Earnings Call
Q1 2020
National Development Bank PLC
NDB.N0000
21 May 2020
10.00 am
Colombo - Sri Lanka
Forward Looking Statements

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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
Suvendrini Muthukumarana - Vice President - Finance
Niran Mahawatte - Vice President - Treasury
Indika Ranaweera - Vice President - SME, Middle Market & Business Banking
Shanka Abeywardene - Assistant Vice President - Corporate Planning & Business Intelligence
Agenda

- Part I - Impact of COVID-19
- Part II - Business Overview
- Part III - Financial Performance
- Part IV - Q&A
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Globally
- The pandemic has caused the most dramatic economic downturn in world history
- The IMF has announced an economic recession, likely to be worse than the 2008 financial crisis
- Financial institutions better prepared to this crisis than they were for the economic crisis in 2008 - yet not fully ready
- Fitch estimates global economic activity to decline by 1.9%. GDP forecasts to revert to its pre-virus levels only by late 2021 for the US and Europe

Locally
- The crisis hit in less than 12 months since Easter Sunday attacks hence the impact is on an already hurt economy
- All sectors contributing to GDP affected with tourism, apparel exports, retail [non-essential goods] and banking experiencing high impact
- Heavy reliance on Chinese imports led to stresses in supply chain hampering economic activities
- Policy rates reduced by the CBSL to support economic activity - SDFR - 5.5%, SLFR - 6.5%
  CBSL Bank rate - 9.5%, SRR - 4%
- Amendments introduced to the Foreign Exchange Act to protect the value of the Rupee [restriction on overseas investments, suspension of outward remittances, suspension of repatriation of funds - For a period of three months from April 2020]
Impact of COVID-19

Sri Lanka Banking Sector
• Economic downturn has affected balance sheet growth and asset quality of banking institutions
• NIMs, profitability and liquidity to be impacted by relief measures introduced to customers
• Following relief measures to be given to affected eligible customers
  • LKR 50 Bn refinancing facility introduced for banks by the CBSL
  • Low interest working capital loans
  • Six months moratorium for repayment of capital and interest
  • Other concessions on personal loans and credit card payments such as extension of due dates
• Banking sector outlook revised to Negative by Fitch Ratings

Relaxations introduced to the banking sector
• Ability to drawdown from capital buffers
• Relaxation of NPL classifications
• Flexibility in recovery of foreign currency loans and repayment extensions
• Extension of deadlines for banks [E.g: Enhancement of capital, statutory returns to CBSL, publication of quarterly accounts]
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Business Overview

- 40 years of banking excellence with competence to thrive through crises
- Best Domestic Bank in Sri Lanka for the second consecutive year, as judged by AsiaMoney Awards 2020
- 113 branches. Over 150 ATMs and CRMs spread across the country
- A strong digital banking platform comprising NDB NEOS Mobile Banking app and Online banking
  - Digital banking volumes saw a surge in transactions and enabled the Bank to provide undisrupted banking services to our customers
- A staff strength exceeding 3,000
- Strong brand presence across banking sector and capital market as a financial powerhouse
- Committed to gender equality at the workplace. The only EDGE certified company in Sri Lanka
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Key Performance Indicators

Income Statement - YoY growth
- Total operating income - Up by 11% to LKR 6.6 Bn
- Post tax profitability - Up by 27% to LKR 1.7 Bn
- Mixed performance in NII and Net Fee and Comm income
  NII down by 7% to LKR 4.3 Bn
  Net Fee & Comm Income up by 19% to LKR 1 Bn

Balance Sheet - YTD growth
- Balance Sheet expansion of 4% YTD to LKR 553Bn
- Gross loans expansion by 4% to LKR 425 Bn
- Deposits expansion by 2% to LKR 414 Bn

Key Ratios

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>14.99</td>
<td>13.73</td>
</tr>
<tr>
<td>Pre-tax ROA</td>
<td>1.99</td>
<td>2.01</td>
</tr>
<tr>
<td>NIM</td>
<td>3.22</td>
<td>3.53</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>4.78</td>
<td>4.77</td>
</tr>
<tr>
<td>Cost to income ratio</td>
<td>36.5</td>
<td>39.9</td>
</tr>
</tbody>
</table>
Fund based income

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>Q1 2020</th>
<th>Q1 2019</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>13,747</td>
<td>12,770</td>
<td>977</td>
<td>8</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>9,417</td>
<td>8,108</td>
<td>1,309</td>
<td>16</td>
</tr>
<tr>
<td>Net interest income</td>
<td>4,330</td>
<td>4,661</td>
<td>[332]</td>
<td>[7]</td>
</tr>
</tbody>
</table>

- Relatively larger increase in interest expenses due to
  - Quoted debentures issued in end March 2019
  - Expansion in the deposit base with greater skewness towards fixed deposits
- NII impacted by narrowing NIMs reflecting reduction in market rates
  - AWPLR - 9.3% in end Mar 2020 down from 12.2% in Mar 2019
  - Bank NIM - 3.22% [vs. 3.53% in 2019]

Non Fund Based Revenue

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>Q1 2020</th>
<th>Q1 2019</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net fee and commission income</td>
<td>1,026</td>
<td>864</td>
<td>162</td>
<td>19</td>
</tr>
<tr>
<td>Other non-fund based income</td>
<td>1,272</td>
<td>467</td>
<td>805</td>
<td>172</td>
</tr>
<tr>
<td>Total non-fund based income</td>
<td>2,298</td>
<td>1,331</td>
<td>967</td>
<td>73</td>
</tr>
</tbody>
</table>

- Increase in Net Fee and commission income - Benefitted by enhanced digital banking usage and growth in business volumes
- Other non-fund based income - Inclusive of gains on revaluation of fx reserves due to movement in exchange rates
- NII to fee income - Enhancement in the Fee & Comm income portion in Q1 2020

NII: Net fee and Comm Income
**Impairment and Operating Expenses**

### Impairment charges

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020</th>
<th>Q1 2019</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Impairment</td>
<td>854</td>
<td>1,039</td>
<td>[185]</td>
<td>[18]</td>
</tr>
<tr>
<td>Collective Impairment</td>
<td>387</td>
<td>[243]</td>
<td>630</td>
<td>259</td>
</tr>
<tr>
<td>Other provisions - charge</td>
<td>45</td>
<td>45</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total impairment charges</strong></td>
<td><strong>1,287</strong></td>
<td><strong>842</strong></td>
<td><strong>445</strong></td>
<td><strong>53</strong></td>
</tr>
</tbody>
</table>

Impairment driven by
- The increase in the collective provision charge in line with the growth in the loan book
- Provisions at individual levels considering elevated risks due to stressed market conditions

### Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020</th>
<th>Q1 2019</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>1,269</td>
<td>1,161</td>
<td>9</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>139</td>
<td>137</td>
<td>2</td>
</tr>
<tr>
<td>Other expenses</td>
<td>1,008</td>
<td>934</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>2,417</strong></td>
<td><strong>2,232</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>

- Personnel expenses driven by increase in staff base in 2019 [Q120 - 2,977 ; Q119 - 2,652] to support business expansions
- Large cost savings achieved through automations - Robotic Process Automation, workflow solutions; six sigma practices ; larger uptake in digital banking
### Taxation

<table>
<thead>
<tr>
<th>LKR Mn</th>
<th>Q1 2020</th>
<th>Q1 2019</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT on Financial services</td>
<td>556</td>
<td>489</td>
<td>14</td>
</tr>
<tr>
<td>NBT on Financial services</td>
<td>-</td>
<td>66</td>
<td>[100]</td>
</tr>
<tr>
<td>Debt repayment Levy</td>
<td>-</td>
<td>275</td>
<td>[100]</td>
</tr>
<tr>
<td>Income tax</td>
<td>631</td>
<td>716</td>
<td>[12]</td>
</tr>
<tr>
<td><strong>Total taxes</strong></td>
<td><strong>1,188</strong></td>
<td><strong>1,546</strong></td>
<td>[23]</td>
</tr>
<tr>
<td><strong>Effective tax rate [%]</strong></td>
<td>41%</td>
<td>53%</td>
<td>-</td>
</tr>
</tbody>
</table>

- Considerable reduction in taxes due to
  - Removal of NBT and DRL
  - VAT on Financial Services reduction from 15% to 8%
  - Income tax rate reductions w.e.f 01 Jan 2020

- Increase in VAT on financial services due to the increase in business volumes
### Balance Sheet Growth

<table>
<thead>
<tr>
<th>LKR Bn</th>
<th>Q1 2020</th>
<th>FY 2019</th>
<th>Q1 2019</th>
<th>YTD Quantum growth</th>
<th>YTD % growth</th>
<th>YoY Quantum growth</th>
<th>YOY % growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>553</td>
<td>530</td>
<td>483</td>
<td>23.7</td>
<td>4</td>
<td>70.7</td>
<td>15</td>
</tr>
<tr>
<td>Gross loans</td>
<td>425</td>
<td>409</td>
<td>361</td>
<td>15.5</td>
<td>4</td>
<td>63.7</td>
<td>18</td>
</tr>
<tr>
<td>Total deposits</td>
<td>414</td>
<td>405</td>
<td>315</td>
<td>9.1</td>
<td>2</td>
<td>63.1</td>
<td>18</td>
</tr>
<tr>
<td>Borrowings</td>
<td>87</td>
<td>72</td>
<td>82</td>
<td>14.8</td>
<td>21</td>
<td>4.9</td>
<td>6</td>
</tr>
<tr>
<td>Total equity</td>
<td>41</td>
<td>39</td>
<td>35</td>
<td>1.6</td>
<td>4</td>
<td>5.8</td>
<td>16</td>
</tr>
</tbody>
</table>

- Sound Balance Sheet growth supported by expansion in the loan book
- Group assets - LKR 559 Bn - 4% YTD
Loan Book & Funding Sources

Loan book analysis

• Currency composition of the loan book
  LCY:FCY
  Q1 20 - 79:21
  FY 19 - 80:20

• All segments contributed towards the loan book growth

• Products which saw higher demand during the quarter
  Consumer and Term loans

• Well diversified loan book
  Key sectoral exposures
  Consumption - 22%
  Manufacturing - 22%
  Financial services - 12%
  Infrastructure development - 10%
  Wholesale and retail trade - 9%
  Construction and infrastructure dev - 8%
  Agriculture, forestry and fishing - 7%
  Tourism - 4%

Funding

• Deposits increase of 4% YTD
  CASA base - 2% increase from granular CASA
  CASA ratio maintained at 20%
  Currency composition of the deposits book
    LCY:FCY
    Q1 20 - 77:23
    FY 19 - 78:22

• Repo borrowings of LKR 3.4 Bn
### BASEL III - Q1 2020

<table>
<thead>
<tr>
<th>Metric</th>
<th>Bank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 Capital Ratio % [Min Requirement - 7.0%]</td>
<td>9.03</td>
<td>9.88</td>
</tr>
<tr>
<td>Tier 1 Capital Ratio % [Min Requirement - 8.0%]</td>
<td>9.03</td>
<td>9.88</td>
</tr>
<tr>
<td>Total Capital Ratio % [Min Requirement - 12.0%]</td>
<td>12.96</td>
<td>13.65</td>
</tr>
<tr>
<td>Liquidity Coverage Ratio [%] - Rupee [Min Requirement - 100%]</td>
<td>170.08</td>
<td>170.08</td>
</tr>
<tr>
<td>Liquidity Coverage Ratio [%] - All Currency [Min Requirement - 100%]</td>
<td>161.08</td>
<td>161.08</td>
</tr>
<tr>
<td>Net Stable Funding Ratio [Min Requirement - 100%]</td>
<td>105.28</td>
<td>105.28</td>
</tr>
</tbody>
</table>

- 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.
### Investor Ratios

<table>
<thead>
<tr>
<th>Investor Ratios</th>
<th>Bank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1 2020</td>
<td>FY 2019</td>
</tr>
<tr>
<td>Closing price per share [LKR]</td>
<td>66.20*</td>
<td>100.00</td>
</tr>
<tr>
<td>EPS [LKR] [Annualized]</td>
<td>25.96</td>
<td>23.05</td>
</tr>
<tr>
<td>ROE [%]</td>
<td>14.99</td>
<td>13.73</td>
</tr>
<tr>
<td>ROA [%] [Pre-tax]</td>
<td>1.93</td>
<td>2.01</td>
</tr>
<tr>
<td>Book value per Share [LKR]</td>
<td>176.50</td>
<td>178.02</td>
</tr>
<tr>
<td>P/E [times]</td>
<td>2.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Price to Book value [PBV] [times]</td>
<td>0.4</td>
<td>0.6</td>
</tr>
</tbody>
</table>

*As of 20 March 2020

- Share price reduced in tandem with wider market movements
- PBV remains less than 1
All applications received from our customers for the debt moratorium are now being processed.
The Bank holds sufficient liquidity and capital to face the post COVID-19 scenario and grow the business sustainably.
Investments in digital banking infrastructure proved highly relevant during the lockdown.
The Bank is reaping more benefits from same in the new normal post COVID-19.
Business strategies and targets will be revised for the remainder of the year.
Digitization at both customer service level and internal process automation level will be further embraced.
Team NDB together with the leadership is committed to support the country in its economic revival.
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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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