading side of course I would opt of trading gains from LKR 1.2 bn to LKR 990 Mn, again on the net gains from de-recognition of financial assets, there, there is a growth from 384 Mn to 716 Mn, an 87% growth. Equity income is basically the dividend and the equity income where there's a drop from 612 to 448, the other operating income there's a significant drop from 1.4 Bn to a negative 127 Mn. This is mainly due to the exchange revaluation gains last year due to the 2018 strong depreciation of Sri Lankan rupee and in 2019, the Sri Lankan rupee appreciated compared to the depreciation trend that we have seen

So overall the Non Fund Based Income, the 12% drop from 6.7 Bn to 5.9 Bn is mainly due to this exchange losses or exchange gains that we recorded in 2018. The key drivers for us to improve our other income is the natural asset book growth and also the trust on the digital financial services where we made quite a strong hold through the NEOS app and through various other digital means like the Cash Recycling Machine.

Slide 09 – Operating Expenses and Taxation (Bank)

Moving on to the operating expenses side, again the overall 11% increase in operating expenses from LKR 8.4 Bn to LKR 9.4Bn, nearly a LKR 1 Bn increase. There again the personal expenses they have roughly about 600 Mn increase, that's about a 12% increase in personal expenses, mainly given by additional staff. staff base increased by about 400 in 2019 mainly on the frontline and selling staff, apart from that the annual increments caused for this. Other expenses, reflected 10% increase from 3.5 to 3.9. This is mainly on the depreciation and other expenses on digital and physical infrastructure development including the opening of 4 new branches of which about two digital branches resulted the cost of the branch is being higher than a normal branch. Plus the opening of about 10 leasing centers, all those have contributed to this cost escalation. But these are good investments where our returns we are going to realize over the years. Even last year itself we had some substantial contribution coming from the capital investments.

Slide 10 – Balance Sheet and Asset Quality (Bank)

Moving on to the balance sheet, quite a good story relatively compared to the market. I have the industry numbers as well to compare. Total assets, we had LKR 57 Bn quantum growth, in terms of percentage, 12% year-on-year growth from LKR 473 Bn to LKR 530 Bn, so as I mentioned this is the year we crossed LKR 500 Bn and this was one of the benchmarkers we have identified as a systemically important bank, but in December, the Central Bank showed up with new set of guidelines, apart from the LKR 500 Bn as a target. Interconnectedness and then other measures like complexity will be considered. So as a result, there are only 4 domestic systematically important banks. With is there was no pressure on capital.

Compared to the industry, the total industry asset growth was 6% and then NDB had 12% growth. So double the industry asset growth.

If you look at the loan book, again LKR 56 Bn in quantum, 16% in terms of year-on-year growth from LKR 353 Bn to LKR 409 Bn. industry growth rate was 5.3%, where we have 16% growth which means 3 times the industry growth rate that we recorded in terms of loans. And in terms of depositors, again a LKR 57 Bn quantum growth, so deposit growth quantum wise is slightly higher than the loan book, from LKR 348 Bn to LKR 405 Bn, This is the time that the bank has crossed LKR 400 Bn in our deposits recording 17% growth, when the industry grew by 8.3%, so again double the industry growth that we had in terms of deposits.

Moving on to the impairment analysis, The individual impairments remain somewhere around LKR 2.8 Bn, when it was also around LKR 2.8 Bn last year. However, the collective impairment has gone up from LKR 770 Bn to LKR 1.1 Bn. NPL ratio was 4.77%, increased from 2.9, but among the industry I think industry NPL will also stand around 4.7%. So we're somewhere similar to the industry but when you compare that with the big side banks where the NPL ratio is around 5%, but of course that's a stress area that all the banks have seen and we had made a lot of effort to improve the underwriting standards as well as collections standard and have strengthened a lot in these areas, so we're expecting some changes to this level and as we move along.

Slide 11 – Loan Book Analysis

For further details on the loan book, currency wise we have made some good way in improving the currency mix, in 2018 it was 75% rupees to 25% foreign currency. I think this is one of our strategic objectives in shifting towards more LKR based loan book and we ended up with 79% in LKR and 21% in foreign currency.

If you look at the sectorial composition of the loan book, again you'd see a quite a well-balanced pie chart where the consumption sector and the manufacturing have a higher percentage but still it's quite a well-balanced exposure which shows the dynamics on individual portfolio.

Slide 12 – Funding Sources

The key funding's also; In the balance sheet was actually supported by an increase in deposits, you saw the quantum increase In deposits and also funds through the debentures that we issued in the first quarter of 2019. So even the composition of our deposits base, you would see that current accounts comprise around LKR 2 Bn growth and also savings LKR 2 Bn growth, so all in all CASA we had about LKR 4.3 Bn growth in CASA. Time deposit had the highest growth of LKR 53 Bn. So from 348 Mn to 405 Bn.

We ended up with the CASA ratio of almost 20% in 2019. In terms of debentures, we actually raised LKR 5.5 Bn as tier two capital unsecured subordinated debenture with a higher tenant that helped us to improve on tier 2 capital level. So this is how we funded our book.

Slide 13 – Capital and Liquidity

Moving on to the capital ratios, despite the minimum capital requirement of 7% from a tier 1 ratio standard at 9.2% and tier 2 at 13.4% compared to a minimum of 12.5%, so nearly 100 basis point buffer on the tier 2 level capital requirement, if you look at the group level capital this goes up to 14.2%. And then the liquidity ratios where very much within quite a good liquidity ratio and net stable funding ratio. So overall the healthy capital and liquidity position.

Slide 14 – Investor Ratios

Moving onto the investor ratios offer the share priced, it's closed at 108.9 Rs, previous year was 106.80 Rs, so whatever these good improvements are unfortunately not reflected on the share prices, that is I would say for the market, that's its an opportunity. Earnings per share, from 28 Rs to 23 Rs down because we enhance the capital as well to a fixed dividend that was paid in 2019. Return on Equity, from 17.4 came down to 13.7, again mainly due to the dilution of the share capital base but compared to the industry ROE of 10.5%, we are 13.7%, so above the industry ROE. ROA levels, again 2% pre-tax ROA and book value improved from 166 Rs to 178 Rs, and price earning times from 3.75 to 4.3. So price to book value now at 0.56 which was 0.64 times last year, now this is an opportunity for right investors because the share is trading almost 50% of the book value. We announced our first and final dividend yesterday, a 7 rupee per share dividend of which 2 Rs as cash dividend and 5 Rs script dividend. And we have continued to maintain the dividend payout ratio of 30% , this is the ratio that we have been maintaining over the last few years.

Questions and Answers Session

(Answered by the GCEO, unless specifically mentioned)

Q1 -If the average price of new loans given during 2019 IS same as the previous year

Only among two clients with higher ticket price, does this bring the concentration risk? That's the question, but I don't think that there's no change to the average loan size, it's a portfolio both from all sectors coming in, the ticket size should have been lower but this is where the process improvements that we made in 2019 had helped us as well, even in the increase of staff, we didn't have no significant increase in support functions, the processing function and all, so with the efficiency that we brought in, in terms of process efficiencies and also the overtake process automation, we managed to improve our efficiency and as a result we managed to process many applications. So that's no concentration risk as such.

Q2 -There are two components in loan book, one is construction and other is construction and infrastructure. What is the difference?

Infrastructure development is mainly on the project finance and the long term loan exposure whereas construction and infrastructure, mainly the working capital side of that.

Q3 - On the declining fourth quarter 2019 is SLDB tax reversal and how much that is it?

It's roughly around LKR 350 Mn, in the case of NDB we have reflected the last minute reversal of tax interest as well

Q4 - capital given has only 70 basis point tier 1 buffer as of now .What your plan to strengthen this?

I think we have done some assessment on total capital. The gap is there and wrong level we are still at 70 basis point at the moment, but it all depends on how we grow the book, how risk appetite the assets fight, along with that the profit generation, Also this proposed tax reduction would also help to reduce the tax burden and retain profits to be improved. So as a result, I think we're quite comfortable with this level of cushion and also the future tax savings that are going to help us improve in the capital cushion as we move along. So I think that we are comfortable in this cushion

Q5 - what plans are there to increase CASA?

I think that there are several plans. some of those plans we cannot elaborate more due to competitor reasons and all, but you'll see that last year also CASA growth of LKR 2.3 Bn were mostly coming from the retail side but there's very concentrated effort on bringing granular CASA and that has helped to grow this.

Sanjaya Perera : I think as GCEO said, it is at granular level, complete focus on the small deposits and concentrated effort on the sales side. So that's what it is and a few strategies implemented which have been successful, so we'll continue the same thing this year as well.

Q6 - Quarter to quarter credit quality metrics have improved gross NPL down to 4.77% from 4.9% in the third quarter. From which sector the improvements have come from and looking ahead, do you expect a similar trend to continue?

We strengthened our recovery side and also collections as well. No particular sectors as such exceptionally contributed, as it came from all sides .

Q7 - What is the composition of SME, retail, project finance and corporate. What's the optimal target the bank is trying to reach?

What challenges are NDB is facing when trying to reach that target?

I think we have been discussing this in earlier webinars as well, the retail and SME is an area that we are concentrating on growing because NDB over the years have been traditionally very strong on project finance and corporate banking side. We have one of the very good portfolios in corporate banking. Project finance, that's where we have been expert for 40 years, the area that we moved into commercial bank is only about 15 years ago, so naturally that's the area that there's a lot of potential and the growth opportunities are. So we were concentrating on more growth on retail and SME side, but last year, given the industry situations and all, we scaled down our SME growth because we were more concerned on the quality rather than quantity. last year on the SME side, we were quite aggressive and quite a sizeable growth came from retail, so as a result the retail SME to corporate and project finance ratio also moved in favor of Retail to SME in higher percentage and which is in line without goals as well.

That helps us to diversify our book more, improve on our margins and also in terms of risk aided assets that also helps us to reduce the risk aided assets. So in all those areas we have been managing it very carefully, some may argue that retail sector may be the riskier sector but I think our standards are good, our connection standards are good. As a result, we have one of the best NPLs as well on the retail sector, so we have been doing a good job there.

Q8 -Have you received auditorium requests from government manufacturers due to Covet 19 as some banks have indicated?

So far, I think we have not received any such requests from government sector exposure.

Q9 - Where do you see interest rate heading?" I'll leave it to Niran to answer

Niran Mahawatte– For the interest rates of course, we feel that the dates will remain flat at the current levels given the fact that we have not seen a significant improvement in the credit demand. So probably, we might see this remain at this current level.

Q10 – Will NDB raise more capital at tier 1" Again,

There's sufficient cushion in terms of capital ratios and also the tax savings that would hopefully improve the retaining profits. So for the moment we might come with on the Tier 2 level as and when there are opportunities we'll be coming.

Q11 - The exchange rate is expected to depreciate whilst the yield curve is expected to go up to the second half of the year. Do you see a major negative impact arising from the yield curve pick up?

Niran Mahawatte– Yes. There will be a gain on the mark to market on exchange rates."

Q12 - Despite low interest rate environment, why is it that the credit growth is not picking up as expected? You see rates coming down further or maintain at current level?

We could say that they'll keep it at the current level because now it's just the last month that they cut the rate. so they will feel the pulse and as I said earlier the liquidity will be very key because also there's a group of accounts going through today to increase the borrowing component through the bills and bonds.

That might be additional pressure into the market but at the same time we feel that probably after the elections they might go to the market to borrow some more dollars .

Q13 - What is the Bank's export exposure to tourism sector monotorium?

I think this question came in last webinar as well. We don't have a sizeable export as such, if you look at our industry pie chart; the total exposure to tourism is around 2% and of that 2% quite a sizeable exposure of overseas as well especially Maldives, so the local exports is around 1%. In case a customer request we are willing to reconsider that deadline along with the SME monotorium, there was a request from Central Bank as well to consider enhancing them up to end of December, so on case by case basis, if it makes sense, we would support that extension of monotorium up to December.

Q14 - How often a stage three loan can move to stage two? What are the requirements? How many installments does the stage three guy need to continuously pay before moving back to a better stage?

Suvendrini Muthukumarana - I think credit quality has to improve and it has to come out of NPL status.

There is a Central Bank issued guideline on stage right categorization, if you can get hold of that you would get more insights about how this stage invoice movements are taking place.

Q15 -Has NDB started using big data, data analytics in their credit evaluation. For instance, there is a good credit rated individual came to get a loan at a lower rate or blanket rate will be applicable across the board for all.?

We do use big data as well for credit evaluation but the pricing is more on a risk based pricing.

Shanka Abeywardana - Yeah we have been using some data analytics for quite some time and like GCEO mentioned, the various risks rising models is spread by the data analytics. output from the data analytics is mostly used to identify cross sell opportunities across customer groups and business analytics.

End of Q&A.

Closing Remarks

With that we come to the end of the Q&A session.

Just to recap and also to give a brief update on what is happening;

So thank you very much for taking part in the webinar and thank you for those questions, some very interesting ones as well. And we have done quite well; unfortunately there will be a retrenchment on the price that will be an issue, which is unfortunately the market situation here in Sri Lanka. We have done a lot to improve on the internal processes and the efficiencies. We have seen that the cost to income ratio's 39% compared to the industry average of 46, so it is a good way to move on in 2020. So would like to update you all again in a similar webinar and we'll be having our press conference as well soon after the release of the Annual Report . most likely on early March on the results again. So thank you for being part of this investors relations activities and looking forward to more engagement as we move forward.

With that we would like to conclude the webinar.

Thank you very much for connecting, the questions and active participation.

End of edited transcript.