



Edited Transcript

Webinar with investors and analysts

Quarterly financial results - September 2021
17 November 2021 - 02.30 pm

National Development Bank PLC
NDB.N0000

**EVERYONE.
EVERYWHERE.**

NATIONAL DEVELOPMENT BANK PLC

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

Forward Looking Statements	2
Corporate Participants.....	4
Investor Presentation	5
Opening Remarks -Erandi Samaratunga	5
GCEO - Dimantha Seneviratne	5
PART I - Corporate Profile	5
Slide 06 - Corporate Profile	5
PART II - Operating Environment	5
Slide 08 - Operating Environment	5
PART III - Financial Performance Q3 2021.....	6
Slide 10 - Performance Review.....	6
Slide 11 - Income Statement - Fund Based Income	6
Slide 12 - Income Statement - Non Fund Based Income	6
Slide 13 - Income Statement - Impairment.....	7
Slide 14 - Income Statement - Operating Expenses	7
Slide 15 - Income Statement - Taxation & Profitability	7
Slide 16 - Balance Sheet Performance	8
Slide 17 - Capital & Liquidity.....	8
Slide 18 - Investor Relations	9
PART IV - Other Strategic Focus Areas.....	9
PART V - Way Forward - 2022 Fiscal Budget	10
PART V - Way Forward - Strategic Drive.....	11
PART VI - Q&A.....	12
Questions and Answers Session	12
Closing Remarks.....	16

Corporate Participants

Presented by Dimantha Seneviratne - Director/ Group Chief Executive Officer

Panelists

- Sanjaya Perera - Senior Vice President - Personal Banking & 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 -Erandi Samaratunga

Good Afternoon ladies and gentlemen, thank you for connecting to National Development Bank's investor webinar to discuss 2021 Q3 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

We warmly welcome you to NDB quarterly update on our results and with me I have my members of the Leadership team supporting me in taking any of the questions.

PART I - Corporate Profile

Slide 06 - Corporate Profile

Our mission is to basically to be the driving force of financially empowered Sri Lanka, with 41 years in operation we have now more than 3,000 staff members with us. On our ratings, Fitch rating has affirmed a stable outlook. Currently we are operating from 113 branches, 150 plus CRMs and ATM machines and more importantly the NEOS platform which plays a key role in our digital journey.

We are quite committed to gender equality and we are the only bank and for that matter only corporate with EDGE certification, operating in Sri Lanka. We have very strong governance framework and our achievements have been rewarded, recognized by many awards. The most recent one being one of the top 10 most admired corporates of Sri Lanka organized by the International Chamber of Commerce. In addition to that we were awarded by the Global Finance USA. Also the banker magazine UK and by the Euro money magazine, with our subsidiary Investment Bank has been awarded for the 10th consecutive year.

PART II - Operating Environment

Slide 08 - Operating Environment

As all of you are aware, our operating environment was very challenging with the country still going through the COVID-19 waves. We saw our economy starting picking up after the third wave of the pandemic. Though second quarter GDP growth rate was 12.3% as per the statistics department, overall the country's growth rate is estimated to be around 3.5% -5%.

We saw policy rates picking up, and there was a policy rate hike as well and now ultimately the current standing SDFR is at 5% when lending rate is at 6% and statutory reserve ratio is at 4%. We saw money market rates getting adjusted and right now there's an anomaly in the short term versus the long term curves and we also saw a notable inflation due to rise in food prices.

So these are few challenges which made a challenging operating environment to us. On the other side there are opportunities especially funding the export driven businesses were opened up. Another few opportunities opened up with the country's renewable energy projects. Also SME's were gradually picking up after COVID-19 so they are quite geared to support and fund them.

PART III - Financial Performance Q3 2021

Slide 10 - Performance Review

This slide presents our financial performance in a very high level where we had the total asset growth by 8% for the nine months ended September reaching LKR 679 Bn.

Gross Loans with 15 % growth and where we crossed LKR 500 Bn as of September. Deposits grew by 7% at LKR 526 Bn, Profit attributable to the Shareholders stood at LKR 6 Bn with a 54% growth.

Post tax profit was up by 26% to LKR 6 Bn, profit before taxes had 16% growth reaching LKR 9 Bn for nine months, which roughly indicates that we have made LKR 1 Bn progress for a month. 17% growth of NII was recorded reaching to LKR 16.3 Bn.

On the other side on the Balance Sheet performance, we can see that ROE stands at 14.07% which is an improvement from 2020 ROE of 13.13%. With the rights issue equity that came in this is quite a good achievement with the higher capital base.

Pre-tax Return on Assets also improved to 1.75% from 1.59%. Net Interest Margin also improved from last year to 3.26% which is a significant achievement.

Cost to Income ratio, one of the lowest in the industry with 33% achieving this year compared to 37% last year.

Slide 11 - Income Statement - Fund Based Income

This is the slide on details analysis of our Income Statement. You would see that our interest income is LKR 38 Bn for this quarter when interest expense stands at LKR 22.7 Bn. We see a reduction in both of these, though there is a growth in assets. I would say that this is mainly due to the interest rate reductions but however, the Net Interest Income provides a 17 % positive growth from LKR 13.6 Bn to LKR 15.9 Bn resulted from the larger decrease of interest expenses mainly due to the reduction in interest rates.

As you can see we are in the process of improving our margins as well. In last quarter NIM was at 3.26%. Another key area that I want to highlight here is the continuous improvement in the CASA ratio where we had 38% Y-o-Y growth and a quantum growth of LKR 39 Bn in current and savings deposit.

Slide 12 - Income Statement - Non Fund Based Income

Non-fund based income is again a focused area that under our new strategy. In Net fee & commission income there is 38% growth from LKR 2.9 Bn to LKR 3.9 Bn. Other non-fund based income there is 12% growth from two LKR 2.9 Bn LKR 3.3 Bn. With this total non-fund based income grew by 25% from LKR 5.8 Bn to LKR 7.3 Bn.

The main drivers of the non-fund income is the growth in business volumes and this is more due to the focused trade related operations resulting a higher fee revenue.

Also there's a good contribution coming from FOREX trading. The swap operations and from Balance Sheet management side that has also contributed to this improvement in the non-fund income. So as a result the operating income has simply improved by 19% to LKR 23 Bn and the fee based income has enhanced contribution to the profitability.

Slide 13 - Income Statement - Impairment

We have been very cautious on impairment charges and building up our impairment numbers. So there is 38% increase in impairment for the year from last year's LKR 4.8 Bn for the 2020 three quarters to LKR 6.6 Bn for 2021 September three quarters. On the Balance Sheet side the key KRIs on the asset quality compared to last year assets remains more or less the same. NPL ratio this year stands at 5.46%. We see an improvement on the net non-performing from 3.23% to 3.04%. This also shows that we have been building up our provisions and we have been cautious and conservative in building up these provisions.

The last two ratios are newly introduced ratios based on the IFRS accounting. The Central bank also mandated all banks to disclose these ratios from this quarter. Impaired loan ratio which is the stage 3 loan ratio is 4.49% and the other one is the impairments to the stage 3 loans ratio which stands at 33.55% when last year its 31.68 %.

Slide 14 - Income Statement - Operating Expenses

Moving on to the operating expenses side of the Income Statement ,overall there's a 10 % growth in operating expenses from LKR 7 Bn to LKR 7.7 Bn mainly coming from salary related personal expenses and staff developments are training and all those activities. Then the other increase is on the other expenses again from LKR 2.5 Bn to LKR 2.8 Bn but all in all most importantly cost is an area that we have to manage and we can manage all the controllable cost.

We have been managing all the controllable costs very well with the digitalization drives workflow systems. Additionally, healthcare services which we had to provide also included in costs, for example the transport services that were provided to our staff etc.

With all this we have been managing the costs well and as a result the cost to income ratio has improved to 33%. Think this is one of the best Cost to Income ratios in the industry and you would see from five years back it was around 49 % and now it has improved to current low level of 33%.

This is a focused area that we have been managing well and we'll be focusing this on future as well as we move on to the digital platforms we should be able to get much better control on cost.

Slide 15 - Income Statement - Taxation & Profitability

On the taxation and profitability level again on the Income Statement there is about 1.6 % increase in taxes from LKR 3.236 Bn to LKR 3.287 Bn mainly coming from Vat on Financial Services. Effective tax rate of 37% compared to effective regulatory effective tax rate of about 39% to 43% for the year. As you all know with the budget proposals have been passed

there'll be much higher tax implications that would get addressed later on in this presentation.

In Profit before all taxes we have a 16% Y-o-Y growth from LKR 7.7 Bn to 8.9 Bn, Profit before Income taxes 16 %, Profit after tax we had 26 % growth from LKR 4.4 Bn to LKR 5.6 Bn and profit attribute to shareholders most importantly recorded a significant improvement from LKR 3.9 Bn to LKR 6 Bn.

PAS also had some contribution coming from our subsidiary companies.

Slide 16 - Balance Sheet Performance

This is on the Balance Sheet again you would see a healthy growth in the Balance Sheet despite the challenges. Total Assets grew by 8% to LKR 679 Bn then on the gross loan side we had 15% Y-o-Y growth from LKR 444 Bn to LKR 509 Bn growth. Despite all the challenges this is quite a substantial growth when industry growth rate is around 13% - 14%.

Deposits again reflected 13% Y-o-Y growth and cross LKR 526 Bn. Borrowings are at the similar level and total equity you would see an increase from LKR 45 Bn to LKR 58 Bn roughly LKR 13 Bn growth in equity which is mainly coming from the rights issue proceeds that we got in April early this year.

The other thing that I want to highlight is the growth on the asset book which is coming from all the business lines it's a very well spread growth coming and also the composition of the currency mix has further improved to 81% of the local currency rupees to 19% foreign currency. This is something that we have been building on over the last three four years to have a proper mix making use of the local currency that is available.

On the funding side the deposits it's benefited by many new products that we launched and also the convenience factor that we brought through the digitalization solutions. We didn't expand our branch network, However, we were keen in developing digital channels so as a result there was a lot of digitalization that has happened at the moment more than 80 % of banks transactions are covered through digital channels so that has actually contributed to quite a good growth in CASA. On the CASA current and savings account base is now at LKR 141 Bn for the bank and YTD growth of 15% or about LKR 18 Bn.

CASA ratio also improved from 25% to 27% one is the digital channels that has contributed the other thing is the transactional banking and more focus approach from a SME team Corporate Banking team and also the Retail team to get the operating accounts operated with NDB.

Slide 17 - Capital & Liquidity

On the capital and liquidity position 9.63% of Tier 1 equity level was recorded compared to 9.17% previous year and the total capital ratio is at 13.63% as of September. With the debenture issue that was concluded yesterday I must thank the investor community for taking our debentures which we raised LKR 8 Bn which would naturally help to get the Total Capital ratio moving above 14%. Liquidity coverage ratio is at 140% quite healthy and also the Net stable funding ratio is at 114.55. This analysis shows that we are meeting all the regulatory mandate ratios with adequate buffers with higher capital level which is quite strong.

Slide 18 - Investor Relations

Share price is at LKR 76.4. Earnings per share has further improved to LKR 26.26 from last year's 23 rupees and ROE is at 14 % ROA is at 1.75%. Book value of the share has come down from LKR 192 last year to LKR 163 mainly due to the increased number of shares after the rights issue. Drop in Price earnings ratio is also due to that. P/E ratio has remained around 0.5 level.

PART IV - Other Strategic Focus Areas

Let me now focus on some of the key strategic areas that the bank is focusing on. I am pleased to share with you that we got the great place to work certification, the award ceremony was held yesterday. I think we are the only local bank to get a great place to work certified in Sri Lanka and I must congratulate the HR team and all those leadership team who involved and it's a good achievement to be more than 3,000 staff but everyone aligned with the strategy and everyone believing in the strategy and working together.

On the digital side with the launch of the Voyage 25 new strategic plan up to 2025, where we have this plan to double our Asset base and also to triple our bottom line, one key driver of this strategy is the improvement in digital banking side.

So you would see that all our branding also changed to ensure that we showcase our digital focus where the branding goes as the future is banking with you so in line with that we launched several new products using the digital channels. NDB NEOS have taken the lead and I must share that NEOS app recorded quite a substantial number of transactions more than LKR 100 Bn over the last 10 months. This shows the confidence that the users are have placed on the newest app and we have taken the app to the different levels now we are we have also introduced NEOSBIZ which should be launched for SMEs with the regulator's approval. This is the first mobile app for SMEs to do their transactions.

Then we also successfully, launched the VKYC virtual customer on boarding process so customer without stepping into the branch can now open new accounts with us and that has been also been tremendous success. We see a lot of transactions new accounts opened not only in Sri Lanka but also by overseas customers. Even in Sri Lanka we have seen a lot of people living in remote areas who didn't have access to the branch network now opening through this. We are very delighted to see that development happening through the virtual KYC platform.

On CRIB integration, we were the only bank so far to integrate with the credit so that a customer can take your CRIB report using our NEOS platform apart from that we have linked up with our score so that even on the loan processing we can get that CRIB Score using this module.

New products that are being launched are NDB Zee, privilege Select plus since NDB has the largest privileged banking portfolio in the country and we thought there is a need to further segregate this high-end market and that's why we came up with this privilege select plus proposition offering gamut of services including the private banking arrangements, advisory arrangements. The other one is NDB family banking concept that was launched few months ago again making good progress ensuring all the family deposits are aligned so that we get the best to these clients where their entire family is banking with us.

Banking on women is also progressing very well. Vanithabhimana awards program is something that we introduced two years ago and now we are in the second phase of Vanithabhimana awards program. We have also introduced a new category to recognize women in business, women in professional services also to be recognized through this awards program. It was a great success last year so with that success we launched it for the second time.

Also, as I mentioned that the recent accreditations, great place to work, most admired companies, on the winner the top 10 companies and these are some of those key updates just want to leave it with the investor community

PART V - Way Forward - 2022 Fiscal Budget

On new taxes being proposed as all are aware the Financial services tax got increased from 15% to 18%. This is effective from January next year and also there's a one-off surcharge of 25% of the profit in any company over LKR 2 Bn taxable income. This is based on the financial year and that 2021 March so accordingly, NDB also is supposed to pay this tax so that's again a substantial outflow from the capital. In addition to that the social security contribution of 2.5% of the turnover which is also from April next year.

So we had to basically follow on that, the effective tax rate has gone up to roughly about 45% but with the one-off tax of surcharge of 25% next year the effective tax rate would be roughly around 70% which is a quite a challenge and I think time to time banking system has become one of the major revenue earners for the Government and it's easier to tap the banking system to collect the revenue. However, the impact would be on the capital side. This is not only for us but the entire industry, almost all banks except for one listed in the stock exchange are supposed to pay this one-off surcharge, so that would have some impact on the ability to fund future assets because it's getting impacted from the capital and also in the countries coming up from the COVID-19 moratoriums. However, on the other side we have to meet this burden as well since we need to cover it up when the country needs certain funds.

The budget also had several other key proposals especially on the encouragement of establishing digital branches, digital banks so this is a new opportunity that NDB is quite keen to follow and specially when NDB having taken the lead, I think we should capitalize on that especially when the budget also support that green agriculture development Act, which would also have an impact on customers in agriculture side, the smart agri products and also that's aligned with our ESG practices.

Also to support the export-oriented economy there are incentives that are being proposed and this is something that NDB also started with the launch of Jayagamu Sri Lanka project last year and we have several young exporters new entrepreneurs lined up with that program that would also help and that is in line with the budget as well.

The other one is on developing Sri Lanka as a wellness tourism hub. This is again an area that goes hand-in-hand with our business imperatives especially on the exposure to the tourism sector which is in line with SMEs where the customers are encouraged to have their home stay arrangements. Naturally it's area that we also can support in driving that key growth area.

PART V - Way Forward - Strategic Drive

We launched our new strategy Voyage 25 a few months ago and these are the key pillars that we are working on. One is the digital drive where all our customer solutions are provided through digital channels. We are trying to ensure that we provide more through the digital channel so as I mentioned earlier about 80% of our transactions are now carried through digital channels, if you visit our branches or if you notice our branches you would see that we don't have that much of a queue out there customers lining up to get their services, that is not because we don't have enough customers, it is because the digital drive that we have launched so that most of our customers are transacting through digital channels, so there's no need for them to come to a branch and do their transactions. This continues to drive our Cost to Income ratio improvements and that is the one key driver that we are focused on.

The cost efficiency is again an area that we are focusing on using the technology, as I have mentioned earlier as well. We have now more than 14 robotic processors (RPAs) working with us, and also on the workflows and all that have helped to ensure process improvements are provided using the technology as a backbone. This has also led to great cost efficiencies for a mid-sized bank.

Banking on women is again a key area that we are focused on. There are dedicated people lined up with internal targets given to them to ensure that we get this proposition empowered to contribute to the economy by providing advisory services as well as providing low cost funding that we have received from several DFIS that would be deployed.

Another focus area is the fee income side. Again you can see the key improvements in the fee income side of the Bank where we have many strategies especially on the transaction banking side. The dealer financing, supply financing ensuring that we have more fee based revenue. Our intention is not to increase the fee but more focus to be on some of the services rather than the interest income and we preserve the profitability using these strategies.

Another important area is our staff safety. We continue to ensure that our staff is kept very well motivated so they are ready to provide support to our customers and national economic revival.

Despite COVID-19 challenges that we faced we supported the environmental protection through the reforestation.

Apart from that we have lined up some funding lines to support our growth. We managed to get Norfund coming in as a major equity partner with a 10 % shareholding earlier this year. We also lined up some funding lines from DFIS the most recent being a development finance corporation of USA who has committed substantial dollar line which we are planning to have our drawdowns before the year end. So that would also be directed on some of these SME and the bank on women kind of areas where we can basically try that economic revival from those areas.

With that I conclude this formal presentation and now we leave time for questions and answers.

PART VI - Q&A

Questions and Answers Session

(Answered by the GCEO, unless specifically mentioned)

Q 01: What's your growth outlook for the next year especially now with the vaccination drive and the country coming out of the pandemic?

For economic revival certainly we are geared and we have ensured that our staff are adequately immunized and they are ready for the economy opening up, so right now internally we have more than 75% of the staff also immunized and that way the staff precautions are already taken but in terms of supporting the growth revival post COVID-19 we are quite geared. We have raised our capitals with the debenture issue to ensure that we are adequately capitalized to support and we are well-funded. Apart from that the funding lines that were lined up for substantial long-term funds arranged to ensure that we are quite geared.

We have on the other side customers coming out from the moratorium. Some customers will end moratorium by this December. So they are again we have internally looked at all of them basically their ability to come out from this situation and the internal information so far is generally okay. So we are quite eagerly waiting for more support towards this sector by providing funding.

Q 02: What is the interest rate outlook ?

Niran Mahawatte : If you look at the interest rates I think the market rates have already adjusted somewhat, it moved up by about 2% or 3% during the very short tenor of last two months. So we feel that it might hold even though there is room for a policy rate hike to come in because there's an anomaly between the overnight rate and three month Treasury bill rate because there's a very big arbitrage opportunity. You can fund yourself at 6% and probably buy a bill for 7.5% so there is room for a rate hike but even if it doesn't happen or happen but we feel that the market rates should remain around the current levels because we have seen it easing off a little bit of the very high levels that we saw even the long-term bonds it has eased about 25 to 30 basis points and some bonds have moved down by about 50 basis points so we feel that overall rate should remain around this level and probably stabilize here.

Q 03: What's the surcharge tax impact to the bank ?

Suvendrini Muthukumarana : The surcharge will be on the liable income tax base, so based on the estimated profitability for 2021 that's from January to December this year it will be in the range of around LKR 2.5 Bn.

Q 04: How are the Banks facing in the current exchange rate situation ?

Of course it's a quite challenge I think all the banks are faced with this current exchange conversion issue, it's a culmination of several issues over a year or so, as you all are aware the country's balance of payment gap has been widening and earlier with the tourism income we used to support that but the tourism income was almost zero for last one and a half years. On

the other side on exports there is a Y-o-Y growth in exports, but however the conversion of those exports has not happened actually with the expectations for currency to depreciate further they were holding on to it and to add to that situation the interest rates prevailed in the rupee and the dollar deposit side also aggravated that problem. Few months ago there were dollar deposits taken at around 6%-7% so some exporters need not to convert dollars because they had the opportunity of borrowing in rupees at even 5.5 % - 6% rather than touching their dollars. So culmination of that had led to this current situation but however, with the new directions issued by the Central Bank initially, 25% compulsory conversion was brought in and the subsequently new direction is much higher based on the net value addition in the export side to convert into rupees so hopefully that should further improve the situation.

In the meantime it's a bit of a challenge but we are also prioritizing to the clients at the key areas like education, pharmaceutical, imports essential, commodities all that we give priority when we have to basically use our dollar import side and rationalizing by providing support. Though it's a challenge we have been managing it so far very well.

Q 05: What is the accounting treatment for the surcharge ? Will it get accounted in 2021 financial year ?

Suvendrini Muthukumarana : From the discussions we have had we feel that it will be liable for 2021 and then it would be a deduction from the profits for the year 2021 but of course the accounting firms are having discussions to apply an appropriate accounting treatment and to see whether we can take it retrospectively. Since this is a tax that came into effect this year most probably it will be liable for this year.

Q 06: Turnover tax will be on Interest income or NII ?

Suvendrini Muthukumarana : As per the budget proposals it's on the gross income for a bank and therefore it's the interest income. I think we will have to have discussions and consider NII because for bank's there is a large amount of funding cost. We need to get more clarifications on this going forward.

Q 07: Do you have any plans for the debentures again as NDB had issued back-to-back from 2019 ?

Probably not at the moment, we will watch further how the interest rate situation is developing and then decide on that but for the moment since we just concluded raising LKR 8 Bn which would also help to improve the capital side but also some of these debentures were issued to replace some of the maturing debentures as well, since there are some few maturities coming up towards the end of the year and this will ensure that those will get replaced.

Q 08: What percentage of loan book is currently under moratorium and what is the total monetary exposure in the tourism industry? Apart from tourism what are the main sectors still under moratorium?

I think overall the exposure under moratorium is around 17% which includes the tourism sector moratorium as well. We don't have much exposure for tourism. The total book's exposure to tourism is around 3.5%.

Q 09: With a strengthened capital adequacy ratio what kind of prospects are you looking at in terms of future expansion?

This was in line with our strategy of growing our book and doubling the Balance Sheet. In the focus areas growing fee based revenue would also be a consideration. So this capital that we are raising would be used for funding those.

Q 10: Currently the bank has around 150 basis points Tier1 buffer over the current requirements while 100 basis point over the BASEL 3 and with the surcharge also impacting the tier 1 base will there be any equity raising or will there be slow in the book expansion or the bank will manage through earnings ?

We should be able to manage through earnings but certainly there will be an impact with the surcharge coming in since we have estimated roughly 50 basis points, so still the cushion is adequate to cover that and I don't think we have plans to raise capital in the near future so we should be able to manage it with the book expanding and the retained profits.

Q11: If there's a 50% haircut on sovereign bonds what would be the write-off amount for NDB in terms of its investment in sovereign bonds ?

First of all I don't think we expect any 50 % haircut on sovereign bonds. On the ability to pay the bonds we have been assured that the adequate reserves are available.

Niran Mahawatte: We of course rightfully think that it will never happen but of course if it happens it will be a significant amount and it is not only for the bank but a significant impact to the entire industry.

I think overall about 30 % of the entire holding is held with local banks or within the country so if you're talking about a 50% it will have a very significant impact.

Q 12: What's the exposure of ISBs and the maturity dates ?

Niran Mahawatte: Our portfolio is fairly distributed and we do have some very long term ones and also we have a couple of small maturities coming up for next year as well for both January and July. That is for the sovereigns but for SLDBs of course it's during the next couple of years.

Q 13: Do you see a further improvement on your Cost to Income ratio noting the digital drive you spoke about ?

Certainly there'll be improvement and that's the drive of the Bank especially on the investments that we have made. Through the Core-banking upgrade we'll be moving on to the new platform by probably early next year. This would also provide us a good platform to further capitalize on this investment. So right from the beginning over the last four years we have made this decision on digitalized strategy and the investments on this side have been significant. The benefits now we reap are thanks to those investments plus the smooth streamline of the operation. We will continue to have that focus to have one of the best costs to income ratios in the market and that drive will continue.

Q 14: Is there any impairment already taken for fourth quarter 2021 in the context of a debt restructuring scenario of foreign bonds after the Moody's downgrade of Sri Lanka's rating ?

Suvendrini Muthukumarana : Of course, from Moody's downgrade, yes there can be an Impact and we are assessing it and as an industry we will discuss with the auditors and will take necessary additional provisions if required.

Q 15: On your strategy how do you calibrate same in response to certain shocks like pandemic FOREX scarcity etc.

When we plan strategy of course we leave room for these kind of shocks, When you plan for capital also we leave certain room for shocks. Shock or a threat we consider both, but on the other side that also creates opportunities. We need to ensure that both are managed well. We have seen ups and downs and we have managed quite well. During the height of the war banking sector has performed well.

The concerned last year was when the COVID - 19 outbreaks came in the first to get impacted was the banking sector as an industry. Having exposed to quite a large lending exposure banking sector was exposed to but that again banking sector took the lead by providing moratoriums and COVID -19 renaissance facilities along with the regulator who came up and pumped money to the system.

Banking sector also took a heavy burden even interest reductions, interest rate refunds all that to support the customers and that is where adequately capitalized banking sector contributed and for that matter I think Sri Lanka's banks are very well capitalized in the region. We are one of the few countries who are following BASEL 3 guidelines to the word even into the IFRS accounting, Chartered Institute presence is also very strong. So we didn't adjust our books or we didn't do anything to undermine all those good practices. So actually all that supported in managing a situation when there's adequate buffer that has been maintained to meet a challenge like this. So I am sure we will bounce back.

Last year we thought that the banking sector will not perform so well and probably that is why surcharge tax is also coming in to support the economy when the economy needs it. We will continue to manage even these shocks and that is how we have been trained and developed our teams also to manage these stocks and that applies not only to the banks but that applies to customers going through these shocks. So we have to help them during their

difficult time and we are stable to help them. So for that we need to be stable and then only we can give a helping hand to get them out from their situation. We are used to it and we are quite happy to manage that kind of situations.

Q 16: What are the stressed areas in largely exposed portfolios?

Indika Ranaweera : In lower end SME sector we see stress on this particular segment especially transport related, tourism related and construction related segments. We see a stress on this segment but some upper end SME's are managing well but in low end SMEs we see cash flow constraints issues they are facing due to the restrictions on the cash flow levels.

K V Vinoj : Corporate book has been pretty resilient and I think during the pandemic there was a huge stress coming out of the corporate book but maybe the trading portfolio is something to watch out which is something that we need to keep a close eye. To be very specific to the question I think in the corporate book there has been pretty resilient and I don't see any major stresses coming out of it.

GCEO: Since our book is quite well spread and there are no major stress sectors we are very well covered. Our overall tourism exposure is about 3.5% to 4 % and of that some sizeable part is into Maldives which we have already recovered and doing quite well.

So I don't think there are any particular stress sectors as such but in each sector there are affected customers, so we need to ensure that we help them out and then support them in their recovery process.

End of Q&A.

Closing Remarks

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.

End of edited transcript.