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Edited Transcript

Webinar with investors and analysts

Quarterly financial results – First half 2021
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NATIONAL DEVELOPMENT BANK PLC

Forward Looking Statements

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Corporate Participants

Presented by Dimantha Seneviratne - Director/ Group Chief Executive Officer

Panelists

- Sanjaya Perera – Senior Vice President – Personal Banking, Marketing & Customer Experience
- 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

Opening Remarks -Kumudari Peiris

Good morning ladies and gentlemen, thank you for connecting to National Development Bank's investor webinar to discuss 2021 half-year financial results. We have with us today Director and Group Chief Executive Officer Mr. Dimantha Seneviratne who will take you through the presentation which is to be followed by a question and answer session. We would like to inform you that this session is being recorded for a playback video to be uploaded to the bank's website later on. On those notes let me now hand over to Mr. Dimantha Seneviratne to take the presentation forward. Thank you very much.

GCEO - Dimantha Seneviratne

A warm welcome to all the investors who have joined the call. This is the second webinar for the year. With me I have some of the Leadership members who have joined today who will be supporting me in answering the questions you all have got for us. Let me now take you through the presentation.

PART I – Corporate Profile

Slide 06 – Corporate Profile

As all of you know NDBs vision is to be the driving force for a financially empowered Sri Lanka. NDB is in operation for 40 years in Sri Lanka currently with more than 3 100 staff and with the Group of companies this is about more than 3200 staff members. Recently, last week NDB was marked with a Credit rating which affirmed at A+ Stable Outlook amidst stressed operating environment. We got 113 branches, 150+ CRM cum ATMs and global access through NDB NEOS a well-accepted individual platform catering to many customers and we are the only Group company with NDB subsidies in Investment Banking, Wealth Management, Stock broking etc. This has opened us many avenues where we can provide holistic solutions to our customers.

With all our results, we have been awarded by all the global awarding bodies, The Global Finance USA, The Banker Magazine UK, Global Finance's World's Best Digital Bank Awards, EuroMoney Magazine etc.

PART II – Operating Environment

Slide 08 – Operating Environment

As all of you are aware when we were coming out from the third wave entire economy had to face more difficulties, but NDB has been providing the support required for the economic growth as a responsible entity. We managed to do this with the strong platform that we have laid and by ensuring that the staff safety and their health requirements are fulfilled we managed to provide uninterrupted services to our clients and maintained higher portfolio quality.

Despite all the challenges we have been providing the key support that is required in as a key contributor for the economic growth. The travel restrictions in April affected the business momentum that picked up in the first quarter of this year. Last year economic growth rate is a contraction of 1.8%. This year we are looking at a growth of 4.3%. These numbers have to be reviewed in on the current context with the fourth wave progressing, but still certain economic recovery is expected in coming months.

The other point is the country's foreign reserve situation, but of course the country managed to pay its debt payments that were made in last week of July. I think it is quite a challenge that is currently being handled by the treasury and the Central Bank.

We have seen quite a good progress in the export side. The Y-o-Y growth on the export volumes grew indicating a positive drive. The tourism industry is basically at a standstill. These are the challenges any bank is faced with, but we are doing our best to ensure that we maintain the bank's strength, banks profitability while also ensuring the customers are supported. We have been doing that by providing moratorium to the impacted customers and reacting proactively to ensure that ultimately it's a win-win situation because we all believe in sustainable banking. When customers are in difficulties we need to help them out as it's a part of our responsibility.

Despite all these challenges we continued our internal process improvements, our investment in digital side including Core Banking upgrade is progressing very smoothly. Positive side of all this is that NDB never stopped even in the last year during the COVID -19 first wave time. We all worked very hard behind the scene to ensure that our digital platforms are up to date and providing good solutions. So as a result you would note some of those initiatives are reflected in the cost to income ratio of the Bank.

We will be coming up with several new projects; the one key element would be on boarding customers with vKYC. This is onboarding the customers without them coming into the bank through a verification process using the face recognition technology. NDB will be the first to introduce this. Recently we also launched the CRIB integration credit information integration with the individual's applications.

With all this that is happening I think when the economy opens up we are on a strong platform to support the growth and propel the growth at a much higher rate.

PART III - Financial Performance H1 2021

Slide 10 – Performance Review

These are the first half results in a summary. Total Assets grew by 6% to reach LKR 664 Bn. Our loans grew by 10% in a challenging environment crossing LKR 487 Bn and deposits grew by 5% to LKR 515 Bn. Profit After Tax which I think one of the highest so far based on the results that have been released we recorded LKR 3.9 Bn which is a 32 % growth. Profit before Tax grew by 21% to LKR 6.1 Bn, and more importantly the increase Net Interest Income that is a 17% growth despite the reduction in the interest rates stood at LKR 10.3 Bn.

ROE of the Bank was at 13.81% one of the highest, Return on Equity was at 13.13% last year, pre-tax ROA of 1.68% again improvement from last year 1.59%. Net Interest Margin improved despite the lower rates to 3.23% from 3.07% last year. Cost to income ratio in first half of the year is quite good and I think that's the best in the industry right now with 33.3% compared to 37% last year. In summary, financially we are performing quite well and we hope that we should be able to continue the same trend actually much more better once the COVID -19 situation improves.

Slide 11 - Income Statement - Fund Based Income

On the fund based income side. Interest income was at LKR 25 Bn; compared to last year we see a 17% increase, which is LKR 1.7 Bn growth. Net Interest Income of LKR 10.3 Bn was recorded and compared to last year's NII of LKR 8.8 Bn recorded a LKR 1.5 Bn increase for the six months which is about 17% Y-o-Y growth.

Overall total interest income and total interest expense was reduced despite there is a growth in asset book which is about 18%. Other development is CASA which is I am pleased to share that Y-o-Y fresh CASA deposits coming is over 50%. We have seen lot of granular CASA coming in thanks to our transactional banking and trade base banking which gives the signal that solid base CASA is being developed from all Business segments.

The Bank managed to increase the Net Interest Income by 17% .The key highlight of this is the increase in NIM to 3.23% from 3.07% in 2020. NII is the majority contributor to the overall operating income which contributed 67% of the total income. The other development is the increase in CASA. I am quite pleased to share that in the first half of the year 50% of the fresh deposits came in was from CASA. This is a very good development due to the lower interest rates. However, more than that we have seen a lot of granular CASA coming in thanks to our strategies that we implemented in transactional banking and also on trade-based solutions. As a result we have seen a lot of transactional related customers moving their operating accounts with us which is a good sign.

This means a solid base of current and savings accounts are developed both at retail SME and Corporate level. We see LKR 48 Bn has come in Y-o-Y as current and savings and as a result our CASA ratio has improved to 26% from 21% in H1 2020.

Slide 12 - Income Statement – Non Fund Based Income

On the Non fund based income we again have a good story to share with you. For the first half this year we managed to bring the net fee and commission income level to LKR 2.5 Bn compared to LKR 1.7 Bn last year.
The new strategic plan which we launched last year with the focused on transactional banking has actually helped. Despite the restrictions on trade transactions the increase in fee based income signals are very positive. Also, the contribution coming from our digital solution side has helped us and with more trade volumes coming in.

Achieving this fee based income improvement is certainly due to the successfulness in strategies implemented on the transactional base volumes which have worked in favor of us.
Other non-fund based income increased to LKR 2.4 Bn compared to LKR 2.3 Bn last year recorded 6% growth. In total, we had non-fund-based income growing by 24% Y-o-Y for the six months of 2021 crossing LKR 5 Bn from LKR 4 Bn last year. This is almost of LKR 1 Bn growth.

As I mentioned earlier, key reasons of the growth rates are the growth in loan book and related fee income generated from the increased loans, growth in the NDB credit cards then the trade volume and also the larger transactions. Digital banking again made quite a good headway creating a very solid fee base platform. Also this would help us in the long term to function in a low interest regime. So this is something we have been working hard and we are quite pleased to see that the results that are coming in.

Slide 13 – Income Statement – Impairment

We have proactively and conservatively improved the impairment chargers but despite that when the loan book grows there would be a natural increase in impairment charges.

As we all know with the COVID-19 situation and the economy coming from a negative growth rate the impairments would be high. Our NPL ratio as of June 2021 was 5.63% and as at June 2020 it was 5.35%. The slight increase is in line with the industry NPL ratio. However, what we did internally was to build up our provision book where impairments were actually increased substantially almost by LKR 1 Bn Y-o-Y so for the first half of the year.

LKR 4.1 Bn in total impairment charges were hit to the Profit & Loss account which is a 31% increase from last year first half, so one key element here is that we wanted to address the credit quality concerns and we proactively conservatively improved the impairment chargers.

Despite that you would have seen the growth of loan book, which is a key reason for increased provision charges. Also the assets are mainly in the stage one based on the impairment models. Since the assets are not on stage three when there is a loan book growth, naturally there will be an increase in the impairment charges.

Then the collective and individual level provisions that we have made given the elevated market risk considering the most recent changes in the economic factors like GDP growth rates.

In terms of asset quality monitoring side we have strengthened our recovery teams, proactive collection teams and we have strengthened while paying more attention in terms of collection recovery and also providing solution when we have to provide because the customers also have naturally got affected.

This process is a continuously process and we will continue to strengthen this area to ensure that the portfolio quality is managed. Overall, currently the exposure under Moratorium is around 17% of the loan book which will be the situation at the end of the year as well. I consider this as a good development because compared to end of the year we having a third wave but despite that there was improvement when 17% dropped to around 15 % but again this has gone upto 17%, still it's managed around the same level which is why I would say it's a good sign because most of these clients are serving their interests.

Slide 14 – Income Statement – Operating Expenses

Actually, we have a very good story to share with you on this. As you can see from year 2016 onwards how NDB has been managing the Cost to Income ratio from a high of 49% in 2016 and to gradually bring that down to 33.3%. I think this is a very good story for any case study to analyze how the implementation of digital solutions applications of workflows helped internal process improvements to arrive at sustainable cost savings. Also the application of six sigma mechanisms, application of robotic process engineering has also supported us. We have about 14 RPAS right now assisting us and has helped us to improve the Cost to Income ratio. For example 14 RPAS that we have been working hand in hand has managed to reduce the head count by at least hundred. That itself is a sustainable saving and also that has helped the staff who are handling to move into more value added kind of roles rather than handling mundane tasks. The other element is the success of NDB NEOS application. In 2020 we had LKR 46.4 Bn worth of transactions routed roughly that counts to about 1.7 Mn transactions for the whole of

last year. This year for the first six months we had 1.6 Mn transactions and total of LKR 52 Bn worth of transactions. This means over the first six months the whole of last year's transactions have been covered through NEOS app and as of July end LKR 52 Bn has gone up to LKR 61 Bn.
If we had to process these transactions manually another additional 150 staff will require to process them, but without any additional head count we have managed that which is the beauty of digitalization. Having that investment made three years ago and having that vision to go on, actually paved good results for NDB and we will be continuing to grow on this platform ensuring that our Cost income ratios are very well managed going forward.

Slide 15 – Income Statement – Taxation & Profitability

In total tax, there is only a 5% growth. This is mainly due to the reduction in the applicable tax rates. Effective tax rate now is at 36% and this is compared to the effective regulatory tax rate, which is 39% to 42%. In 2020 it was around 49%. So overall the tax rate reduction has helped the bank to manage our taxes. Despite a 5% increase the total tax paid was LKR 2.1 Bn. VAT on Financial services is LKR 1.1 Bn with an income tax of LKR 1 Bn.

When discussing the profitability ratios profit before all taxes grew by 21% to cross LKR 6 Bn. Profit before income tax recorded 22% growth which is LKR 4.9 Bn. This so almost LKR 5 Bn compared to LKR 4 Bn last year and PAT of LKR 3.9 Bn compared to LKR 2.9 Bn recording LKR 1 Bn increase or 32% increase.

Profit attributable to the shareholders at the group level recorded 73% growth to cross LKR 4 Bn. Actually the profit attributable to shareholders is mainly due to the improved performance in the NDB groups capital market cluster and all of them have turned around and that is also a good story where with the capital markets improving .All the subsidies have performed very well especially the stock brokering arm and Wealth Management. Both these subsidiaries have contributed quite well to the growth in overall profit attributable to the shareholders.

Slide 16 – Balance Sheet Performance

Despite all these economic challenges we have growth our Balance Sheet and here we discuss about the movement of the Balance sheet compared to last year H1 and year end 2020. We have grown the Balance Sheet by 6%. LKR 664 Bn was recorded as a total asset base when investments are almost the same at LKR 158 Bn. However, the gross loans we had recorded LKR 43 Bn growth for the first six months which is about 10% growth in the loan book. In total deposits we have 5% growth recorded.

In equity there's an improvement from LKR 45 Bn to LKR 58 Bn thanks to the rights issue where we managed to raise LKR 9.5 Bn. So the Balance Sheet growth is quite stable when the loan book growth is positive. Composition of the loan book is coming from all four main business units of the Bank, Retail banking, SME, Corporate and Project Finance. Contribution from first six months corporate and retail are higher compared to SME since we took a slow approach in expanding SME book given the credit concerns in this sector. However, the slow growth of the SMEs were covered by the corporate and the retail segments.

Total deposit growth exceeded LKR 500 Bn mark during this year and as I mentioned earlier exceptional growth in CASA base has supported us to reach LKR 136 Bn, which is 26% growth, and 50% of the deposits have come from CASA, which has come from all segments. Especially on the granular CASA retail side even corporate and NEOS application has also helped to have some good CASA base which is quite a good improvement in terms of the Balance Sheet.

Slide 17 – Capital & Liquidity

Moving on to the capital and liquidity position, with the capital raising activities completed, common equity has improved to 10.43% from 9.17% . Group level equity has improved 10.83% when the minimum ratio is 6.5% for common equity tier one capital ratio. Tier 1 Capital Ratio of LKR 10.43 Bn was marked when minimum of 8% is required by the regulator and the total capital ratio has now improved to 14.73%.
We are maintaining quite a good Liquid Asset ratio of LKR 204.01%. Liquid coverage ratio and all those regulatory minimums are maintained which has contributed to have a much stronger Balance Sheet compared to what it was in December last year.

Slide 18 – Investor Relations

When discussing investor ratios, I would like to highlight that despite all these developments unfortunately the share price after the rights issue which was raised at LKR 75 went up to about LKR 80 to LKR 83 range, but with the current situation it has come down to around LKR 78.79 range. Earnings per share has improved from LKR 23.77 to LKR 28.89 and ROE as I mentioned was 13.81% one of the highest for the banks. ROA is 1.68%, book value per share is LKR 161.48 .Book Value per share has come down to LKR 161.48 mainly because of the increase in the capital or number of shares issued through the rights issue.

However, price earning reached 2.78 times when price to book value slightly improved to 0.5 times. However, this actually reflects the current low liquid in the market and the market sentiment. Nevertheless, the upside potential for the NDB shares are much higher.

PART IV – Other Strategic Focus Areas

Let me now share some insight on the strategic focus areas that we have been covering. As I mentioned, we have introduced our five-year strategy V 25 or Voyage 2025 which focus on to double our asset base and also triple our bottom line.

There are several strategic pillars that we focus on. A key continuation is to invest on the digital platforms so as a result NDB NEOS app is making a very good progress with quite a substantial new customer base that have joined us every month. Quite a significant NDB new customer is getting added to that platform. We have also moved on to the QR base payment system so the customer will be able to onboard without visiting the branch and that would actually revolutionize the way the Banks work.

Using the digital available technology will certainly support our customers when struggling in lockdowns in this COVID-19 situation.

We also introduced CRIB report download option through the NEOS application. We are the first and only bank to do that so far and for first to commence the development of vKYC video using AI technology where we can match our face through the face recognition technology.

Regulations on this were relaxed in November last year. So with that we are the first to move into that space. There are several other banks also coming in but not probably the way that we are doing. Most likely we should be able to launch it within the next couple of months.

With the new features customer on boarding can be done without coming to a branch. This will also reduce the cost of opening new accounts and that could actually revolutionize the way that we banks are moving more towards more digital services. This would be a quite an immense change in the whole banking landscape.

Also we launched the 'Jayagamu Sri Lanka' product again to support the entrepreneurs, the exporters are required to be supported for the country and that is progressing quite well as we have launched several platforms for them to showcase their products for the overseas markets and also local markets using the digital technology available which is actually helping in a situation like this.

In a lockdown situation with the business continuation to avoid the interactions such platforms will be very useful. We also ensured that our CSR activities are also covered well. So we continued with our CSR activities ensuring the staff safety. We have been contributing quite well to ensure wherever possible with our ability to go and support the community through various charitable activities. Staff members were provided various measures to protect from COVID -19 and we provide transport services and all the health care services were provided to ensure that their safety is addressed.

Other key element is the 'Vanithabimana' which is banking on women empowering women in Sri Lanka. Despite the COVID-19 situation we managed to conclude the grand finale in March this year on the international women's day of 8th of March. Also this week we signed up and launched the second stage again.

Last time all nine provinces were covered with 6,000 applicants, some of our staff members also contributed as judgers, volunteered and it was a roaring success and with that knowledge we are launching the second phase which we have already signed up and the press conference was held again with the added feature of recognizing professional women in the corporate world. This is all part of our support to ensure that women participation in our economy is much higher. Right now only 35% women contribution to the economy though population wise 52% of the population are women. If you look at the undergraduates coming out from the university 60% of the graduates are women. However, their contribution to the economy is lower so that is part of NDB's responsibility we thought that we should take this message across and that is why 'Vanithabimana' was launched.

These are some of the other key areas that we are supporting the economy and supporting the country.

PART V – Way Forward

Here we discuss bit of strategy that we launched in November last year, which is a midterm strategy guiding the NDB Group towards the 'Banking group of choice'. This is where NDB bank has a unique advantage of having several group subsidiaries where we can get the best group synergy. NDB Investment Banking, NDB Wealth Management, NDB Stock Broking, NDB Zephyr and also our subsidiary in Bangladesh. In the Investment Banking side how we can work together is to ensure a holistic solution to our clients so that we can make the NDB Banking group as the banking group of choice. Voyage 2025 was launched with that note and one key element in the strategy is the digital drive providing customer solutions through more process efficiencies.

Then the cost efficiencies that we spoke of through the introduction of new technology which we discussed in detail earlier and also Banks commitment to COVID-19 support scheme.

Also our strategy focus on fee base income from transaction banking since going forward the interest rates would be lower and we need to improve on the fee based income activities.
Supply financing, dealer financing so provide a holistic solution and that's where even the group companies are working together with us.

When it comes to an Investment banking deal, the Investment Banking team work together with the Project Finance team so that they get the best out from the group's synergies.

The last but not least the banking on women platform we launched was in a better stance because we are the only certified entity in the country which stands for economic dividend for gender equality. So we have given quite good opportunities for female staff as well to grow up in the ladder.

We are quite pleased to see the first six months performance of Voyage 2025 five year strategy which has reaped quite good results as you can see from the financials that were released and discussed with you.

PART VI - Q&A

Questions and Answers Session

(Answered by the GCEO, unless specifically mentioned)

Q 01: What is the outlook for interest rates and rupee depreciation for the next 12 months (2021 and 2022?)

Niran Mahawatte - It's a very difficult question to answer, but having said that I think we have seen a little bit of a change in the interest rate scenario through the treasury bill rates and the treasury bond rates going up, but what we feel is that the policy rates may not be changed over the rest of the year and probably for the next quarter 2022.
Also considering the economic growth factors right now I doubt that the policy rates may change much but the rates might pick up a little bit maybe quarter percentage or maximum in the range of about half a percentage. This is mainly because of the short supply

On the exchange rate side, 'yes' currently there's a quite a lot of pressure which has been built up mainly because of the ballooning trade deficit. Generally the trade deficit is supported through inward remittances and also the inflows from the tourism sector. Here we have seen both sides being slowed down and now obviously the tourism sector is not bringing in anything and at the same time export conversions also have come down, so what has happened is like when there is a general perception the exchange rate should move up. At the same time the Government and the Central Bank is quite confident that they will bring in about USD 2.5 – USD 3 Bn during the next three months.

Having consideration on that, we feel that if they use these dollars not only to re-impose their reserves but also to use those dollars to some extent to cover the shortfall in the current effects in the market that might help to regain or at least to maintain the exchange rate at the current level.

If that does not happen of course there is a very possibility of exchange rate moving up and even now there is almost like a two-tier market in the range of 200 - 203 rupees and also at a higher level in another market. I hope I answered the question but I am unable to provide you the correct or rightful answer.

These are some of the possibilities only and if some dollars are used to as I said to cover up some kind of a shortage in the market then we should be able to stabilize the market at the current level.

Q 02. i: What percentage of the loan book is currently under moratorium? Do you expect this number to increase further given the current COVID-19 outbreak?

Yes .The total exposure and moratorium is about 17% of the loan book. By March it came down to about 15 %. With the COVID-19 situation continuing and Central Bank extending the time for application of moratorium some customers have again applied for that so that's why by end of this month, end of July the total exposure under moratorium is around 17%.

I think we should be able to manage it. The current situation needs to be controlled but it looks like there seems to be no lockdowns. As far as the there are no lockdowns there will be business volumes at least some continuation of business activities will continue.

Our expectation is that the current exposure under moratorium would remain around 17%. On the other side our portfolio is also growing so I think we should be able to manage within that that range.

Q 02. ii: What is the outlook for provision costs for the rest of 2021?

First half of the year we made total impairments about LKR 4 Bn and it's unlikely that the second half impairment would be much higher as LKR 4 Bn. We're trying to manage this but it's all based on how the country’s situation. However, we are quite keen to ensure that we'll manage it down than the first half.

It's all based on the developments that are taking place in the economy. The moment economy has opened up we had seen good signs of recovery and I am sure with this situation bouncing back is much higher so we should be able to manage our impairment costs down compared to the first half of the year.

Q 03: What segments will NDB focus on in terms of loan growth? Projected growth for second half of 2021?

I would say that the growth has come from all sectors but more importantly from Corporate Banking and also the Retail Banking side because of the credit concerns on the SME sector. We didn't push much on SME sector since we worked hard on managing the exposure providing moratoriums by restructuring the exposure supporting these clients rather than growing the portfolio aggressively like we did in the past.

The shortfall actually has helped very well by the increased activities in the Corporate Banking, Project Finance and also the Retail Banking side. All the other three lines contributed, so we would expect even in the second half also the projected growth to be similar to first half where we had about 10% growth but for the whole year I would say about 17%-18% growth in advances is what we are looking at.

All this depends on how the COVID-19 situation continues but as of now we have already one month gone in the second half so based on that you may end up with about 17% - 18% in overall asset growth.

Q 04: How does the NPLs in the SME segment looks like? And how do you expect it to change?

Indika Ranaweera: Actually, we have had more focus on the recovery and supporting the SMEs because in SME sector we see there is an issue in the cash flows. Our focus is basically to support them by looking at their cash flows and offer a suitable restructure where they can come out of the present temporary issues they face.
We were with SMEs over the last four decades and we know we came across these type of situations earlier too. This is a cycle but same time we see them coming out of these issues too. So it is important as a responsible bank to support them and we are seeing the positive signs of recovery too.
The issue is once they come out of the second wave, if the third wave hits us bad we will have to be more focused and hence we are closely following up with our customers in supporting them. We see they are very resilient because after the second wave SMEs came back to normal and started repaying and that shows how resilient these SMEs and the customer base is.

Q 05.i: We noted LKR 25 Bn growth in loan book for the quarter, from which sectors are these loans coming from. In addition, what do you expect the growth to come in?

K V Vinoj: There was decent growth, which started on the construction sector in the last quarter of 2020 and continued with the momentum even at a higher space in the first half of 2021. So the loan growth mainly came from our trading book, the construction book and also from the export side.

Q 05.ii: There is a decent growth coming from trade finance side. Can you explain where this is exactly coming from?

K V Vinoj: There has been a more than a decent growth in our input on trade transactions mainly because of our transaction banking setup which GCEO explained during the presentation and I think this particular unit was set up mainly to focus and harness the trade potential that NDB had and I think that has seen a lot of tractions during the first quarter and first half of 2021. We expect that momentum to continue throughout the year as well

Q 06: Did you see the inter-bank market for Dollar easing after the USD 300 Mn that came in after the ISB repayment?

Yes, we saw that actually towards the funding side. We saw the forward market discounts and all that moving down to the zero levels once again. That is from the funding side because the dollars were received by these respective banks but actually I do not think that it had much impact from the foreign exchange market. The foreign exchange market depends mainly from the export conversions and also depends on the importer demand so where the dollars need to be converted into rupees for us to sell these dollars into the importers so for that there was not much of an impact but from the funding side of it the banks definitely benefited because their borrowings could have been repaid and also for any loan assets and all that they could have used those dollars.

Q 07.i: NDB has had solid growth in the last two quarters whereas some of the other private banks have had very muted growth. How has NDB achieved this?

Yes, as I mentioned the good sound platforms that were laid has helped us to grow despite some of the other banks were not seeing that much of growth. We saw this coming in and we planned and strategized things with the key element of ensuring staff safety.

With this staff is also quite keen to go out and get the business and I think that's the key reason why we managed to grow despite the challenges. Growth has come mainly from Retail Banking where we have a strong sales team and also the Corporate Banking again where we have one of the best Corporate Banking portfolios. It's a matter of how you get them to utilize the available resources and also growth came from trade side as well.

Q 07.ii: Are you seeing much demand from construction sector?

Yes, we do see some demand especially with the Government's focus on some of the infrastructure projects like road developments especially after the release of construction payments that got stuck for many months in the past we now see progress on that side as well despite the COVID-19 situation.

Q 08: What is your expectation for growth in PAT for the full year?

Suvendrini Muthukumarana: Given that we have made LKR 3.9 Bn for the first half we will expect a reasonable growth in the second half however all this depends on the pandemic situation and the impact on impairment.

We expect to maintain the last year profits or to achieve an approximate growth of 8%-10% growth over last year is what we expect.

Q 09: There is around LKR 1.3 Bn write off for the quarter which is much higher than any of the quarters write offs. What type of loans are these and in which sectors?

Actually the write-offs related to the exposures were almost fully impaired, fully provided. These are some old large corporate related exposures, some export companies who got stuck in their export proceeds for many months. That's why we took a stance to write off when exposure was fully provided. However, the recovery process is continuing though we have written off. We keep them under memorandum accounts and then follow up on the recovery. Since these are some few large exposures we thought that it is prudent to clear the book rather than keeping it in the book.

Q 10: How much of the deposit book has been reprised?

Niran Mahawatte: Almost around 90% of the book has already got reprised so that's why we saw this ratio of the interest expenses and the rates have come down on our cost of funds. It's only the very long term liabilities and few deposits which are remaining in. Currently we feel that major part of the book is being already reprised

Q 11: Are there any exchange control delays in SIA account outflow?

Niran Mahawatte: From the Central Bank's point of view and from our side there are no restrictions as such.

Q 12: Please comment on the Bank's ISB holdings and intentions on this portfolio going forward.

Niran Mahawatte: We do hold a decent amount because mainly banks are required to maintain the liquid asset ratio and for our liquidity coverage ratio purposes. The Bank maintains interest income with these two portfolios. SLDBs and the international sovereign bonds are very much is in the maturing stage in the range of 2022 to 2023 and ISBs, which are fairly decent deals we have a longer duration.

Q 13: Is inorganic growth still pursued under voyage 2025 strategy.

Voyage 2025 is purely on the organic growth strategies but I think we are also looking at inorganic approaches in expanding to overseas as well as the local expansions and some inorganic opportunities as well.

Voyage 2025 is a purely is an organic growth strategy where we explore inorganic options for the Bank.

Q 14: What is NDB's Net Open Position right now?

Net Open Position at NDB is very much under control. All of all the banks have basically compelled to use their Open position to manage the current FOREX liquidity situation but in our case I think our dollar inflows are also relatively high compared to some other banks so as a result we have managed much within the Net Open Position limit that is allocated to us.

Q 15: On the construction side, are these related to infrastructure (roads etc.) or private- (housing loans etc.)

We have top construction companies in our portfolio and they do undertake large infrastructure projects and the growth is coming in is only from this large mega infrastructure projects. NDB is supporting them throughout and we have seen that growth coming in the first half when quiet number of requests are coming in the second half as well. So we will continue to explore those opportunities.

Discussion on Family Banking and other recent developments of the Bank.

In the absence of questions I would ask Sanjay Perera to share what's coming in terms of family banking and some of the new things that we are launching and thereafter, I request COO to share a bit on digital banking side and also how internally we have improved our efficiencies just for the benefit of the investors who are in this call.

Sanjaya Perera: You would have noticed that we have advertised family banking around the beginning of the year. We put this concept out since we are very strong in terms of the high net worth clientele of the Bank.

We thought we should look at the family banking concept to enhance the banking needs not only to the individuals but to their entire family so what we are giving them an opportunity for the entire family to start banking with us and together for them to grow into the higher segments and get the benefits of the higher segments. This was introduced as part of our V 25 strategy and there are more to come and we are looking at a lot of another top tier segment which will come maybe in about within the next two weeks.

In terms of the process improvements achieved from the workflow the success of the cost to income ratio is from the digital banking side. We also implemented process re-engineering methods to cut down the wastages and improve the efficiencies. Our main focus was on automation where we have automated 42 processes internally and externally which is customer facing as well as for internal use both. Ultimately, all the workflows it will end up giving the benefit to the customer with convenience. This automation has supported the Bank to eliminate about 152 - 300 physical staff and to reallocate them efficiently to improve the customer relationship management. Customer relationship management is very important and we will be focusing towards that.

When you look at Bank’s inside processes it is actually possible to automate lot of processes handled by staff in the back office. So basically we are going to continue in this journey to automate everything what we can and we will reallocate our staff, our colleagues to work with the customers with more interaction helping customers in identifying customer requirements and give them what exactly they want. Things like that will support us to strengthen our relationship with the customers while some staff are focusing on automation. We are continuously proceeding with this and we have made a considerable progress which is clearly reflected in our first half results as well.

Deepal Akuratiyagama: NEOS application is the only banking application, which comprise both the wallet and mobile banking features. Also we have now gone into a different level with the CRIB integration. Also we are building a kind of ecosystem and near future to integrate even the share trading facility because one of the main concerns of today's customer is that they have to use different apps for different purposes. Already we have integrated with our Wealth Management Team and the NDB capital where they can have entire portfolio.

There are other few key innovations in the pipeline which I don't want to mention but I think probably within the next two months those will be also released soon as first in the industry.

As of today 80% of the transactions are happening in digital platform. So I think that is one of the key achievements. Lot of Banks and other financial structures measure number of downloads but when it comes to digital banking for us the most important factor is how many active customers are using NEOS applications. Based on the experience and the user interfaces we have created I am happy to mention that 80% of our transaction base is on that.

End of Q&A.

Closing Remarks

In the absence of any further questions I would propose that we conclude this webinar and I would like to thank all the participants the investors the analysts who took part and also raised questions and this will ensure that we have similar webinars to keep this interaction going with the investor community and share openly about what our plans are and also the underlying present for the results so thank you.

End of edited transcript.