



# Edited Transcript

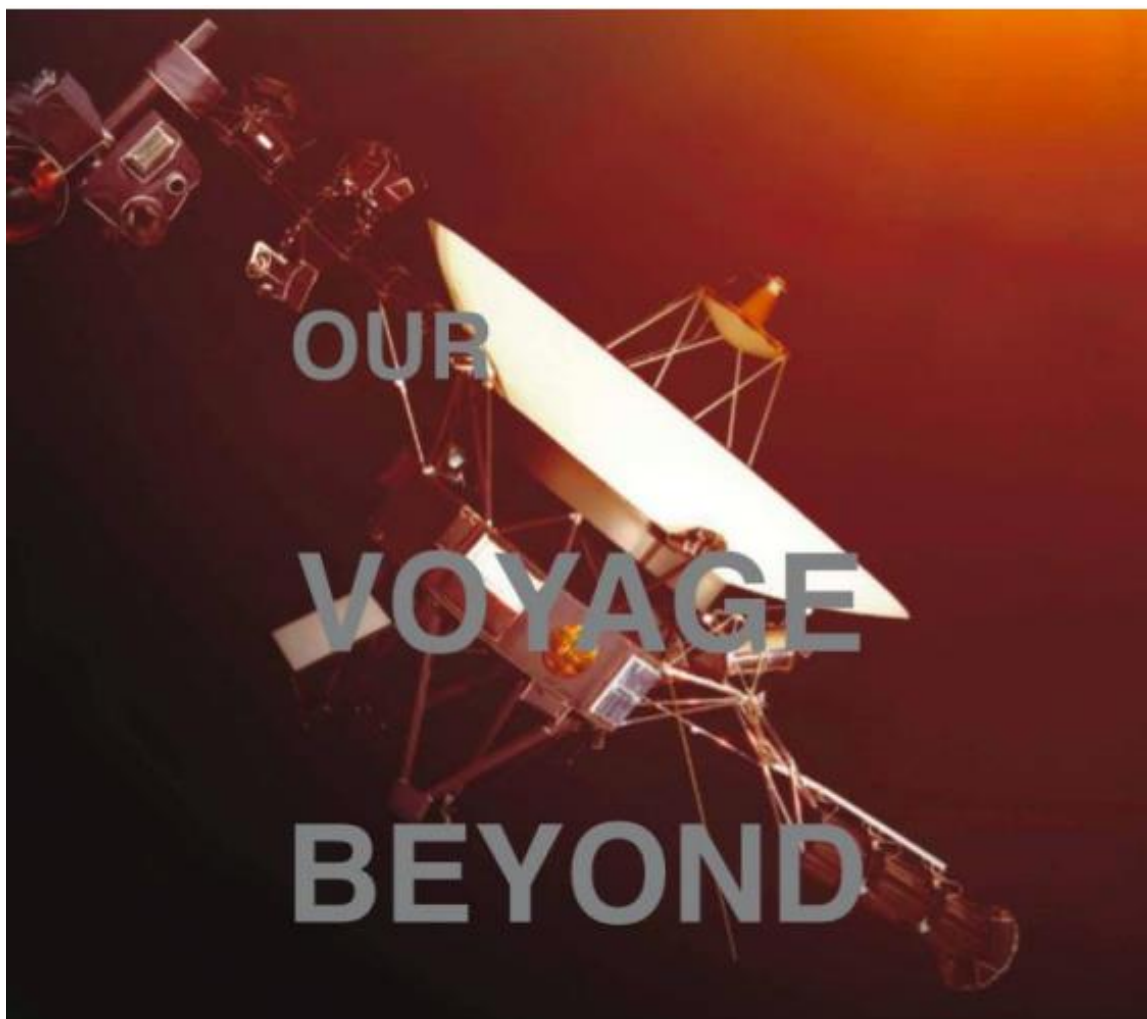
Webinar with investors and analysts

Quarterly financial results - H1 2020

14 August 2020 - 10.00 am

National Development Bank PLC

NDB.N0000



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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
- K V Vinoj - Vice President - Personal 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 half results to the Colombo Stock Exchange [CSE] yesterday [13 August 2020] as a part of our investor updates. I welcome all of you here to the Earnings Call to discuss the H1 2020 results.

#### Slide 06 - Impact of COVID 19

The country went through a very intensive lockdown period from April to end of June. Globally we are still struggling with the high number of reported patients specially countries like India and US. Total death rates have exceeded 750,000 and total impact people are more than 21 MN. Thanks to very proactive measures taken by the Government and medical officials of our country we have managed it relatively well. However, impact to the economy is quite severe; we saw a negative growth of the country during first half of the year, expecting for the next half also to be same as expected by Fitch, ADB and World Bank.

So overall everyone is expecting a negative rate for balance 2020, when the expectations for 2021 is very high with rebound expectation when the Central Bank has also indicted the same. So with those positive expectations, I would like to say that entire Banking industry supported the COVID-19 managing process by facilitating payment arrangements. NDB also deployed three mobile units and also our digital platforms were used to support the customers. NDB opened the branches as requested and managed them with 1/3 of the staff. As a result, we had many positive experiences which have helped us to improve our processes and to manage the cost.

NDB has given moratoriums for about 40% of our exposure to our customers. These moratoriums are both regulatory and non-regulatory driven ranging from two to six months. For some identified customers we have supported them more than what the regulatory required from us. Also we see some customers have started their repayments as well. With that positive move, immediately after COVID -19 period we introduced 'Jayagamu Sri Lanka' product which is a dedicated platform for SME's and specially to export driven innovators. This gave us lot of engagements with Export Development Board, Ceylon Chamber of Commerce, 'Daraz' e-platform, etc., in terms of getting a trading platform for exporters.

We also ensured relief measures are executed with very efficient manner despite the several allegations for delays. But in case of NDB we have given these in very efficient faster manner. As of now 'Saubagya Loan Scheme' we have crossed LKR 7 Bn approvals and we have already disbursed LKR 5 Bn out of the approved loans. The moratorium granted was more than LKR 170 Bn and there is an interest impact to the Bank from this as well.

#### Slide 08- Business Overview - Fast Facts

We are now equipped with 113 branches with a staff strength of 3,000. We have initially started as a 'Development Bank' and now NDB is a fully fledged Commercial Bank.

### **Slide 10 - Movement in KPIs - Snapshots**

Here we are discussing the profitability, Balance Sheet and the efficiency side of the Bank in very high level. Operating Income reflects a 11% growth from LKR 11.5 Bn to LKR 13 Bn. We have managed to keep the operating expenses flat compared to December 2019 which is a remarkable achievement. PBT recorded 'flat' despite being in a challenging environment.

There is a 34% growth in PAT compared to 2019 mainly due to the changes in the Debt Service Levy and Tax adjustments which has helped us. This is a very welcome move in a challenging environment specially to manage the capital requirements.

In terms of the Balance Sheet growth with compared to December 2019, we have recorded 6% growth in Total Assets from LKR 530 Bn to LKR 562 Bn. This is mainly from the loan book growth of 5% from LKR 409 Bn to LKR 429 Bn. In terms of Deposits we see a 6% growth from LKR 405 Bn to LKR 428 Bn.

Moving on to efficiency ratios the key important thing to notice is the downward movement of the cost to Income ratio from 39.9 to 36.2. The NPL Ratio has deteriorated from 4.77 to 5.4 when the CBSL published industry rate is also at 5.4. This is something we are continuously working on. However with the current situation and low economic growth with Easter attack and political instability prevailed in the in country last year the stress levels in the NPLs have increased. NIMs have deteriorated from 3.53 to 3.25. NIM was arrived by deducting the total Interest Income from Total Assets. So the important thing to note here is that we take the Total Assets when arriving at the NIM and not only the interest bearing Assets. Return on Average Assets has declined from 2.01 times to 1.56 when the Return on Average Equity slightly declined from 13.73 to 12.18

### **Slide 11 - Fund and Non Fund Based Revenue Analysis**

Moving on to further details on Income side. We can see that there is 5% growth in the interest income from LKR 25.9 Bn to LKR 27.2 Bn mainly contributed from the growth of interest bearing Assets. On the other side, 6% growth was seen in interest expense and as a result we experience a 2% growth in Net Interest Income from LKR 8.6 Bn to LKR 8.8 Bn. We see relatively larger increase in interest expenses due to quoted debentures issued in end March 2019 and due to the expansion in the loan book with greater skewness towards Fixed Deposits. We are closely monitoring our NIMs and Business Volumes and we see some positive movements in our CASA ratio with right strategic direction.

Graph to the presentation shows how the NIMs have changed from first half of 2019 to first half of 2020 with the substantial drop of AWPLR from 11.45 in 2019 H1 to 8.78 2020 H1. The substantial drop which is approximately 300 basis points. Also we see a drop in TB rates from 8.7 to 5.6.

### **Slide 12 - Non Fund based Income**

Moving on to Non fund based income, we can see that Net fee and commission income remains static around LKR 1.7 Bn. First half of this year there was a reduction as regulatory driven moratoriums were given to fee income like cheque return charges, credit cards etc. but despite all of that we see the fee income stands at LKR 1.7 Bn.

The Non-fund based income reflects 103% growth from LKR 1.1 Bn to LKR 2.3. This is mainly from the Government security portfolio and also from the gains from Financial Assets. So total Non-fund based income reflects 39% growth from LKR 2.8 Bn to LKR 4 Bn which reflects a very healthy growth.

If you look at the graph below we can see that in 2019, 76% of the income was arrived through the fund based income when 24% was from Non fund based income which has now increased to 27% of the income composition. This is also something which the Bank has been strategically focusing on to increase so as a result Total Operating Income increased to LKR 12,860 Mn - Up by 11% in H1 2019.

### **Slide 13 - Impairment**

We are now coming to the very important slide where everyone is very keen on due to current prevailing situation. We experienced 70% growth in impairment with compared to last year. I would say that we have taken very conservative approach on this

Individual impairment recorded LKR 1.7 Mn this year when last year it was LKR 1.9. However, the collective impairment reflects a substantial increase of LKR 1.1 Bn compared to last year. For the six months of 2020 this stood at LKR 952 Mn. And on the other provisions the first day impact (day one impact) is reflected in the other provisions charge.

So overall the total impairment charge is LKR 3.1 Bn compared to LKR 1.8 Bn which reflects almost LKR 1.2 Bn increase.

Collective impairment was driven by the growth in the loan book (YoY growth of LKR 56 Bn) and Provisions at individual levels considering elevated risks due to stressed market conditions due to current economic environment.

On Non performing side Bank recorded an NPL ratio of 5.4% when the industry NPL also stands at the same. Also this reflects an increase of almost 100 basis points compared to last one year.

### **Slide 14 - Operating Expenses**

Operating expenses reflects a positive movement where we see a slight decline of Operating expenses compared to H1 2019. We see a 4% growth in personal expenses due to staff increments. We expect significant savings under operating expenses to come in second half of 2020 due to the cost management drive carried out by the Bank and also through automation of most of our processes have helped us to manage our cost very effectively. For example we have deployed more than 14 workflow solutions and have introduced six sigma technics and robotic process automation has helped us to manage the high volumes of the Bank with limited staff. Also the Bank went through very comprehensive cost management drive. Of course, the COVID situation helped us to think differently and improve on our manageable costs. so with all this we expect better results to come in the second half of 2020.

The given cost to income graph reflects how cost to income ratio of the Bank has improved from 2016. In year 2016 the cost to income ratio was 49% in 2017 45.5 %, 2018 39.3 % and now in 2020 H1 stands at 36.2%.

This is quite a growth with a mid-size Bank and I think now since we are comparable with the larger Banks we stand at a very good position.

### **Slide 15 - Taxation & Profitability**

Total Taxes of the bank has reduced from LKR 2.788 Bn to LKR 2 Bn for H1 2020. This is a 26% reduction thanks to the removal of the NBT and Debt Repayment Levy. And also the revision on the vat on Financial services Vat and revisions on Income Taxes which was effective first of January this year. All these have helped us to improve the effective tax rate from last year 56% to this year 41%. So here we see substantial savings which will help the entire Banking industry to support the capitals of the Bank especially at a time like this after COVID impact.

### **Slide 16 - Balance Sheet Performance**

Total Assets crossed LKR 562 Bn in H1 2020 when the Total Assets were LKR 530 Bn in December 2019 and LKR 490 Bn in H1 2019. We see almost LKR 70 Bn (15%) growth of the Total Assets within a year. Loan Book stands at LKR 429 Bn reflecting a 5% Y-o-Y growth

Also Deposits reflects a positive movement when the Banks focus was on improving the Advance to Deposit ratio. Total Deposits stands at LKR 428 Bn when in year 2019 H1 it stood at 355 Bn. We see Y-o-Y growth of 73Bn which is a remarkable achievement of the Bank.

So in terms of the Loan book would like to say that the composition has not concentrated in particular area and it's a well balanced portfolio. We can see that term loans and trade loans have seen quite a good increase.

In terms of the currency composition of the Loan book has changed to 80:20 when this was somewhere 75:25 about four years ago. This was a focus area of the Bank to strength our exposure to rupee based lending. We have very effective ALCO process in placed which look at these decisions very carefully.

There is LKR 7.4 Bn improvement in CASA base over FY 2019 as a result we have managed to cross the 21% CASA ratio for first half of the year. More importantly these CASA deposits have come from the retail side which reflects that CASA base of the Bank is in improving trend with NDB moving on to all the corners of the country and reaching all levels of the customers.

In-terms of the funding there is a substantial reduction in borrowings due to increase in deposits. 2015 issued debenture was paid in June and repo borrowings of LKR 8.8 Bn was paid.

We see a quite a good growth in the Balance Sheet especially in areas like Loans to Deposits ratio. Total Assets at the Group level stands at LKR 567 Bn



### **Slide 17 - Capital and Liquidity**

Tier 1 equity levels remains at 9.3 for the Bank and 10.09 for the Group when the minimum capital requirement is to maintain 6.5%. Total capital ratio of the Bank is 12.94 vs minimum of 12% and this will get address very soon with the Debenture to be issued for LKR 5 Bn with the option to up to 6.5 Bn. After the EGM in next week we can finalize the debenture issue. With regard to Liquidity coverage we are very much above the minimum requirement and Central Bank also with the Covid impact has adjusted to 90% and we are quite comfortable on our liquidity levels.

Liquidity coverage wise we are very much above the required levels being at 135.79%. Net stable funding ratio also stands at 106.86% when the minimum is at 90%.

I would like to stress that the Bank is quite liquid and in terms of Capital raising will be continued to improve on our capital both Tier 1 and Tier 11 as well.

### **Slide 18 - Investor Ratios**

When it comes to Investor ratios we can see up in the Share price movement in last couple of days especially with the political stability of the country.

Book value of the share has improved to 184.25 rupees compared to 178.02 rupees last year. Price Earnings ratio has 3.6 vs 4.3 and price to book value is 0.4 times as at H1 2020.

What we expect to see in coming days is that the NDB group companies are fully focused to reap the benefits of the positive economic movement with the political stability of the country. Especially NDBIB being the leading Investment Bank of the country and NDB Wealth Management being the leading Wealth Management and Unit trust Management Company, with pioneered in stock brokering (NDBS), we see lot of activities coming in future with the Bank specially for debt structuring opportunities coming our way. NDB Wealth Management has crossed LKR 150 Bn in terms of total Assets under Management. Stock brokers are also expecting better numbers in days to come. I think the worse period for the capital market cluster is over, and now we can look into better market opportunities to cover.

## Questions and Answers Session

(Answered by the GCEO, unless specifically mentioned)

### Q1: What is the expected growth projection for H2 2020?

As I mentioned, various sources have quoted GDP growth varying in the range of -1 to -6%. CBSL is yet to come up with their numbers. It will be a negative figure. The economy will take some time to come back. The tourism sector is also badly affected. But we have seen some positive sides as well such as exports and agricultural production. On exports, for the first time, the country has recorded a YoY growth - close to a USD 1 Bn in exports. This is quite a positive improvement. Even our customers in exports are doing well. The pandemic has opened up new opportunities for us. In the global markets, there have been reliance on China for supplies. However there is look out for diversification of suppliers hence there is opportunity. Sri Lankan corporates are also taking this positively. This is why NDB also came up with “Jayagamu Sri Lanka” to support these exporter. All in all it will be a negative growth, but we hope it will be a faster revival in 2021 with political stability post the election as well.

### Q2: What is the mix of moratoriums given for 6 months versus three months?

*Suvendrini Muthukumarana*

On an overall note, the moratoriums are extended to over 40% of the Loan Book. The three months moratorium is approximately 5% of the entire book.

*Dimantha Seneviratne*

Apart from that, we have given moratoriums beyond the point specified by regulator as well. E.g: Those who are employed in the garment industry to whom we have granted facilities. Even some of our SME and corporate clients, we have extended the moratorium period.

### Q3: How has the collection ratio been in H1 2020 compared to H1 2019? What is the collection ratio for July 2020? What are your expectations for July 2020?

*Sanjaya Perera*

We are almost reaching the end of the six months moratorium period. So our collection teams are now ready to go for the collections. They are also foreseeing the re-scheduling. It is difficult to give a ratio. But we are in the process of reaching out to the customers after the moratorium period.

*Dimantha Seneviratne*

The good thing is the collection volumes are still manageable. We have strengthened the teams. We are expecting higher volumes. We have looked at some potential industries and proactively given them solutions as well. As Sanjaya mentioned we will have to watch how some of these entities come out, particularly where there have been salary cuts. We are ready with solutions for the deserving clients.

**Q4: In June, which segments did the growth come from [consumer vs. corporate] and also for the rest of the year, where do you see the demand coming from?**

Demand for credit came from all sectors. You have to be careful in loan book expansion in these times. However we have seen an uptick in the retail side, with more granular lending opportunities coming. So we have been supporting that. Talking about rest of the year, one sector that would grow naturally is the Saubhagya Loan Scheme. We have already approved c. LKR 7 Bn and disbursed c. LKR 5 Bn. Most of these were disbursed in July, and the impact in June was only LKR 1 Bn. There was also a credit guarantee scheme introduced by the CBSL. Up to 80% of the loan is guaranteed based on the value of the loan. All the business segments are expected to contribute, such as Project Finance, Corporate, Retail and SME.

We would have a balance and a cautious growth. We do not want to have an aggressive growth.

**Q5: Will NDB incur any additional loss of interest income in the second half, due to the one day impact of the COVID-19 moratorium being recorded?**

Yes, we have taken the one day impact. There will be no impact to the interest income unless there is a credit default situation.

**Q6: Elaborate more on the Day 01 impact of the Moratorium.**

Day 01 loss was taken if the modification was considered not substantial. So this impact is for loans which are not considered substantial.

*Suvendrini Muthukumarana*

How the Day 01 impact is calculated is, this is actually impacting the EMI facilities of the portfolio. Of the total moratorium this is approximately around 20%. This is on the EMI portfolio. The computation is done by comparing the current exposure with the present value of the contract based on the tenor of maturity and applying the interest rate applicable as per the relief measures. The difference in the values is considered as the Day 01 impact. Since the EMI portfolio is not substantial in comparison to the total portfolio, we have accounted for a Day 01 impact in line with the accounting standards.

**Q7: With much of the growth coming from Saubhagya loans, do you expect the margins to narrow in the next 6 -12 months?**

I do not think so. Because the new growth what I mentioned was about LKR 7 Bn. When compared to the Balance Sheet this is not a substantial figure. About 25% of the growth will come from the Saubhagya scheme. Rest of the loans growth is coming from other loans. However, even these loans are booked at a minimum margin of 3%. Si I do not think there will be a big impact to the margins.

**Q8: Are there any more relief or concessions to be given by the CBSL for the Tourism industry which will have a prolonged impact compared to other industries?**

Certainly yes. This industry will take a longer time to come out of the impact. There was a one year moratorium provided to the Tourism sector post the Easter Sunday attacks in 2019 also. So that moratorium ended in April 2020. On top of that the COVID-19 impact came in. So all those Tourism related customers got another extension of six months from April. However,

as we all know, the industry is struggling and would require more time to revive. The regulator is yet to come up with a direction. But most certainly, with or without a direction, individually we are supporting our clients. Hopefully at least some part of the interest portion they should service. That will be important. Otherwise we are extending quite a long duration from last year. This may have a negative impact on the cash collection. There could be an impact on the banks. So that is something that we need to be mindful of. If the companies who can service the interest would do so, that would help the banking industry. Most likely a longer duration will be given for these deserving customers.

**Q9: What percentage of the Loan Book is on variable rates?**

Around 70% of the Book is on variable rates. In a low interest rate environment we may not have that advantage. Because 30% of the Loan Book is on higher rates. But on the other side, there is upside as well.

We have been able to manage the interest rate risk. If you look at the deposits base again, those are all variable rates and we do not have much of one year fixed deposits. They are mostly three months fixed deposits, and savings or current accounts.

**Q10: With the drop in interest rates have you seen an increase in the demand for housing loans? Do you expect an industry wide increase in this segment?**

Yes, we have seen good interest.

*Sanjaya Perera*

Yes, we have seen a lot of people moving in to investments, especially apartments and land and they are taking the advantage of low interest rates. There is demand and heavy competition within the banks.

The advantage we have for our customers is that we offer loans with rates fixed for five years. So this is the advantage when the interest rates are at the bottom.

*Dimantha Seneviratne*

So naturally when the rates are low there is opportunity for other types of investments. So that is where stock markets is one option. On the housing side, again there is opportunity to diversify your investments. So we have seen a good demand for housing loan products.

**Q 11: Have you seen a pickup in Margin loans?**

We do not have a big exposure in margin trading.

*Sanjaya Perera*

We have seen some facilities/ requests. We expect this to improve especially with the Group structure we have. We have NDB Securities Limited and also NDB Wealth Management Limited offering respective services.

**Q 12: With the rates coming down, have you seen some of the borrowers re-financing their loans? Will this impact the NIMs?**

There have been occasional requests coming from those under higher rates, in terms of personal loans, etc. Selectively, we have been supporting. But on the other side, there is a repayment penalty as well. Even after paying the penalty, if there is a good saving, in terms of interest, I think some customers have taken that call. Also there are good requests for top up arrangements, especially on personal loans. This is the scenario when the rates are low. People like to re-book it and re-negotiate. However, in terms of NIM, we can't see a big impact because the cost of funds also have come down. The pre-payment penalty would also come in as fee income, which is not reflected in the NIM.

**Q 13: On the salaried segment, have you had requests coming due to salary cuts?**

*Sanjaya Perera*

There have been. We have offered the moratorium based on CBSL guidelines. We have also gone out of the way and helped these clients. We have some bulk requests as well, as we have exposure to some of the main companies that have gone for salary cuts.

*Dimantha Seneviratne*

So in summary, the first half, NDB has performed relatively better despite all the negative circumstances. You saw the numbers, the increase in the balance sheet and how we have maintained profitability despite the challenges. We also used the COVID-19 time to reflect and re-strategize. So we have worked on a new strategic plan for the Bank. This would be deployed soon. In that we will be reviving some of our areas that we have been focusing on. One good area is Project Financing and development financing. The country needs more support for up and coming export driven businesses.

We are dedicated and have the skills and the capabilities to support and advise them. NDB has that strength. Transactional based corporate banking, streamline this across the segment, work on our CASA ratio, etc. We have strategized a lot on similar areas and these will be deployed really soon. As I mentioned, NDB's capital markets cluster contribution is expected more. There are more restructuring deals available in the market. Similarly debt capital instruments coming particularly in the real estate sector. So this gives the opportunity for us to work on and that is where we have been building a solid and skillful staff base.

The challenges are behind us now. Now we need to focus in to the future and achieve better results for the institution and for the country. So we are looking forward for a better second half.

**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.**