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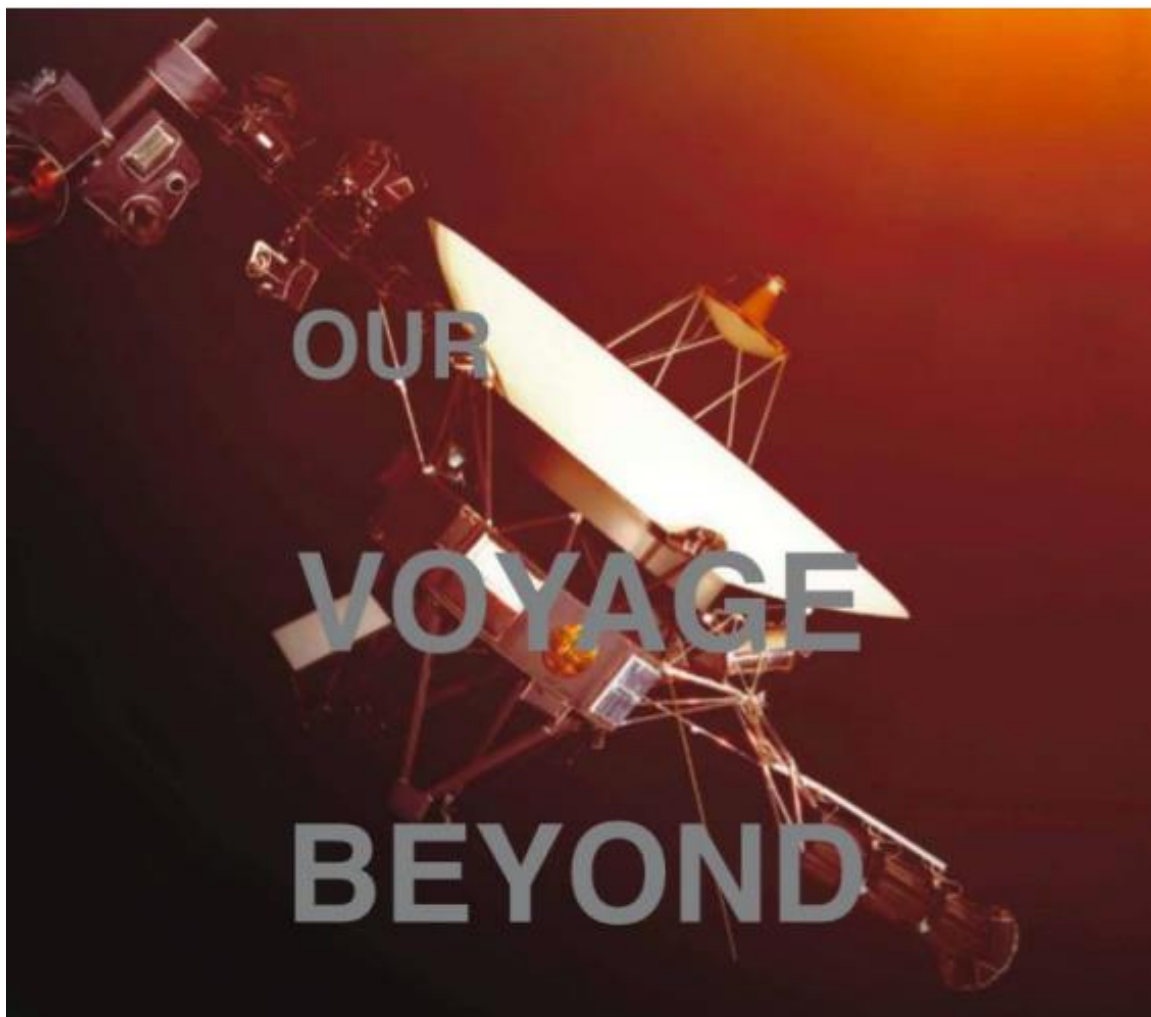
Webinar with investors and analysts

Quarterly financial results - Q1 2020

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National Development Bank PLC

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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
- 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

A very good morning to all of you joining the NDB Earnings call. We released our first quarter results to the Colombo Stock Exchange [CSE] yesterday [20 May 2020] as a part of our investor updates. I welcome all of you here to the Earnings Call to discuss the Q1 2020 results.

Let me now take you through the presentation. Firstly, I thought I must cover the issues that all of us are facing due to the outbreak of COVID 19 and from there onwards, I will take you to the Business Overview and the Financial Performance, which will be followed by questions

Slide 06 - Impact of COVID 19

So as all of you know this is a time that we see a dramatic downturn in world economy. IMF has also announced a recession which is likely to be a worse crisis than 2008 financial crisis. However, I can say that Financial Institutions are better prepared for this crisis than they were in 2008 but the real impact is yet to be felt. All depends on how soon we can recover from the pandemic. Some of the rating agencies have estimated global economy to decline by 1.9 percent and GDP forecast will take at least another two years to be back to pre-virus level by late 2021 for US and Europe. Talking about Sri Lanka I think the crisis has hit us at a time that we are recovering from April Easter Sunday Attacks in 2018 so the impact would be quite significant on an already hurt economy. Our economic growth for the past two years was also low and on top of that when this happened I would say COVID hit to the Sri Lankan economy will be much more significant than for some of the other countries in the region.

All the sectors contributing to the GDP, especially the major sectors like tourism, apparel, exports, retail and banking all are experiencing high impact of the pandemic. /In addition to that, most of the exports are having a reliance on the Chinese imports. That's where the COVID outbreak started initially.

In terms of managing the crisis, the Government has done a really good job, managing the growing number of impacted people and then the measures taken are commendable. So we have managed to come out of this situation and now we are seeing gradual release of the lock down and most likely the curfew in Colombo and Gampaha regions also might be lifted hopefully by early next week.

In terms of economic policy management, a couple of initiatives were taken by the Central Bank to ease the liquidity. That was one of the first and foremost issues faced by the banking and the finance industry. So lending rates were also curtailed. The SDFR has been brought down to 5.5 and SLFR to 6.5 percent. Central Bank lending rate that is the lending rate available for any liquidity issues was also reduced to 9.5 percent. SRR was also brought down to 4 percent. So I think these decisions have roughly released liquidity around LKR 65 billion to the market. Other than that, to ensure that the currencies are managed well there were several amendments introduced to the Foreign Exchange Act to protect the value of the Rupee. There were restrictions on overseas investments, suspension on outward remittances, suspension on repatriation of funds and curtailment in certain imports. Virtually most of the

imports have been curtailed for some time for a three months period from April 2020. So those are measures taken to stabilize the exchange rate.

If you look at the banking sector, the downturn has affected the balance sheet growth. What we see here are first quarter results but subsequently there was an adverse impact to the banking sector, in terms of the profitability and liquidity with the moratorium that was introduced for a six month period for those qualifying and minimum two months moratorium for all the borrowers. We are talking about a sector more than LKR 9 trillion in terms of lending assets and non-bank financial institution with another LKR 1 trillion. So we are talking about a LKR 10 billion lending book. This could naturally have a liquidity impact in terms of servicing their deposits and so far, banks have been prioritizing the liquidity side, preserving the liquidity and managing this. So far, that has been happening quite well. So hopefully if the COVID 19 impact won't last that long, I think we should be able to come out from this faster.

Among some of the relief measures introduced by the regulator LKR 50 billion refinancing facilities were introduced to banks. Given the customers impacted, and the size of that impact, LKR 50 billion may not be adequate. I mean, when you look at the ten trillion asset base. Fifty billion is only point five percent of that. But I think still banks are in the process of submitting applications. Hopefully, if this increases, it would be quite a good opportunity because these are coming at a funding cost of 1 percent and interest rate applicable to customers is about 4 percent. Then on other relief measures, the low interest working capital loans were introduced and concessions were given to personal loans and credit card payments, extension of due dates, etc.

Other than that, the banking sector is supporting the economy quite well during the crisis. Taking so much of personal risk as well, I would like to highlight the staff's involvement in supporting all the payment requirements and getting mobile ATMs to come and serve the customers and going out of the way even opening up the branches during the curfew areas, thereby keeping the economy going. This is how the entire banking sector and the finance industry supported during this time of crisis and experienced the importance of the digital investment that played a very big role. So we didn't feel that issue when the customers had the difficulty in, because they used the mobile banking app to fulfill their requirements. We had more reach out to the customers via our digital channels.

But with all this impact on the banking, the sector outlook got revised to negative by external rating agencies.

Relaxations to meet this challenge brought in by the regulator are also available for banks as tools to manage the situation. One was that was using the capital buffer. There was a reduction of capital buffer up to 1 percent for systemically important banks and at 2.5 percent for the other banks. This is a countercyclical buffer that has been maintained where in good times the banks are supposed to build up this buffer and at times like this banks can release this. In terms of NDB, we are ready within that capital norm and we have no intention of using that buffer. Then as a relaxation of NPL classifications, the 30:70 rule was changed. Apart from that, there's some understanding with the banking sector and the Chartered Institute about application of modeling for impairment. There was an agreement to use the December 2019 models for the time being, maybe at least for another two quarters and review that situation by the third quarter of 2020.

The other thing, I saw was certain flexibilities were given for the recovery of foreign currency loans, where some of these Sri Lankans lost their income, got the ability to repay them in LKR and certain repayment extensions were also provided.

Certain banks and finance companies who had capital issues who were required to raise capital were given an extension for the enhancement of the capital and the statutory written submissions due to CBSL was also extended. So with all this there was a combination of economic support. But the question is whether that is adequate or not. That's something that we need to look into and I think the industry is also working closely with the regulator to see what best we can do in a situation like this. So that's the background. We felt that this situation has significant impact which needs to be discussed. Later on, towards the end of the presentation, I will also address how NDB is facing this situation.

Slide 09 - Business Overview - Fast Facts

Last year we completed 40 years of banking. We initially started as a Development Bank, but moved in to commercial banking. So as a commercial bank, we have only 15 years of experience. Right now we have 113 branches over 150 ATMs and cash recycling machines. We've also been adjudged as the Best Domestic Bank by AsiaMoney for 2020. And the other thing is, we have been investing very strongly on the mobile banking app and online banking, digitalizing the platforms on operational efficiencies over the years by introducing workflow solutions and robotic processes. With all this the cost to income ratio came down to 36 percent, you would see all that hard work that we have done has given us results.

We strengthened our staff base last year, right now we have almost 3,000 staff. This was done before this pandemic hit us but certainly we have plans to deploy them and get the best out of them.

NDB's brand presence was strong across the banking and capital market. We have our own subsidiaries in capital markets who are doing very well. We have the largest wealth fund under NDB wealth management, especially at a time like this, NDB Wealth Management will give net investment opportunity for the customers who basically will be more benefited with the Bank's short term and long term products and customers who want to get a high return within short term. For this Wealth management funds have come up very well.

NDB Investment Bank has been winning the best investment bank award for many years. That has coupled very well with NDB's, Corporate and Project Finance businesses to do several deals together. So all in all, I think this is the time that we can get the best out of Group investments in the capital market cluster and the time where the best synergies can be derived. Another thing is NDB is the only EDGE certified company in Sri Lanka. More than 40 percent of our staff are females and this will be further strengthen going forward.

Slide 11 - Movement in KPIs - Snapshot

We are comparing our first quarter financials with 2019 first quarter. Total operating income, we have seen a 11 percent growth to LKR 6.6 billion from last year. And then the post-tax profitability, 27 percent growth, to LKR 1.7 billion, mainly due to a tax reduction, as effective tax rates were revised down. So actually that's the benefit that we see. In terms of NII, NII was down by 7 percent to LKR 4.3 billion for the quarter, mainly due to the increase in cost of funds. But on the other side, net fee and commission income, we had quite a good

growth. There was a 19 percent growth to LKR 1 billion. So these are the key highlights of the Income Statement.

If you look at the Balance Sheet, we had a 4 percent growth in our Balance Sheet year to date [YTD] for the first quarter. Now our balance sheet size is LKR 553 billion. We crossed the LKR 500 Bn mark in September last year. So over the two quarters, we see roughly a LKR 50 billion growth. So that shows the level of growth that we have been maintaining over the last few months, which naturally will be curtailed in the coming couple of quarters. So, that's the level of investments and that's the level of efficiency that we have brought into the Bank. Gross loans for this quarter expanded by 4 percent to LKR 425 billion and deposits were expanded by 2 percent, to LKR 414 billion.

If you look at some of the key ratios; almost 15 percent ROE for quarter one. One of the best ROEs so far in the industry. We have seen a pre-tax ROA of 1.99% in Q1 2020. Last year also, the ROA was 2 percent. NIM has come down to 3.22% from last year's 3.53 percent. That is the reflection of cost of funds and also reduction in lending rate, which is in line with the regulatory intentions as well. Certain Caps were also introduced. So that is the reason for the drop in NIM.

NPL ratio at the yearend was 4.77%, and in this quarter end we have managed to keep it at 4.78%. When you compare this with the industry number of 5. 2 percent, we are better than the industry. But that's an area that we need to closely watch, especially in the coming months, and with the developments this can actually go up, but we need to manage it carefully. Maybe the moratorium will provide us some room to manage this, but when the moratorium period ends naturally, there will be a requirement to manage the portfolio quality very closely. So we are quite aware of this and we are already having arrangements to ensure that the quality of the book is preserved. The other key ratio is the cost income ratio, as I mentioned, this has improved substantially from last year. Our cost income ratio has improved from 39.9 percent in 2019 to 36.5 percent.

Slide 12 - Fund and Non Fund Based Revenue Analysis

There is an 8 percent growth in interest income and then in terms of interest expense, 16 percent increase. So all in all, the net interest income has contracted by 7 percent QoQ , but still we have recorded LKR 4.3 billion in net interest income. The variance was about LKR 332 million over Q1 2019. There are couple of reasons for this. One is, we went for a debenture issue in March 2019, which was priced relatively higher at that time. So in the first quarter last year, we didn't see the impact of that. But first quarter this year, we have seen the impact. So that is one reason for the increase in interest expenses. Other one is naturally the expansion in the deposit base with a greater skewness in to fixed deposits. So that is an area that we are working on, i.e. improving our CASA balances. NII was also impacted by narrowing margins, reflecting the reduction in the market rates. For example, the AWPLR in March 2019 was 12.2%, which has now come down to 9.3%, so almost 300 basis point reduction in AWPLR. Naturally banks are to be more efficient and that is what you see; despite these margin drops, so we have been efficient in getting our cost controls to make more efficient usage of these funding. The bank's NIM has come down from 3.53% to 3.22% in Q1 2020 .

Moving on to non-fund based revenue , net fee and commission income - there is a 19 percent growth from last year first quarter of LKR 864 million to LKR 1,026 million. Non fund based income again, have quite a good growth from LKR 467 million to LKR 1.2 billion.

Net fee and commission income is where we have been working really hard on with 19% purely coming from the fee based income. This was mainly benefited by enhanced digital banking usage and also the growth in business volumes. The fee based income is in line with the Balance Sheet growth. Other non-fund based income, also includes a gain on the revaluation of FOREX reserves due to the movement in the exchange rates. Last year the rupee appreciated so that there was exchange rate impact last year. All in all, Nil to fee income, there's an enhancement in fee and commission income portion in first quarter 2020 an improvement from 16 percent to 19 percent.

Slide 13 - Impairment and Operating Expenses

We have been closely following the loan book and in line with the post COVID impact we have been very cautious on this. So we have increased our impairment charges for the quarter to almost LKR 1.3 billion. Individual impairment was LKR 854 million and collective impairments was LKR 387 million. So compared to last quarter 2019, that is about a LKR 445 million increase. It's being driven by the collective provision charge in line with the growth in the loan book plus also provisions at the individual level. Considering the elevated risk due to distressed market conditions, we will be closely watching this in the coming quarters as well. Where necessary, precautionary provisions will be taken up.

In terms of operating expenses, the overall operating expenses grew by 8 percent from LKR 2.2 billion in Q1 2019 to LKR 2.4 billion, which is roughly around LKR 200 million. Increase in expenses are coming mainly from personal expenses, which is about 9 percent mainly due to the increase in the staff base. It is almost an increase of 300 staff members from Q1 2019 to Q1 2020. Other than that, the annual increments were also provided. Apart from that, actually we achieved lot of cost savings through automations. As I mentioned earlier, the robotic process automation has helped us a lot. We have deployed this in several areas. We have also implemented workflow solutions. Due to all this, we see improved efficiencies. Actually, the staff increases from last year to this year were mainly due to the increase in front line staff deployed in business building. However, in terms of the support functions, we did a very limited increase. Then there are Six Sigma practices internally and the large uptake on the digital banking by customers. All these have helped us to improve on the cost savings. Talking about the future, we now have a cost saving drive targeting the next six months to one year. Lot of learning also came from the COVID 19 impact, such as working from home arrangements and in improving the application of the digital processes. There are a lot of learning's which we will adopt towards better cost savings and cost management.

Slide 14 - Taxation

All the banks benefited by the changes to the tax regime introduced. The effective tax rate for NDB in first quarter last year was 53 percent, which has come down substantially to 41 percent in Q1 2020. This is actually a really positive situation. The removal of the larger tax burden of the Debt Repayment Levy has helped a lot. VAT on banking services was also reduced. Income tax rates were also reduced with effect from January 2020. So all of that has helped us, and the total tax expenditure came down from LKR 1.5 billion in Q1 2019 to LKR 1.2 billion in Q1 2020. So this is roughly about a 23 percent reduction in total taxes.

Slide 15 - Balance Sheet Growth

Moving on to the Balance Sheet, Total Assets, we have a year to date growth of LKR 23 billion which is a 4% growth. If you look at the year on year comparison, i.e. against March last year to March this year, it is a LKR 71 billion increase. So that's about 15 percent growth YoY in the Balance Sheet. I would say that this is quite a good growth that we have achieved over a year. The Gross Loan Book again, had a LKR 15.5 billion increase by the first quarter this year to LKR 425 billion. If you compare YoY, the loan growth was LKR 63.7 billion or 18 percent.

Total deposits had a quantum growth of LKR 9.1 billion in Q1 2020 to LKR 414 billion. But compared YoY, it is a LKR 63 million growth. So you would see that both deposits and loans have grown by an equal amount of LKR 63 billion or 18 percent over one year period. Borrowings have remained around LKR 87 billion in Q1 2020. Borrowings in the same quarter last year was LKR 82 billion. Equity has improved to LKR 41 billion. Total equity for Q1 2019 is LKR 35 billion, so roughly that is about LKR 6 billion increase. These are basically the retained profits. As such the Balance Sheet is quite sound. We have that ability to expand our loan book. If you look at the group assets, this is with the NDB Capital Group, total group assets now stand at LKR 559 billion. Which also got 4% YTD growth.

Slide 16 - Loan Book and Funding sources

The currency composition of the loan book was 79:21 in LCY:FCY for Q1 2020, whereas this ratio for FY 2019 was 80:20. All the business segments contributed towards the loan book growth in the first quarter. Product wise, we saw quite a good demand during the quarter in the consumer loans and the term loans. Loan book is quite well diversified. Consumption accounts for around 22 percent, Manufacturing 22%, and Infrastructure developments about 10 percent. On an overall note, it is a very well diversified loan book with tourism contributing to about 4% of the Loan Book. Agriculture, forestry and fishing about 7 percent.

In terms of funding; our deposits base grew 4 percent year to date. There is a 2 percent increase in the CASA base coming from granular CASA, and the CASA ratio was maintained at 20 percent. In terms of the currency mix of the deposits, in Q1 2020 77 percent of the deposits was in local currency. We also had repo borrowings of LKR 3.4 Bn.

Slide 17 - Capital and Liquidity

Moving on to the capital and liquidity levels, common equity tier 1 ratio, where the minimum requirement as of now is 7 percent, NDB's ratio is 9.03 percent at the Bank level and 9.88 percent at the Group level. Tier 1 capital ratio, for which the minimum is 8 percent, at the Bank level again it is at 9 percent. We have almost hundred basis points of buffer at 12.96 percent for Total Capital Adequacy ratio. At the Group level, same is 13.65%. We have a high liquidity coverage ratio at 170 percent and a Net Stable Funding ratio at 105 percent. So on an overall note, capital, liquidity and funding levels are showing quite a good situation. This is as per March 2020. As of now, our liquidity situation is quite good.

Slide 18 - Investor Ratios

Last year, the closing share price was LKR 100/-. However, as of Q1 2020 this was LKR 66.20. This was as at 20 March and that was the time that the CSE closed for trading under the lockdown imposed. However when the stock market reopened, we saw a bouncing back on the share price to around LKR 70/- level. Our Book Value per share has also improved to LKR 176.50. If you look at the Group level, the Book Value is under LKR 191.14. So NDB share

is trading at quite a deep discount compared to the book value. That is something I want to highlight for the investors. ROE as I mentioned earlier, is at almost 15% and the PE ratio is 2.6 times.

Slide 19 - Post COVID-19 - NDB's Readiness

As I mentioned earlier, I would like to discuss how NDB is ready for the post COVID 19 situation. I'm sure there'll be questions later on as well. Very briefly, some highlights are as follows.

We have received lot of applications from customers for the debt moratorium and we are processing all of them. I would say we would have received applications covering roughly 35% of the Loan Book including SMEs. Naturally, this figure is higher than the applications received from our corporate customers.

Then in terms of liquidity, as I mentioned, the Bank holds sufficient liquidity and as you saw earlier, NDB has adequate capital to face the situation. The investments in digital banking infrastructure have also proved highly effective and very relevant during the lockdown. We have been consciously building this capacity over the last year. We saw a very good contribution coming from the investments in digital modes and we will continue to invest on that. There are new ways of banking. As I mentioned, the pandemic has shed light on customer behavior and how they operates. We have a very efficient and nimble team working on these digital strategies and we have made quite a good headway. That is one of the key focus areas for us in the next few months to focus on. Furthermore, the Bank's business strategies and targets are revised. I think our team is quite actively looking at various avenues of revising our business targets. We have already embraced digitization at a customer service level and the internal processes level. This is going to play a huge role compared to the brick and mortar branches. Hence, our focus will be more on digital capabilities, reaching out to the customers using our mobile platforms such as the "Bank2U". So NDB Team, with their leadership and Board support is quite well geared to support the country in the economic revival.

Questions and Answers Session

(Answered by the GCEO, unless specifically mentioned)

Q 01: How much of the Bank's loans come under the moratorium and from which sectors have you seen stresses?

As I mentioned earlier we have received substantial requests from our SME Banking side. Roughly around 70 percent of our SME customers who are qualified for this and have asked for a moratorium. But in terms of corporate banking, it's much lesser. Personal banking side we gave two months grace period to all the customers. Roughly around 35% of the loan book is there, and in terms of sectors, as I mentioned previously, I think almost all sectors specially the agriculture, exports and tourism sector are given a grace period. This is in addition to the one year moratorium that they have been enjoying since Easter attacks last year. So naturally that also got extended. I think NDB is not alone here and this is something common to the industry as all banks' assets are stressed.

Q 02 : Central Bank's LKR 50 billion working capital facility-are these funds at zero interest cost to the bank? The end rate the customer is offered is 4%. When the Bank receives these funds it is at 1%. We need to fund these from our own funding and until the funds are reimbursed to us its at our own cost of funds. The margin would be 3%. However, the bank carries the credit risk. We have to assess this critically at a time that they are stressed as well and right now, the loan size is limited to around LKR 25 million for each customer. So quite a significant number of applications have gone and some more to go. The deadline is this Friday for us to process these applications.

Q 03: Since two months have passed since the lockdown, do you see the business of customers coming along, especially in the export sector?

Some of the export sector customers have started operations on time. For example, some of our garment exporters have started already exporting face masks and other protective equipment. They have started exporting tea and cinnamon and we see quite a good growth in this side. And already we have seen quite a good growth in the export side, especially with tea exports.

Indika Ranaweera : Yes we saw continuous exports in tea during this period.

Q 04: There was a subsidized interest rate up to 4 percent for Licensed Commercial Banks as a rebate. How would this work?

No, this is not a subsidized scheme. It's a refinancing scheme to lend at 4 % where subsequently the Central Bank will reimburse at 1%.

Q 05 : What is the FOREX gain component in the other income for the quarter?

This is roughly around LKR 370 million for the quarter. This is due to the depreciation of the Rupee. But since then we have also seen the Rupee appreciating. So we may not see that much of a gain in the coming quarter, it all depends on what the exchange rate is going to be.

Q 06 : Practices of rescheduling take place as a cover for debt moratorium. Do you see any requests for such rescheduling? In that case, what's the percentage of loans that will be rescheduled?

The question is not clear. If the question is on how much of the loans will be rescheduled apart from the Moratorium, that's based on individual cases. We don't have exact assessment as such. Ultimately when we reschedule we carry the credit risk and we need to ensure a proper loans are rescheduled. Therefore, we don't do that for all the customers, but selectively we do so to support customers given the COVID-19 impact or not, when any customer goes into a situation like that it is actually the banker's responsibility to help them out.

So those requests we evaluate very critically and they go for different approval levels. Independent risk assessments are also involved in these decision makings. So we are closely managing this. We have not seen much requests. However, apart from the mandatory moratoriums that we have to provide, very little requests we received which we are evaluating.

Q 07: Have you imposed any limits when giving OD facilities to existing customers?

We have not imposed any limits. However, we have been careful of customers who may use the unutilized ODs. So we have critically evaluated the customers and had to address to ensure all these are not used in a time like this. So that is one of the credit precautions that we have taken. But selectively whenever there's a genuine request we have been providing these facilities. We have been quite careful in managing the unauthorized ODs in a situation like this because OD is like an open cheque. So we have to be careful of what purposes those are being used.

Q 08: On the six month debt moratorium charge will there be any interest charge or will it be as per the Central Bank circular, with no interest?

This is a question we've been debating for some time. This is applicable for the entire banking and finance sector. Interest can be accrued at the contracted rate. So there's no question about the accrual of interest. But the question is, in the six months moratorium, when you give the repayment, how much of interest that we are going to charge after that. So the banking sector has agreed that in the moratorium, the grace period up to six months, if the customer can settle subsequently, there wouldn't be any interest charged for that. So for a six months period, the banks have agreed not to charge any interest. However, beyond those six months, the bank's stance is that we need to charge since there is a cost of funds as well. So we need to charge a reasonable rate. Discussions are still going on with the Central bank on this.

There was an example shared during the discussions, but that is limited to EMI - Equated Monthly Installment loans. However, we are working closely with the regulator and most likely we might get some direction either this week or next week about the rate that we can apply. So this is to the entire banking industry and the finance companies and we spoke to the regulator to understand what the impact is because if we are not allowed to charge interest then the impact would be significant for the industry as well. I mean, if you assume its 30 percent of the customers who would ask for a moratorium, you are looking at about 30 percent of a LKR 9 trillion asset base, reaching to LKR 3 trillion asset base. Since this figure is

quite a substantial figure we are working with the regulator to agree on something reasonable.

Q 09: What led to the LKR 4.5 Bn local currency Term loan growth?

This is basically, as I mentioned, the growth came from all sectors in the first quarter. I think mainly the rupee side was driven by the Retail and Project Finance side.

Q 10: What would be the impact on the P&L if the moratorium is applicable to 30% of the loan book?

Interest will be accounted on accrual basis. The accruals will go on at the contracted rate. But again, depending on what rate you can apply for the moratorium period thereafter. If there's no interest, then the impact can be significant. Assuming 30 percent, it can be a significant figure.

However, that's where the regulator has also realized this and is working on something amicable. So without knowing that, it is difficult to give a figure here. I think we would get clearer instructions in coming days. With that we should be able to clearly assess the impact. I think the issue has come because of the EMI. Because in one part of the regulation, it says that you need to keep the same monthly installments for equal number of moratorium periods. So, for example, if a six month moratorium is given, then the customer is supposed to service the moratorium figure in the equal number of installments - six months. So that's where the issue is, one is the time value and the holding cost of those because they depend on the tenor as well.

For example, if a Lease is say three years, i.e. 36 months and the 6 months moratorium, you have to recover after 42 months. So the timing issue is also going to have an impact where you keep that exposure funded. If you are not charging anything, then that's a big exposure that we are talking about.

Q 11: Where do you expect the gross loan growth to come from in terms of segments, and are these loans mainly towards expansion of CAPEX related loans or working capital related loans?

This is actually in terms of future. I don't think that demand would be as high as naturally last year this period. But some sectors are still working. Then there's a new norm of certain industries that have come in a time like this. So in some of the export products there can be increase requests even in the personal banking side there were some companies that had the salary cuts. Then there are the self-employed and the IT industry. There are sectors that we can work on closely. So still there are opportunities but not as high as the last year. This situation will improve as we move forward, but most likely it will be a low credit growth in the coming months.

Q 12: What is the expected loan growth for the rest of the year.

We have to be cautious on this. One thing is that due to the moratorium, the loan payments are curtailed.

So for the next six months, there will be a reduction in loan repayments. But on the other hand, there are requests coming from I mean, there are investors also looking at investment opportunities so that we need to selectively support these investors as well. Exporters have gradually started so we need to ensure that we fund them and there are retail opportunities too like home loans. The construction sector might start again once the funds are released and that's an industry which the Government is also quite keen to restart the economy with. So that's an area that we are also working. Then the health sector, once again, we see demand coming up. Then the distribution financing, and also web based distribution channels are also coming up, where we can tie up our customers with these distribution channels and help them to grow their assets like web based solutions. So that's why it's not the traditional way that we used to do banking. That's a different way of using the digital channels and funding them.

So it would be a cautious growth, I would say, for the next six months, it would be less than 10%. But we have to be cautious also of the quality of the credit that we will take in. So it would be a cautious growth for the next six months still things are not clear. So by the time we go out, we may be relatively better than some of the other global countries at the moment. But most of the larger economies we export to like US or Europe are still under the pandemic threat. I bet some of them are still there. So it will take some time for them to come back. That is the time period that we need to support the local industry. There is a naturally a tendency towards more locally manufactured goods in the plantation sector and smart agri business, and strong distribution networks. People have realized the demand for those and the digital platforms to cater to these demands.

So there is a growth sector as well. In managing cost also, we have learnt new lessons, in terms of Working from Home, optimizing the staff resources, etc. So that could also help to bring the costs down. So it could be a cautious approach in terms of credit growth, but there's much more that internally what we are doing in terms of improving efficiencies, reducing the costs further. So it will be more nimble and managing during this time and when the economy picks up, we are quite ready to capitalise on a growth.

Q 13 : How would the Trade loan book look like, especially with the import restriction in addition to country ratings being downgraded. Do you see any sort of new arrangements for LCs.

Niran Mahawatte:

I think we have already seen a reduction in the demand of the trade loans, as they have imposed restrictions. But at the same time, on essential items we see larger ticket items, But going forward restrictions can be taken out and we will see the demand again.

Dimantha Seneviratne:

The country rating was downgraded in April to B minus. However, I think again, that we have a very strong relationship with our correspondent banks. So we have not encountered a big challenge in our correspondent relationships but naturally, they would also like to preserve their exposure to these countries. So they are careful.

But now as they are coming out of the crisis, the funding would also come back. But in NDB specific situation, we have not seen much challenge so far. But hopefully when they come

out, things would be much better in terms of the trade lines that we receive from the other correspondent banks.

Q 14: There is a spike in March of LKR120 billion for private sector credit growth. Any sense from where this may have come from?

Probably this could be a seasonal growth as well. Naturally the country was gearing up for the festive season. Then naturally this is a quarter end and also a tax year end so some customers also grow their loan book. Cannot indicate a specific reason.

End of Q&A.

Closing Remarks

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

If there are any further questions, you can email them to our Investor Relations email. Thank you for your participation. I think we are ready to head the economy and NDB is in a strong position to support that. So we are looking forward to seeing and helping the economic revival to take the country growing.

With that we would like to conclude the webinar.

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

End of edited transcript.