



Earnings Call H1 2020

National Development Bank PLC
NDB.N0000

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10.00 am
Colombo - Sri Lanka

OUR VOYAGE BEYOND

National Long Term Rating:
A+(lka) Stable Outlook by Fitch Ratings Lanka Limited

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 and NDB's Response



- Part II - Business Overview



- Part III - Financial Performance



- Part IV - Q&A



- Part I -Impact of COVID-19 and NDB's Response



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NDB's response during the island wide lockdown

- Digital financial services functional in full force to ensure access to safe banking
- ✓ 86% of the transactions carried out in April 2020 were via digital modes
- 3 mobile ATM trucks deployed across the country
- Branches opened in selected localities

NDB's support towards economic revival

- Customer support for those impacted by the pandemic – a strategically important item for the Bank
- Reallocation of resources towards accelerated support – Staff, funds, etc.
- Introduced “Jayagamu Sri Lanka”, the dedicated platform to support SMEs and innovators
- Tie-ups with trade and export/ e-selling platforms and ERP solution, etc., for the benefit of SMEs
- Efficient execution of various relief measures introduced by the regulator
- Moratorium spanning up to 6 months introduced by the CBSL granted to c. 40% of the Bank's loan book – over LKR 170 Bn
- Over LKR 7 Bn in loans approved to eligible customers under the CBSL Saubhagya Renaissance refinancing facility – LKR 4.5 Bn disbursed already
- Bank's own funds disbursed to reinforce support to COVID-19 affected customers and the wider economy



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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
- Best Consumer Digital Bank of the Year 2019, as judged by Global Finance USA
- 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
- A staff strength of 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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Performance Highlights



		H1 2020	H1 2019	%
Profitability (LKR Bn)	Operating Income	12.9	11.5	11
	Operating Expenses	4.7	4.7	0
	Profit before All Tax	5.0	5.0	0
	Profit after Tax	3.0	2.2	34

		H1 2020	FY 2019	%
Financial Position (LKR Bn)	Total Assets	562	530	6
	Total Gross Loans	429	409	5
	Total Deposits	428	405	6

		H1 2020	FY 2019	Movement
Efficiency & Return (%)	Cost to Income Ratio	36.2	39.9	
	NPL Ratio	5.40	4.77	
	Net Interest Margin	3.25	3.53	
	Return on Average Assets (B/T)	1.56	2.01	
	Return on Average Equity	12.18	13.73	

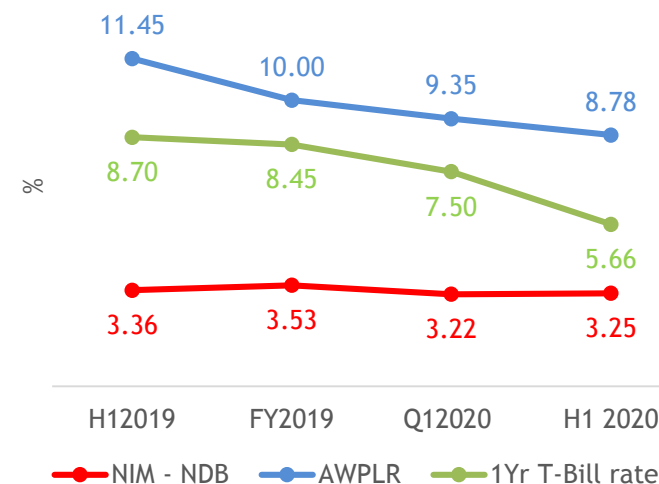
Fund based income

LKR Mn	H1 2020	H1 2019	Variance	%
Interest Income	27,255	25,963	1,292	5
Interest Expense	18,432	17,310	1,122	6
Net interest income	8,824	8,653	171	2

Highlight:
Marginal growth in NII

- 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
 - Reduced business volumes

Movement in Market Rates and Bank NIM



Non Fund based income

LKR Mn	H1 2020	H1 2019	Variance	%
Net fee and commission income	1,739	1,763	(24)	(1)
Other non-fund based income	2,297	1,133	1,164	103
Total non-fund based income	4,036	2,896	1,140	39

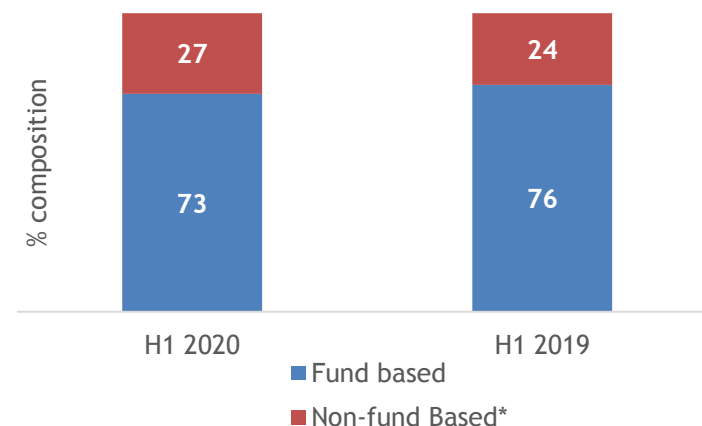
Highlight:

Marginal reduction in net fee and commission income due to reduced business volumes and waivers on fees

- Net gains from trading - LKR 537 Mn a reduction of 21%
- Net gains from derecognition of financial assets - Capital gains from Government Securities portfolio as a result of effective portfolio management
- Other operating income of LKR 751 Mn - attributed to exchange gains on the revaluation of the foreign currency reserves of the Bank
- Fund to non-fund based income [excluding other operating income] improved from H1 2019 to H1 2020

Resultant Total Operating Income - LKR 12,860 Mn - Up by 11% in H1 2019

Fund to Non-fund Based* Income Composition



*Excluding Other Operating Income

Impairment charges

LKR Mn	H1 2020	H1 2019	Variance	%
Individual Impairment	1,745	1,972	(227)	(12)
Collective Impairment	952	(210)	1,161	554
Other provisions - charge	479	115	364	316
Total impairment charges	3,176	1,878	1,298	69

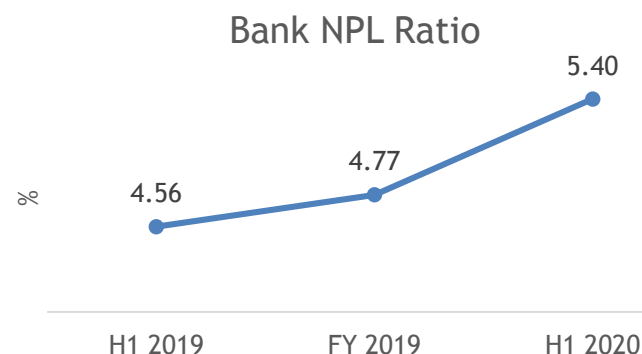
Highlight: LKR 626 Mn accounted for, in other impairment charges for Day 01 impact on the moratoriums

Collective impairment driven by

- the growth in the loan book (YoY growth of LKR 56 Bn)
- Provisions at individual levels considering elevated risks due to stressed market conditions

Non performing loans

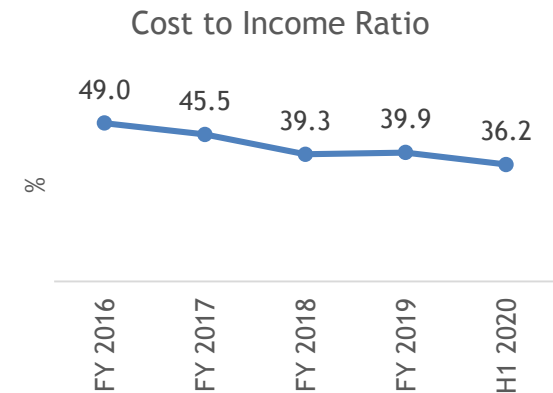
- Gross NPL ratio of 5.40% for the period under review



Operating Expenses

LKR Mn				Cost composition %	
	H1 2020	H1 2019	%	H1 2020	H1 2019
Personnel expenses	2,496	2,403	4	54	51
Depreciation & amortization	276	260	6	6	6
Other expenses	1,883	2,001	(6)	40	43
Total operating expenses	4,655	4,663	(0)	100	100

- Slight reduction in total operating expenses
- Personnel expenses driven by increase in staff YoY [H120 - 2,941 ; H119 - 2,766] to support business expansions
- Large cost savings achieved through automations - Robotic Process Automation, workflow solutions; six sigma practices ; larger uptake in digital banking
- Further cost management initiatives introduced to preserve returns in the post pandemic scenario



Highlight:

Significant improvement in the cost to income ratio as a result of these initiatives H1 2020 - 36.2% - One of the best in the industry

Taxation

LKR Mn	H1 2020	H1 2019	%
VAT on Financial services	965	912	6
NBT on Financial services	-	122	(100)
Debt repayment Levy	-	498	(100)
Income tax	1,093	1,256	(13)
Total taxes	2,059	2,788	(26)

Highlight:
Effective tax rate of 41% [Down from 56% in H1 2019]

- Considerable reduction in taxes due to Removal of NBT and DRL

Profitability

LKR Mn	H1 2020	H1 2019	%
Profit after tax (Bank level)	2,970	2,220	34
Profit attributable to shareholders (PAS) (Group Level)	2,364	1,790	32

Balance Sheet Performance



LKR Bn	H1 2020	FY 2019	H1 2019	YTD Quantum growth	YTD % growth	YoY Quantum growth	YOY % growth
Total assets	562	530	490	32	6	72	15
Gross loans	429	409	372	20	5	57	15
Total deposits	428	405	355	23	6	73	21
Borrowings	81	72	87	9	12	(6)	(7)
Total equity	43	39	36	4	9	7	18

- Diversified loan book - A strength which helps preserve quality in external shocks

Top contributors*

Consumption - 23%

Manufacturing - 22%

Financial services - 12%

Infrastructure development - 10%

- Term loans and trade loans have seen an increase from the business segment
- Currency composition
LCY:FCY - 80:20
Static in H1 2020 over FY 2019

*As per classifications for CBSL reporting

Funding - Deposits

- Currency composition of deposits - LCY:FCY - 80:20 static in H1 2020 over FY 2019

Well coordinated with the currency composition of the loan book

- LKR 7.4 Bn/ 9% increase in the CASA base over FY 2019
- CASA ratio of 21% [FY 2019 - 20%]

Funding - Other

- Reduction in borrowings due to maturity of LKR 10 Bn Tier II debentures in June 2020
- Repo borrowings of LKR 8.8 Bn

Highlights:

- Loans to deposits ratio improved to 100%
- Total assets at the Group level - LKR 567 Bn

BASEL III - H1 2020	Bank	Group
Common Equity Tier 1 Capital Ratio % [Minimum Requirement - 6.5%]	9.30	10.09
Tier 1 Capital Ratio % [Minimum Requirement - 8.0%]	9.30	10.09
Total Capital Ratio % [Minimum Requirement - 12.0%]	12.94	13.57
Liquidity Coverage Ratio [%] - Rupee [Minimum Requirement - 90%]	135.79	135.79
Liquidity Coverage Ratio [%] - All Currency [Minimum Requirement - 90%]	121.45	121.45
Net Stable Funding Ratio [Minimum Requirement - 90%]	106.86	106.86

- 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

Highlight:

Tier II Debenture Issue announced rated at A-(Ika) (EXP)

- The Bank has announced a issuance of Basel III compliant Tier II rated unsecured subordinated redeemable debentures (with a non viability conversion option) of LKR 5 Bn with an option to go up to LKR 6.5 Bn in the event of an oversubscription

Investor Ratios	Bank		Group	
	H1 2020	FY 2019	H1 2020	FY 2019
Closing price per share [LKR]	76.90	100.00	-	-
EPS [LKR] [Annualized]	21.56	23.05	18.19	21.53
ROE [%]	12.18	13.73	9.49	11.59
ROA [%] [Pre-tax]	1.56	2.01	1.46	1.97
Book value per Share [LKR]	184.25	178.02	197.13	195.60
P/E [times]	3.6	4.3	-	-
Price to Book value [PBV] [times]	0.4	0.6	-	-

- Share price reduced in tandem with wider market movements

Highlight: PBV < 1



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NDB Investor Relations



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- ✓ 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

Reach us;

investor.relations@ndbbank.com

T: + 94 112 448 448 Extn: 35338/35317

www.ndbbank.com/InvestorRelations