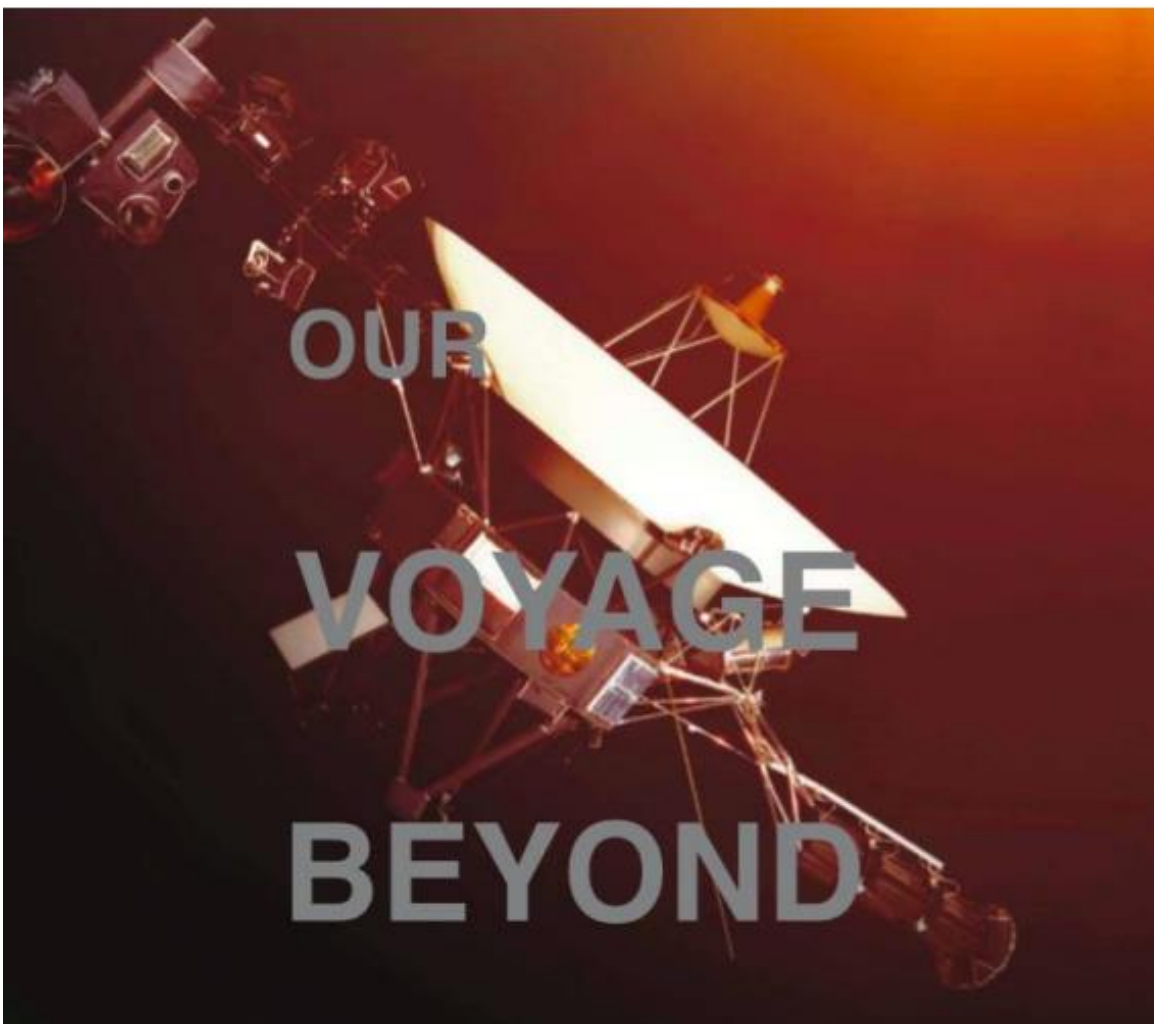
Edited Transcript

Webinar with investors and analysts

Quarterly financial results – Q3 2020
13 November 2020 – 10.00 am

National Development Bank PLC
NDB.N0000



Forward Looking Statements

This document has been prepared by National Development Bank PLC ("NDB", "Bank" or the "Group") solely for use at its presentation to potential & current investors. By accepting this document, you agree to maintain absolute confidentiality regarding the information disclosed in this document.

The information contained in this document should be considered in the context of the circumstances prevailing at the time and has not been, and will not be, updated to reflect material developments which may occur after the date of the presentation. Neither the Bank nor any of its respective affiliates, advisers or representatives shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document.

This document contains proprietary information and no part of it may be reproduced, redistributed or passed on, directly or indirectly, to any other person (whether within or outside your organization/firm) or published, in whole or in part, for any purpose.

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward-looking statements speak only as of the date they are made. The Group makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Contents

Corporate Participants

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

Investor Presentation

GCEO - Dimantha Seneviratne

Opening Remarks

A very good morning to all of you joining the NDB Earnings call. We released our third quarter results to the Colombo Stock Exchange [CSE] yesterday [12 November 2020] and as a part of our investor updates I welcome all of you to join the online investor call. All of us here are maintaining the distance as required but if needed during Q&A session they will join with me to answer all your questions.

Slide 06 – Corporate Profile

NDB is the fourth largest listed commercial Bank in the county with over 40 years of service to the nation from 1979.Credit rating of A+ LKA with a stable outlook by Fitch Ratings Lanka Limited. We currently have around 3,000 staff working with NDB and its group companies with 113 branches Island wide with strong digital platform. We are the only Bank in Sri Lanka with a fully-fledged financial conglomerate. NDB Investment Bank, NDB Wealth Management, NDB Stock brokers, NDB Zephyr and we have our presence in Bangladesh as well. Also we are the only EDGE certified corporate in Sri Lanka for gender equality.

We have won several awards from multiple spheres such as Best Domestic Bank in Sri Lanka 2020 from Asia money, Best digital consumer Bank 2020 from Global Finance USA.

Slide 07- Shareholder Milestones

Here we talk about shareholder milestones achieved. NDB was established in 1979 and we acquired commercial banking operations from ABN Amro and was converted into fully fledged commercial Bank after that. So we are talking about 15 years of experience and in 2019 we crossed LKR 500 Bn asset base and became the fourth largest listed Commercial Bank in the country.

Slide 09 to 10- NDB Historic Financial Performances

Now if you look at the rapid growth that NDB had from 2017 onwards over the last three and a half to four years, we have maintained an annual cumulative average growth rate of 15% in our total assets and also the loan book at three year CAGR is 22% and in terms of deposits the highest in the industry is at 25% now these ratios talks about how the ROE,ROA and NIM and cost to income ratio has performed over the past years. Again you would note that ROE wise we have performed slightly above the industry over the five years. However, in terms of net interest margin compared to what we were in 2015 where our NIM was around 2.6% we have come a long way to meet the industry average of 3.5 %. This is a quite a good story in terms of the margins.

Another one of the best stories that we can talk about is the cost to income ratio from a high of 49.1 % in 2015 we have brought it down to 39.9% as of 2019 when the industry Cost to income ratio has gone up to 47.04%. As of September this year NDB has further improved to 35.9% .With that quick summary of how five years we have performed lets move to the Balance Sheet ratios now.

CASA ratio is something that NDB had been working hard as I mentioned earlier. Being a young Bank with only 15 years of being as a commercial Bank with most of our branch expansions started only somewhere around 2015 onwards we have maintained a CASA ratio of 19.9% as at 2019 end. This has also improved tremendously during this year.

We have been managing the NPL along with the industry trend. You would see this is the reflection of the country's NPL ratio which has moved over the last five years and in NDB either slightly below or in line with the industry average. In terms of capital adequacy ratio NDB is working hard since we are slightly below the total industry capital adequacy ratio. This is what will be addressed with the capital raising activity which we have planned by announcing capital raising of LKR 8 Bn through rights issues since compared with the industry numbers our capital ratios have always been below 1.5% – 2 %.below the average.

Slide 12 to 14- Operating Environment Outlook

The global outlook of course is quite concerned with the developments in the COVID-19 related issues. Overall these are the numbers that IMF have published as of October. Global growth projection is a negative 4.4 %GDP growth rate and also a global growth projection for 2021 is 5.2 positive. With this, at least we can have some hope with the discovery of a vaccine. After the rebound in 2021 the baseline forecast for global economy is somewhere around 3.5% in the medium term ,of course these growth rates are largely depend on the behavior of the pandemic which is evolving as we all see and then also the lockdown and the distancing measures the respective countries are taking. Advance economies will have about negative 5.8 % for this year and then 2021 positive 3.9 when emerging markets like us with negative 3.3 % with a forecast of positive 6%.

Getting back to Sri Lanka, the trade deficit has improved to USD 4.3 Bn in September mainly due the contraction in imports and also the exports. However, the contraction in imports are much higher than the export so as a result the trade deficit has come down. In Worker remittances we see a quite a positive growth trend in September. Actually prior to COVID-19, worker remittances was roughly about USD 500 Mn a month but in July and September we have crossed USD 700 Mn .Couple of reasons is Central Bank is attributing all the worker remittances through proper Banking channels. Earlier some of those would have channelled through non-Banking channels where we won't get the numbers. Other one can be some staff or some overseas employees may have come back and with that their terminal benefits would have contributed. Of course this is a temporary inflow but I think more likely it's the funding that is coming through proper channels which would have contributed.

Also we had a year-on-year growth of exports which is something positive post COVID-19.
Y-o-Y inflation is 4% in October which has come down from 5.7% in January 2020.Rupee we see stabilizing at 184-185 range and deposits and lending rates are at very low rates. AWPLR as at 6-Nov was 5.96% compared to January 9.68%.That is about almost 400 bps reduction in AWPLR. Weighted average deposit rates were also at 6.23% in October to 8.1% in January.

Government yields, securities have come down and remain at very low level. 91 days or three months at 4.57 and one year at 4.69.

Credit to private sector has notably increased in September. One contribution probably can be the LKR 178 Bn which was approved by the Central Bank under Saubhagya loan scheme. There again NDB took a leading role. We were the fourth largest with LKR 18 Bn approvals using the Saubhagya loan Scheme.

The central Bank forecast for this year is a negative growth of 1.7%. However, ADB forecast is about negative 5.5%. The 2021 central Bank forecast is 5% when ADB forecast is at 4.1% positive.

Now let's discuss about the policy stance taken by the central Bank since the COVID-19 outbreak or even prior to that because with the change of policies we were going on a more accommodative policy where we have seen quite a big drop in policy rates all in all during the year.

Starting from January, policy rates were revised by 50 basis points at various instances starting from January, march, April and May. Plus the statutory reserve requirement has come down drastically which is currently at all-time low level.

In interest rates also there were certain regulatory caps which introduced. Cards at 18 % then the temporary overdrafts at 16%, pawning facilities at 10%,and then penal interest rate on over dues at 2%.

Apart from that to facilitate the customers affected by the COVID-19 pandemic a moratorium was introduced in April which was to end in September. However, given the second wave which took place, regulator has advised Banks to consider another six months moratorium for those who require a comfort. This is going to start from first of October and also there's an extension given to the Saubhagya loans that was granted in July and August. The grace period has been extended by three years. However, the remaining tenor remains at 24 months.

Slide16- Performance Highlights

These are the performance highlights of NDB

The operating income we experienced 11 % Y-o-Y growth and operating expenses were managed to cut down by 2 % through various measures such as digitalization of the work streams process improvements. Wherever we had controllable cost we were quite good at managing the cost down.

Profit before tax has increased by 2% year-on-year from LKR 7.6 to LKR 7.7Bn , Profit after tax had 34% growth from LKR 3.4 Bn to 4.9 per Bn. In terms of assets we had 13% growth in the total assets from LKR 530 Bn to LKR 600 Bn as of September 2020.

Gross loans we had 8% growth to LKR 443 Bn and 15% growth in deposits for up to LKR 464 Bn. So I think its the first time compared to all the previous years we having an advanced to deposit ratio of less than 100 which is now hovering around 94 %.We are in a comfortable position in terms of liquidity of the Bank which the Bank can make use of specially in a situation like this.

In terms of efficiencies we see a cost income ratio reflects a very good reduction from39.9 from 2019 to 35.9 in 2020 September. I think this is the best or if not one of the best cost income ratios among the entire Banking industry.

NPL ratio has gone up in line with the industry average of about 5.4%. NIM has slightly drop from 3.5% in 2019 Q3 to 3.23% in Q3 2020.This is through reflecting the low interest that is prevailing but we have maintained a 3.23 NIM despite having certain caps for certain products as we discussed earlier. Return on Assets that has also declined mainly due to the COVID-19 impact. However, we have managed to keep the ROE around 13.37%.

Slide 17 to 18 - Performance Highlights -Income

This slide provides more details about the income level of the Bank, Composition of interest income and fund based income. Here again a 4% growth in interest income was achieved when interest expenses growth only 3%.This 3% growth is mainly due to the growth in the deposit base. However all in all the net interest income we had 4% growth from LKR 13 Bn to LKR 13.6 Bn. This is roughly about LKR 576 Mn increase in the interest income

NIMs were dropped by 30 basis point in third quarter 2020 versus last year same period. Later in our slides you would see over the period how the AWPLR has come down and NIMs of NDB was maintained between 3.3 to 3.2. So I would say despite the market rates coming down we have kept the NIMe at a static level.

On the Non fund based income, there again we have a good story to share with you. Net fee and commission income recorded a growth from LKR 2.7 Bn to LKR 2.9 Bn when the non-fund based income recorded 72 % growth from LKR 1.7 Bn to LKR 2.9 Bn. Total non-fund-based income has grown by 31 % or in other words from about LKR 1.4 Bn for the nine months ended 2020.

Analysing the composition you would mainly see that the fund-based income has gone up by 73% to 76% and non-fund based from 27% to 24 %. Also you would notice that our fee base income had a greater weightage to the total income compared to fund-based income

2% Gains from trading to LKR 779 Mn was recorded and as a result of effective portfolio management, net gain was recorded from the capital gains from the government's security portfolio

So non-fund-based income to fund-based income as I mentioned improved to 27% and as a result the total operating income was up by 11% to LKR 19.5 Mn

Slide19 - Impairment

Let now move on to discuss the slide on impairment charges. So of course the elevated high risk after the COVID-19 impact is reflected in the impairment charges we can see almost LKR 2 Bn increase compared to 9 months 2019 versus 9 months of 2020 or in other words 68% increase in impairments.
So total impairment charge up to now is LKR 4.8 Bn. Collective impairment is naturally driven by the growth in the loan book where we had LKR 53 Bn growth in the loan book year on year and also the provisions at the individual level considering the elevated risk due to the stress market condition. So as I mentioned the gross NPL ratio over the first half last year 4.56% to has increased to 5.57% which is in line with the industry trends.

Slide 20 – Operating Expenses

Moving on to the operating expenses, this is where we have a good story to share with you.
Under total operating expenses we have 2% reduction from LKR 7.2 Bn to LKR 7 Bn as at September 2020. Personal expenses increased by 4% from LKR 3.7 Bn to LKR 3.9 Bn in September 2020. This is almost LKR 120 Mn reduction in an era where the cost is going up. We have been working hard to manage the cost especially in terms of controllable costs down. HR related personal expenses went up by 4% when the depreciation expenses grew up by 5%.

The best reduction is on the other operating expenses with 10% reduction from LKR 3Bn to LKR 2.7 Bn. This is thanks to digital means that we have moved into and also the efficiencies that we have brought in. Also a very close monitoring towards controllable costs and managing them through various ways to avoid unnecessary expenditure which has helped us to save about roughly LKR 300 Mn. So in a challenging time like this I think focusing on internal controllable costs has helped us to manage the cost and then have one of the best cost income ratio's as reflected in the graph below.

Slide 21 – Taxation and Profitability

There's a 7% increase in charge from LKR1.3 Bn to LKR 1.4 Bn in Vat on financial services. Certain taxes were removed in 2020 such as the debt repayment levy and NBT on financial services. So as a result we saved roughly close to about LKR 975 Mn which is reflected in total taxes with 23 % reduction compared to last year. So effective tax rate has come down from roughly 56% last year to 42% this is in line with the industry tax rates as well. So the Profit after tax had 34 % growth from LKR 3.3 Bn to LKR 4.4 Bn and profit attribute to the shareholders at the group level had 32 % growth from LKR 2.9 Bn to LKR 3.8 Bn.

Slide 22 – Balance Sheet Performance

Moving on to the Balance Sheet again this is an area we have been focusing a lot to get our Balance Sheet mix and the loan mix all right and as a result you would see a quite a good growth rate in the total assets growth of LKR 95 Bn or a 13 % year-to-date growth.

This quantum growth for the nine months especially at a time that is very challenging I would say is a good achievement while maintaining the credit underwriting standards very well in our investments

Investment YTD growth remains around 47 % roughly around LKR 45 Bn growth. loan book had 34 Bn growth or in other words 8% year-to-date growth compared to September last year versus September this year and that's about LKR 53 Bn growth with 14% year on year growth.Total deposits again provides us a good story to discuss. Year to date there's a LKR 59 Bn growth or 15% growth year to date. LKR 90 Bn growth with 24% YoY growth was recorded. Borrowings remains almost the same level about LKR 8 Bn increase only and the equity which of course there is retained profits included and YTD growth of LKR 5 Bn.

One good thing is that we have a very well diversified loan book. This strength has helped us to preserve the loan quality and the loan growth which has come from all sectors of the business lines.

Currency composition has also improved to local currency LKR 83 versus 17 which has improved from about 80 20 in 2019 .One of our strategic imperative is to improve the currency mix which actually is taking place. Other important milestone is the CASA current and savings base which crossed LKR 100 Bn. As of September for the nine months ended we had 26% growth for the year alone amounting to LKR 21 Bn. and then as a result the CASA ratio also has improved from 19.9 % in 2019 to 22%. Apart from that we raised a Tier 2 debenture in September 2020 for LKR 6.5 Bn but prior to that we redeemed LKR 10 Bn debenture in June 2020.

In terms of NDB overall group assets total asset base is LKR 605 Bn when Banks assets remains at LKR 600 Bn.

Slide 23 – Capital and Liquidity

Tier one ratio 9.21%, remains higher than the minimum requirement of 6.5% when in group level it's at 9.77%. whilst 14.21% is at Bank level for total capital ratio at group level it's 14.62% . The liquidity coverage ratios are quite healthy at 138.83 % level and NSFR also much higher than minimum 90% remains at 108.09%.The Bank is quite liquid and also quite stable in terms of managing the funding in a stress situation. I think we passed one of the most difficult nine months but I would say that despite that, Bank has steered quite well in managing the liquidity situation and also the overall portfolio quality and we have also announced the capital racing activities by announcing a rights issue of LKR 8 Bn. This is to ensure as I mentioned earlier to further stabilized the capital ratios because we were below the industry average.

Slide 24 – Investor Ratios

As at the end of the quarter we closed the market at LKR 89. This was prior to the announcement of the rights issue and rights issue was announced at LKR 75 per share so as a result the post rights issue announcement the price has come down to around LKR 75 level.
Earnings per share is now at LKR 23.92 there again a slight improvement from 23.05 to 23.92 as at 2020 Q3.ROE was at 13.37 when ROA stood at 1.7 in Q3 2020. Book value per share is at 187.97 for the Bank level when the group level book value crossed LKR 200 for the first time. The price to book value Bank level is 0.47 indicating tremendous potential as a share for investment and when you compare the upside potential that NDB has it's a tremendous value to be looked into.

Slide 25 – Impact of COVID-19 & NDB's Response

Before we move on to the Q&A I would like to discuss how NDB has responded to the COVID-19 situation. I think this is where our investments in the digital financial services have helped us especially during the first lockdown time. We deployed our mobile units to provide access to cash throughout the country. Actually we had only one unit with us but we managed to put two more vehicles into operations.

Then we opened selected branches in localities based on the government authorities instructions while maintaining highest health standards. With our ‘Bank2U’ branchless Banking proposition we went to the doorstep of customers who are unable to come out especially to the elderly customers to support their requirements.

So these are some important steps that we took during the first lockdown period and these measures were conserving by making use of the digital platforms and especially the QR code and then soon after the lockdown was over we came up with a financial assistance for the refinancing arrangements so that's where we took the lead in dispersing almost LKR 18 Bn worth of funds under the COVID-19 Saubhagaya scheme. In terms of the moratorium initially in April and May about 40 % of the Bank book was considered under moratorium. However, as of September those exposures under moratorium has come down to less than 30 %.

Most customers came out from the initial moratorium and now it is only 30 % of the book. but they are again the performance is quite good in terms of payments of both interest and capital.I think we are comfortable that we should be able to manage the customers given the quality of the portfolio

Then also we came up with a very dedicated proposition which we called NDB Jayagamu Sri Lanka, this is to support the exporters and also the innovators of the country. Taking advantage of the current situation where digital and then trading platforms are more important to showcase their products. We tied up with several service providers like the Daraz and we Tied up with the largest shipping line to support exporters in terms of their shipments. Then we facilitated the SME sector introducing various ERP solutions so that we would know the stocks and data situation there and that would help in terms of our credit assessment but that would also help them to manage their cash flows specially working capital requirements much better. So like that various measures were introduced. We also continued our effort in carrying the female customers through Banking on women proposition.and then through the earlier platform ‘vanitha abhimana’ scheme again recognized the female entrepreneurs and their efforts which we had three sessions so far in province wise but due to the lockdown situation we have to curtail the other five sessions we planned but that would continue moment the things are eased up.

Questions and Answers Session

(Answered by the GCEO, unless specifically mentioned)

Q 01 : What is the current Corporate/SME/Retail Mix and how does this compare to beginning of the year? Also if you take the last 6 months where would you say growth has come from?

I think that this mix has improved in terms of shift towards Retail and SME. However, the growth has come from all sectors. But we can see that from the exposure to Saubhagya loan scheme Retail side had quite a good growth in the last three months

Q 02 : Pawning book has seen a considerable growth in the last quarter (although still small in relation to total book). What is the strategy there?

I think one reason for the pawning growth is of course one side the gold prices have gone up and on the other side the interest rates have come down. So naturally there's a tendency to make use of pawning as a means of managing short-term funding requirements. Probably due to these reasons only we have seen a substantial growth in pawning assets throughout the industry.

Sanjaya Perera : In terms of the quantum we have about LKR 2 Bn growth so far for the year and that is also we see coming from the business segments like bulk pawning for investment purposes. Pawning is really at very low levels but for business requirement they keep borrowing and we also have this short term loan which is quite popular and there are cycles like when the harvest coming in we see the settlements. In terms of strategy I think we are quite serious about that pawning segment but it's a small portion of the total assets that we have.

Q 03: what is the impact from the second moratorium proposed to the Banking sector overall and NBD in specific

I think the second moratorium was just announced starting from first of October. Unlike the previous monitoring where it was probably like mandated now here the option was given for the customers and also the Banks. The interest is accrued at the contracted rate so the impact on day one compared to the previous moratorium won't be there.

In terms of impact to the NDB as I mentioned earlier when we began the post COVID-19 with the first wave moratorium about 40 % of our book was under moratorium which has improved to around 30 % now. So it has reduced from 40% to 30 % and even with that 30 % the performance levels are quite good as those customers were under monitoring of their performance.

So I think with the second moratorium being offered we need to wait and see how many of them would avail this offer. So far we have received some requests from the Retail side. Some customers have agreed with us and they will continue the payments. So it's an education part as well from the Bank side. Maybe when the moratorium was announced naturally most would try to take advantage but I think when you get more details on their financials some would stick to their payment if they have the ability to repay they would of course naturally stick to the repayment plan. So it's still early for us to comment about the second moratorium but I'm sure that a lesser number of customers might take the moratorium compared to what it was. Other factor is that moratorium is especially to those areas impacted by the second wave and it's not throughout the portfolio. We will consider all that when a moratorium is granted for the second time

Q 04 : When you say business segment are these retail clients who are using the pawning for income generation ?

Sanjaya Perera : Yes. I think mainly it is the individuals where the main source of income is business. For example the agriculture side and the other is the vehicle buying and selling business which is quite popular these days due to the restrictions in imports. So actually on a short-term basis they borrow and then they make a profit and then settle. These are very short-term facilities.

GCEO : When interest rate is mandated at 10 %, naturally a smart person would use that as a funding arrangement. So if you have gold assets that is a smarter way to borrow rather than paying something higher.

Q 05 : Would the current 30% on moratorium automatically get rolled over into the new one?

Answer is no. It's based on customer requests and also based on our own assessments but the leeway is given for further moratorium fund from first of October.

Q 06 : Has the impairment model adjusted for the COVID-19 impact and what kind of data has been incorporated

Yes, COVID-19 impact was factored and I think the lost given default and the probability of default were also adjusted as we move on so it's too early but of course the historical data won't reflect that

Suvendrini Muthukumarana : We have taken latest Central Bank data for Economic factor adjustments in the impairment model and so effectively we have taken the significant amount of impact to the impairment model.

Q 07 : NDB did LKR 18 Bn in Saubhagya loans and there was a scheme in that where CBSL is subsidizing 5% while the Bank can lend at 4% using their own funds. Did the Bank received those subsidizes from the CBSL?

Indika Ranaweera : It's due in December and we have about LKR 6 Bn exposure. So hopefully by December we will get the payment from Central Bank. I think its too early to comment on this.

GCEO : In terms of the Saubhagya funding, we have shared with the Central Bank our schedules and we have received the same.
In terms of re-financing there are two things. Subsidizing is one refinancing so in terms of refinancing loans we have received refinancing within a two weeks or maximum one month time lag. Subsidizing is what Indika Ranaweera was referring to where there was about LKR 6 Bn granted for which of course we have to wait till December for the subsidization to come in.

Q 08 : Any significant changes to holdings in SLDBs/ISBs relative to June 2020?

Niran Mahawatte : Yes there is a change because with the yields moving up the Bank also took a decision to reclassify part of the available for sale portfolio. That was done as of September 30th but we do have a significant but a very reasonable amount in the AFS portfolio currently.

Q 09 : Did the Bank took an impairment hit in the Quarter 1 or Quarter 2 due to Fitch Rating downgrade?

Yes, we actually took a hit in this quarter and the downgrade happened in this quarter.

Q10 : Did the Bank took an impairment hit in Quarter3 in an anticipation of a downgrade from Fitch Rating which might follows Moodys?
I think I answered that question earlier

Q 11: How much was the total impairment provision for those ISB and SLDB holdings?

Suvendrini Muthukumarana: We have made provisions for approximately LKR 300 Mn and there might be another part coming in for the fourth quarter as well.

Q 12 : What would be the average extension you think Banks can afford/willing to give for the extended moratoriums? i.e. will it be the full 6 months or less?

Even if there is no moratorium if a customer is in genuine difficulties any Bank would offer flexible payment terms so that is for the interest of both the customer and the Bank. We don't want to squeeze a customer and kill them so that we won't have any customers, and this is sustainable Banking. So whether there's a moratorium or not mandated Banks would naturally take that decision but when it comes to a willful default ‘yes’ we would go straight after them. Wherever, we have to help the client for genuine reasons certainly we will help them.

Indika Ranaweera : We have given across six months grace period even before announcing the COVID Moratoriums to Identified segment of the portfolio. So that's the Bank stance as GCEO said if the businesses are stressed of course we have to look at it positively.

Q 13: How does the change from the IMF forecast to CBSL forecast for impairment calculations affect the Banking sector impairment for the upcoming quarters? or were most Banks using CBSL forecasts instead of IMF anyway?

Suvendrini Muthukumarana: We had a discussion with CA Sri Lanka and It was agreed for Banks consistently to use the Central Bank published data. So I think even for the fourth quarter when we finalize annual financials Banks will be using the central Bank data.

Q 14: What has the movement been from Stage 2 to 3 over the September quarter? What % of the loan book is in stage 3 at September and what was this number in June?

In June the stage 3 composition was at 8.2% and September it was around 8.5%. There is no much movement in the state 3 portfolio.

Q 15: Fees and commissions rebounded much faster in the Quarter 3 even surpassing Quarter 1 numbers, what was the reason behind this and is this sustainable? (Any one off fees that came?)

Reason is the digital financial services where the fee related to that is quite sustainable. Other one is of course the fees were caped, you may recall that even cheque return charges were not allowed to be charged,so I mean in a quarter where these fees or even the Credit cards over limit fees and card related fees were curtailed but despite that fee income has grown thanks to the digital channels that we have used and deployed and there's about 400 % growth in terms of volume and 500% in terms of transactions and then the rebound of the trade activities in Septemberlast quarter.

Q 16: The moratorium based new term loans, are they considered for the growth in the gross loans which was disclosed? Is this impaired under a different classification using separate LGD and PDs

No of course if it's interest capitalized then that would be taken to the Balance Sheet. So I don't think that there's a growth due to moratorium related term loans.It's the same as LGDs and PD that we apply

Q 17: Has there been an impact on foreign loan availability or any impact on trade with international banks after the credit rating downgrade? Do you expect there to be an impact on them if Fitch and S&P also downgrade?

K V Vinoj : I think the answer would be no from NDB side and I think for us the foreign Banks and the foreign funding has been the same before the downgrade as well and I think we are very close with our correspondent Banking network and we keep updating them about the market situations. That's one reason that we have been also very positive about NDB.

The answer is for us it's no change from NDB before the downgrade as well

Q 18 What is the bank exposure to the import financing segment? Any expectation of a recovery early next year?

So of course the trading is quite a sizeable portfolio. Trading customers are going through these current trading restrictions. Around the other side there are customers of export driven and when naturally the imports are not allowed with import restrictions, exporters will get affected too. So all depending on the government policy until some of these restrictions are relaxed I think those Customers are finding it challenging to perform their businesses. From our side whatever the way that we can restructure and support we have been supporting them.

Q 19: Hasn't the rating change affects SWAP cost at least

Niran Mahawatte No rating change didn’t affect the SWAP:

Q 20: when looking at the economic factor adjustments were the bank using CBSL forecasts or IMF/WB forecasts prior to the recent guidance?

Suvendrini Muthukumarana: Actually we were using the central Bank data. We had our internal model also which was aligned to the central Bank data so we will continue to use the central Bank data and I think most Banks have used the same.

Q 21: What is the projection for PAT growth and NPL in 2021

We do have some ambitious numbers which I can’t comment on. Of course NPL is something we need to see with the COVID -19 impact is going to continue. We need to live with this situation for some time and customers would get adjusted to the new NORM and will come out from that.

So it's all very related to the COVID-19 impact. For example the tourism sector might take more time to come out but I think our exposure to tourism is less than 3% of the total loan book. With the diversified portfolio we have been able to manage it but it's all depend on how long that we have to live with this current situation and how we act towards.

We have given certain initiatives to promote the exporters by giving them the platform. So many customers of us have made use of that technology driven platform to display their products. In the event customers are unable to come to the showroom to see their products we have given that platform so they can showcase. and basically widen their market horizons using that platform. Bank should also play a role in helping these clients using our technological advantage so that the customers also benefit. it's a win-win for the Bank and the customer. We can stick to those new innovative ways and I think together we can help these customers also to come out.

Q 21 :How much the liquidity position was increased with the new asset classes coming in as liquid assets with CBSL guidelines?

Niran Mahawatte: what we can say is actually with the ADR also improving the Bank is at a very strong liquidity position and we are maintaining our statutory ratios also well very well above the central Bank guidelines.

Q 22 : With the 2nd wave continuously impacting, did the bank tighten the lending?

No I don't think we tight our underwriting standards but I think there's a lesser demand as well. I think
you need to bear that in mind in a situation like this naturally the customers think several times before they borrow. We need to be mindful of what is going around but we have not changed our underwriting standards.However since the customers are also are careful in terms of borrowing it's a mix of both that has resulted.

Q 23 : How has the business momentum been outside the Western Province. Do you sense that the recent localized lock downs within the Western province also impacted growth and interest in other areas also?

Indika Ranaweera :On SME side because western province is the main contributor to GDP there's certainly an impact but some of the industry specially the exporter side we see improvement and as a Bank we are also supporting because that is the area we see a growth irrespective of the lockdown situation.

Sanjaya Perera : Across the board there is demand so we are not reliant only on the western province and of course as Indika Ranaweera said the volumes have come from that. but the way we are diversified with the products that we have, in terms of lending we are covering the entire country so if you look at the breakdown of our portfolio it's across many sectors which is the success factor.

Q 24: What was the policy for the impairments when it comes to saubaghya loans? Are those loans go to stage 1 level and does those loans take a higher provisioning comparatively? (Even when having the corporate guarantee?)

Of course the guarantee is up to 50%.However normal LGDS and PDs like any other loans will apply.So naturally it would be categorized on the stage one but based on the performance that they will move into two or three so that is something similar to the any other loan. Any fresh loan that way we grew always it is in stage one.

Q 25: Have you seen growth in housing loan segment? What is the maximum period the Bank will fix the rate?

Sanjay Perera : Yes there is certainly a demand with the low interest rate scenario. There is a demand for housing loans. We are looking at fixed rates so we generally give as five year fixed. For 10 year rates we go for little bit of a higher rate and also the floating rate as given so it depends on the customer's appetite and then we have products based on that.

Q 26: What is the plan for Credit Cards? There was a strong acquisition drive prior to COVID. Will this continue?

In terms of credit cards we continue to grow but however the spend seemed to have come down because of the lockdown. However, the internet based spend where the card not present is increasing exponentially so the growth is literally normal compared to the previous period which is catching up from the internet transactions.and in terms of acquisition I think we will continue to have that momentum going. We introduced a loyalty card recently with the royal college and then the we are investing in our card systems. The new system will be ready most likely in the first quarter 2021.So with that more structuring benefits are coming up. Then of course you have seen our involvement in our QR code. There again our Banking Application is the only application which is the only app which can be used as a wallet as well.

Damitha Silva : As GCEO mentioned by increasing NEOS pay at NDB we are the first Banking app in Sri Lanka which has the capability to operate as the Banking app and the wallet because we have made arrangements to join 'Just pay' platform. The most significant change of this app is now it is available for Sri Lankans who are having account with any other Bank. NEOS pay is now not only restricted
To NDB customers but even other customers who can join within few seconds It's a very seamless process where the customer doesn't need to visit the branch so we don't need to visit a customer and ability to make payments through QR is something that we are driving at the moment and I think it's a revolutionary app in the market powered by NDB.

Q 27 :How has the asset quality been on the card portfolio over last 6 months?

Zeyan Hameed : Quality remains same and we are not seeing any deterioration. Our card base is quite shifted towards the upper segment and the middle segment so we have not seen any major deterioration in terms of portfolio quality in the cards.

Closing Remarks

With that we come to the end of the Q&A session. I think we answered all the questions and thank you for paying attention to our webinar which is the practice that we have been doing for many years every quarter soon after the accounts are published so I would like to thank the investment community for asking all these questions

We are quite open in sharing the numbers and all our September numbers were audited by M/S Ernest and Young for profit certification. Thank you for the support and looking forward to raise rights issue funds.

We are quite optimistic of the situation and as you can see compared to the industry numbers the Bank has grown so we would continue to maintain the same momentum in managing the situation. So with that I would like to thank all and conclude this webinar.

If there are any further questions, you can email them to our Investor Relations email. Thank you for your participation.

End of edited transcript.