



# Earnings Call Q1 2020

National Development Bank PLC  
NDB.N0000

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10.00 am  
Colombo - Sri Lanka

OUR VOYAGE BEYOND

## *Forward Looking Statements*

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## 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



- 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]

## 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]

COVID-19  
CORONAVIRUS DISEASE 2019



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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 uninterrupted banking serviced 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 work place. The only EDGE certified company in Sri Lanka





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- **Part III - Financial Performance**



- Part IV - Q&A

## 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

	Q1 2020	FY 2019
ROE	14.99	13.73
Pre-tax ROA	1.99	2.01
NIM	3.22	3.53
NPL ratio	4.78	4.77
Cost to income ratio	36.5	39.9

## Fund based income

LKR Mn	Q1 2020	Q1 2019	Variance	%
Interest Income	13,747	12,770	977	8
Interest Expense	9,417	8,108	1,309	16
Net interest income	4,330	4,661	[332]	[7]

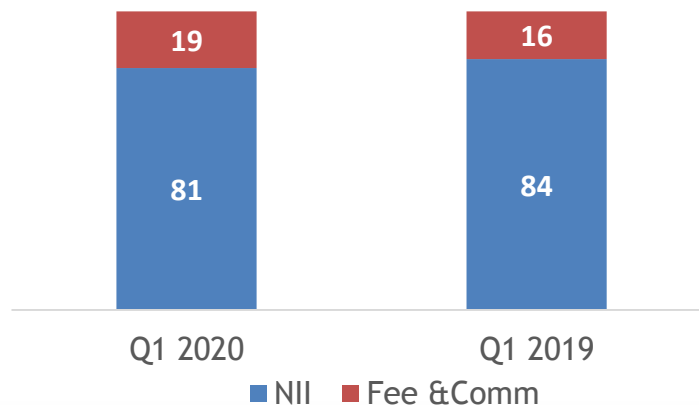
- Relatively larger increase in interest expenses due to
  - Quoted debentures issued in end March 2019
  - Expansion in the deposit base with greater skewness towards fixed deposits
- NII impacted by narrowing NIMs reflecting reduction in market rates
  - AWPLR - 9.3% in end Mar 2020 down from 12.2%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

## Non Fund Based Revenue

LKR Mn	Q1 2020	Q1 2019	Variance	%
Net fee and commission income	1,026	864	162	19
Other non-fund based income	1,272	467	805	172
Total non-fund based income	2,298	1,331	967	73

- 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



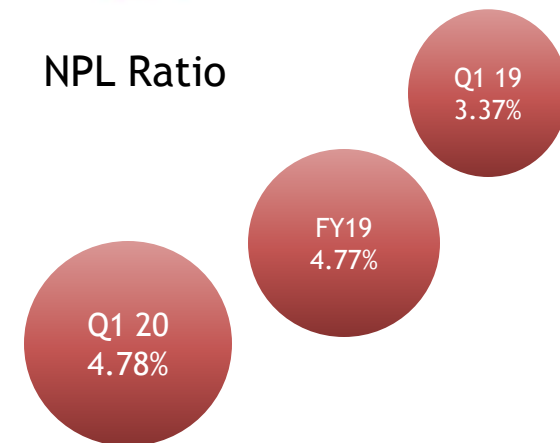
# Impairment and Operating Expenses



## Impairment charges

LKR Mn	Q1 2020	Q1 2019	Variance	%
Individual Impairment	854	1,039	[185]	[18]
Collective Impairment	387	[243]	630	259
Other provisions - charge	45	45	-	-
<b>Total impairment charges</b>	<b>1,287</b>	<b>842</b>	<b>445</b>	<b>53</b>

## NPL Ratio



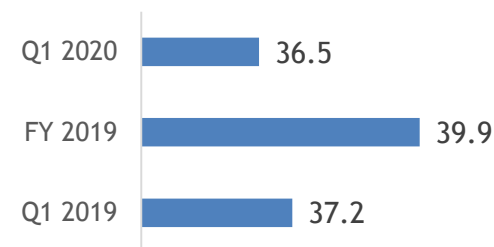
## Impairment driven by

- 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

LKR Mn	Q1 2020	Q1 2019	%
Personnel expenses	1,269	1,161	9
Depreciation & amortization	139	137	2
Other expenses	1,008	934	8
<b>Total operating expenses</b>	<b>2,417</b>	<b>2,232</b>	<b>8</b>

## CIR



- 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

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

- 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

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

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

## 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	Bank	Group
Common Equity Tier 1 Capital Ratio % [Minimum Requirement -7.0%]	9.03	9.88
Tier 1 Capital Ratio % [Minimum Requirement - 8.0%]	9.03	9.88
Total Capital Ratio % [Minimum Requirement - 12.0%]	12.96	13.65
Liquidity Coverage Ratio [%] - Rupee [Minimum Requirement - 100%]	170.08	170.08
Liquidity Coverage Ratio [%] - All Currency [Minimum Requirement - 100%]	161.08	161.08
Net Stable Funding Ratio [Minimum Requirement- 100%]	105.28	105.28

- 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	Bank		Group	
	Q1 2020	FY 2019	Q1 2020	FY 2019
Closing price per share [LKR]	66.20*	100.00	-	-
EPS [LKR] [Annualized]	25.96	23.05	21.48	21.53
ROE [%]	14.99	13.73	11.38	11.59
ROA [%] [Pre-tax]	1.93	2.01	1.47	1.97
Book value per Share [LKR]	176.50	178.02	191.14	195.60
P/E [times]	2.6	4.3	-	-
Price to Book value [PBV] [times]	0.4	0.6	-	-

\*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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