



# Edited Transcript

Webinar with investors and analysts

Quarterly financial results - Full Year 2021  
24 February 2022 - 10.30 am

National Development Bank PLC  
NDB.N0000

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NATIONAL DEVELOPMENT BANK PLC

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## Corporate Participants

Presented by Dimantha Seneviratne - Director/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 -Kumudari Peiries

Good Morning to all of you joined with us today to discuss National Development Bank's 2021 performances. The webinar will be conducted by our director and CEO Mr. Dimantha Seneviratne. He will first take you through a prepared presentation at the end of which will open up the forum for questions and answers. He will be joined by a panel comprising senior management of the bank. I will now hand over to Mr. Seneviratne to take the presentation forward. Thank you very much.

### CEO - Dimantha Seneviratne

We warmly welcome you to NDB's 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 05 - Corporate Profile

National Development Bank was in operations for more than 41 years and currently operating with more than 3,000 staff, 113 branches and 150 plus ATM's supporting our reach to customers.

As National Development Bank group we do have full spectrum of capital market services offered through NDB Investment Banking, Wealth Management, Stock Broking arms. In terms of diversity our staff is well diversified and we are the only corporate in Sri Lanka who got its certification for gender equality and we got certified as great place to work due to the best practices followed by us.

NDB have won more than 70 awards accolades in 2021 which was recognized by LMD as the best awarded cooperate this year. This is including the Global finance best bank award and also the Asia money digital bank award.

I am sure most of you are quite familiar with our corporate profile. Those who are joining new is welcome to view our website for further details.

### PART II - Operating Environment

#### Slide 06 - Operating Environment

Operating environment which we operated was actually very challenging with a year fully impacted by COVID-19 resulted several lockdowns during 2021. As a result we experienced contracted GDP last year which had a huge impact on the foreign currency reserves. This was managed by having certain restrictions on imports but despite that the absence of the tourism income which was giving quite a substantial income for the last two years especially since Easter attack had led to quite a big vacuum in the foreign exchange situation.

Countries FOREX reserves as of December was LKR 3.1 Bn which has further come down to around LKR 2 Bn. There was a sovereign downgrade as well by all international rating agencies the inflationary pressure has also escalated especially during latter part of 2021.

We see that similar inflationary pressure coming in January this year as well as we have seen Central Bank adopting a tightening monetary policy stance from last quarter 2021. Reserve ratio also increased from 2% to 4%.

With the rising rates, we saw market interest rates moving upwards especially for the long-term rates and also in the short term also the rates were going up. This is reflected in graphs that have been shown AWPLR also moving up from 5.7 in early 2020 or 2020 financial year now moving up to around 8.3 level

## **PART III - Financial Performance FY 2021**

### **Slide 07 - Performance Review**

Here we discuss financial performance in overall at a high level. NDB has a solid Balance Sheet growth which we maintained despite all the economic challenges.

We crossed LKR 700 Bn in Total Assets which is a 12 % year on year growth on and in gross loans and receivable we had 19 % year on year growth to cross LKR 526 Bn and Total deposits 13% growth to LKR 552.

This is the first time in banks history that we have both loans and deposits crossing LKR 500 Bn and assets crossing LKR 700 Bn. Despite all the challenges the profitability remained intact. Pre-tax profits were up by 12 % to LKR 10.3 Mn and return on equity stood at 12.27% despite LKR 9.5 Bn new capital raising that was done. Our capital adequacy ratios are also quite strong. Total capital adequacy ratio has moved up to 15.4% one of the highest in the last five six years. Notable improvements in the key performance ratios were also noted. If I start with Net Interest Margin picking up from 3% in 2020 reached to 3.25%. CASA ratio from 25% to 27% which helped to improve our margins.

Cost to Income ratio reflected a remarkable improvement from further 37% to 33.7% when and NPL ratio had a quite a good improvement from 5.35% to 4.65% despite all the challenges we face.

The group also performed quite well as a group subsidiary companies unlike previous years as a good performance coming in especially with the capital market activities getting increased. This resulted Group ROE to be at 12.47% compared to 11.2%. ROA at 1.67% versus 1.58%. Group PAS stood at LKR 7 Bn from LKR 5.1 Bn last year. Total group Assets at LKR 709 Bn which is about 12% growth.

### **Slide 8 - Income Statement - Fund Based Income**

On fund-based income you would see that in interest income there's a slight drop compared to last year from LKR 53 Bn to LKR 52.6 Bn this is mainly due to the rate reductions. However, we had 19 % growth in loan book.

Due to the rate reduction there's about LKR 4Bn reduction in interest expense. Net Interest income had 22% improvement from last year, which is about LKR 3.8 Bn increase from last year to cross LKR 21.6 Bn. CASA ratio also improved from 2019 figure of 20% to 25% in 2020 and now at 27%. NIMs are also at 3.25%.

### Slide 9 - Income Statement - Non Fund Based Income

On non-fund financial performance it's mainly the fee income which contributed towards high performance. On Net fee and commission income we had 32% growth from last year to cross LKR 5.6 Bn. Other non-fund based income also had 11% growth. So total non-fund based income has improved from LKR 7.6 Bn to LKR 9.3 Bn recording about 23% growth mainly driven by growth in business volumes.

The loan book increased by 19%, and I would like to say that we concentrated on developing the exporters by developing our transactional banking reach. Also our digital banking approach NDB 'NEOS' all that had helped us to get this fee based income. In addition to all these, enhanced income was also received from FOREX trading due to the depreciation of the rupee but more importantly the more trade activities helped us to get the FOREX income also to this level.

When discussing on the composition of non-fund to fund-based income, I think we kept it at almost last year's level 70% fund based income and about 17%-18 % in fee base income which resultant total operating income to reach LKR 31 Bn which is up by 22%.

### Slide 10 - Income Statement - Impairment

Quite a high impairment charge reflected in the aftermath of the COVID-19 situation where the moratoriums that have offered and the low economic growth all that has contributed for us to reassess the quality of the asset book and to take precautionary impairments.

Impairments also actually increased from LKR 6.2 Bn to LKR 8.1 Bn resulting for almost LKR 2 Bn increase which is about 31% increase in impairments. In addition to that there was a significant impairment on investments due to the sovereign exposure and the USD exposure of SLDB's. Also there was a significant increase because of the probability of default calculations which were revised from 10% last year to 30% this year resulting almost LKR 1.5 Bn increase.

Because of the country downgrade and resultant risk parameter increases compelled us to take higher provisions despite the credit quality improvements.

Impairment coverage has gone up from 3.55% to 4.49%. This is the accumulated impairment provision over the gross lending portfolio but more importantly that KPI denote the asset quality which is a quite a good improvement.

NPL ratio reduced from 5.35% to 4.65%. Net non-performing ratio reduced from 3.2 % to 2.29% and then the impairment loans (stage 3) ratio which was introduced since last year stood at 4.55%. When impairment (stage 3) to stage 3 loan ratios further improved to 32.8 from 31.6.

### Slide 11 - Income Statement - Operating Expenses

In operating expenses we have a remarkably good story to share with you. Cost to income ratio from high level of 49% in 2016 over the last five years have come down now to 33.7%. This is the best Cost to Income ratio in the industry with a remarkable story where we have managed sustainable cost savings using the digitalization. Technology enable automations like robotic process automations and the workflows all that have helped us to have a very sustainable level of cost saving.

Other operating expense recorded 11% increase and in that personal expenses the salary and related expenses recorded 10% increase and also the other expenses about 15%. Compared to the inflation and other pressures escalation of prices all that this can be considered as a well achievement. I would like to thank all who are involved in managing our costs down in a very sustainable manner making one of the best cost income ratios in the industry.

### Slide 12 - Income Statement - Taxation & Profitability

Discussing on taxation and profitability I would say that we have contributed LKR 3.9 Bn almost LKR 4 Bn in total taxes. Compared to last year this is a 7% increase from LKR 3.6 Bn. Highest incremental contribution has come from financial services component from LKR 1.8 Bn to LKR 2 Bn.

On the other side profit before all taxes had a 12% growth year-on-year from LKR 9.2 Bn to LKR 10.3 Bn and profit after tax which showed 15% growth from LKR 5.5 Bn to LKR 6.3 Bn. Group profits improved by 35% from LKR 5 Bn to almost LKR 7 Bn.

Graph below depict how the profitability trends have improved over the last five years and how transformation of the Bank happened over the last five years. We introduced the transformation 2020 strategy in 2017 and got the bank's Balance Sheet growing up to about LKR 500 Bn since then. We have introduced the voyage 25 the next five year strategy which is working very well. I think more important thing is how we effectively execute these strategies

You would see from 2016 end or beginning of 2017 the NIM was 2.64 which has improved to 3.25. Cost to Income ratio as I mentioned previously have improved from 49% to 33 % and Loan to Deposit from 112% to 95% as five years ago our loan book was partly funded by borrowings

This is certainly a healthy sign because bank is now funding our asset base using the depositor's funds. Cumulative average growth rate in pre tax profitability is at 14% which is one of the highest.

### Slide 13 - Balance Sheet Performance

Total asset crossed LKR 700 Bn which is 12% growth or about 76 Bn increase in Total Assets and in Gross loans there was 19 % growth or in quantum its LKR 83 Bn crossing LKR 526 Bn. Deposits level increased by 13 % by LKR 62 Bn in quantum to cross LKR 552 Bn.

Other important aspect is how we managed the equity. From LKR 45 Bn in 2020 it has gone up to LKR 59 Bn. This 32% growth in equity was achieved with the equity raising activities and retained profits.

Again I will draw your attention to the five-year trend in beginning of 2017 the total asset figure was LKR 335 Bn now we have more than double that by 2021 we have crossed LKR 700 with the cumulative average growth rate of 16% and Gross loans of LKR 228 Bn book again we have more than double that to 526 Bn over five years with 18% cumulative average growth rate and deposits from LKR 204 Bn to LKR 552 Bn recording 22% CAGR which is one of the best in the industry for deposits

National Development Bank maintained sustainable growth trends in the Balance Sheet recording a solid performance. Despite the low interest rate we have been working hard on



getting quality deposits, good granular CASA especially coming from retail banking and business banking and from the corporate side using the transactional banking initiatives has actually worked well to get some good operating accounts making our CASA ratio one of the best. In 2021 CASA base stood as LKR 150 Bn from LKR 123 Bn in 2020.

In 2021 another important aspect is the funding that we raised during the year. We were successful in raising LKR 8 Bn Rights Issue and we ultimately ended up in raising LKR 9.5 Bn.

This is an important investment by Norfund who came up with the LKR 1.5 Bn investment, Norfund currently holds 10% of the bank's total shareholding. This investment was made despite the country's situation getting downgraded in the beginning of last year and that has really helped us also to get the image up

They have one board member on seat and the input receiving from them are quite useful. We also successfully raised debt capital as well during the latter part of 2021 we raised LKR 8 Bn as tier 2 listed debentures. All these initiatives would sort out some of our capital requirements.

Also we recently signed the agreement with the development finance corporation of USA for a funding line of USD 75 Mn and we are quite comfortable that we should receive those before the end of this quarter strengthening us again with the ability to provide some low cost funding to the SMEs.

#### Slide 14 - Investor Relations

Unfortunately though we have done so well, the closing price of our share which naturally reflects the market sentiments has further come down from 78 rupees to 68 or 69 rupees. Annualized EPS from 23.77 rupees it has come down to 20.68 rupees mainly because of the number of shares that have been floated with the increase in the share capital base. Annualized ROEs again stood at 12.27 compared to 13.13. This is again because of the higher capital base but the returns are high. ROA is almost at last year's level of 1.59 from 1.55 in this year. Book value per share also has come down because of the increase in number of shares. Price Earnings ratio remains around 3.33 and price to book value at 0.4.

#### Slide 15 - Capital & Liquidity

On the capital and liquidity position we are quite strong here. Common equity capital base is at 10% again from 9.17% to 10%. At Group level it is 10.53% then the total capital ratio increased from 14.32% to 15.42% increasing from about 100 basis

We are quite above the minimum requirement of TCR. Also our liquidity ratios are very much above the minimum requirements at 193%. Liquid Coverage Ratio, Net Stable Funding all are much about the minimum requirements as per the regulatory requirements.

#### PART IV - V25 Strategic Focus Areas

Let me touch on few things on the strategic focus area as well. This is about the future and how strong we are moving forward. Towards end of 2020 we came up with the Voyage 25 strategy having achieved our 2020 goals much earlier ahead of 2020 plan and in that the one key area is doubling the Balance Sheet to cross one trillion rupees and we are well ahead of

that I think we have crossed LKR 700 Bn this year and also triple the bottom line mainly through more fee based income.

Other key areas which we are focusing on are the digital drive and this is where we have been investing and also reaping the benefits. We have changed our market and the brand positioning also to rebrand us as 'future is banking on us' showcasing our digital capabilities and I think we are in a very strong footing as a mid-sized bank to launch this digital technology and we have been doing it quite well. During the latter part of last year we introduced NEOSBIZ.

Last year alone we had more than LKR 137 Bn transaction through the NEOS app and on that success we introduced NEOSBIZ this is mainly for the SMEs business banking clients so that they can do the banking activities using the mobile app and also we launched for the first time the virtual KYC so that the new customers need not come to a branch to open up their accounts by using the vKYC with the tie up with the registrar of persons. Also through the analytics and robotics we assess the customer's virtual behavior and then matching it so that you need not come to a branch to verify your vKYC.

I am happy that we have seen quite a good progress in opening new accounts even overseas accounts and also even in remote areas where customers are finding it difficult for them to come to the branches.

We also launched the NDB Zee product for the youth with various features getting them to use the mobile app and also on the digital platforms giving low cost services. We also launched in NDB privilege select trust and I think we have the best privilege or highly net worth account base. Adding to that NDB family banking and banking on women are also other initiatives that we worked.

Through Banking on Women we make women to participate more to the economic development of the country and giving them opportunities to grow. NDB started an award scheme in 2020 and this year also we had second phase going on and we have the grand finale on 8th of March. We here immensely recognize the women contributors and also encourage them.

Despite the pandemic we have been continuing support to our affected customers and also on our staff ensuring their safety which all contributed to good performance of the Bank. Customer centricity is another focus area of the strategy by looking at what customer wants and provides solution rather than we selling what we have so that would be the hallmark.

## **PART V - Way Forward**

We saw FS vat increase to 18% from 15 % .This is one challenge that we have among the one-off surcharge of 25 % for corporates who had earned more than LKR 2 Bn so naturally based on last year's earnings there will be a substantial tax payment on that and then the social security contribution of 2.5 % on turnover has gone up again. Effective tax rate of the banking system is more than 50 which we have to basically manage. but on the other side we see opportunities in the local manufacturing with the import substitution program and also growing and supporting the export side while growing our remittance space because that's a key area that we are focusing on.

Funds coming in from DFC would actually help us to support these at low rates and also provide some longer term funding. Also I think we will continue to see some stress in the credit quality, now the customers are coming out from their moratorium early this year some of the tourism customers there would be some stress and that's why we are taking some precautionary impairments as well, but we need to manage this carefully we need to support our customers by holding the umbrella and get them to come to a level that they can service their debt. Another area is the exchange rate volatility that we are expecting also the current exchange crisis the lack of exchange is also another challenge that would have impact.

Going forward lack of dollars will affect future fee based revenue but this is not only limited to NDB but the entire banking sector is faced with this current challenge. Then the potential implications coming from the challenging FOREX reserves plus now the additional rising inflationary pressure that we have seen and most likely the rates might go up which is another risk that we are faced with.

NDB has a very capable and strong management team who has seen these ups and downs and all these cycles. We have been carefully managing all that and I'm sure this year as well with these challenges still we should be able to overcome and do well as we move forward.

## **PART VI - Q&A**

### **Questions and Answers Session**

(Answered by the CEO, unless specifically mentioned)

#### **01. What's Bank's decision on dividends for 2021?**

When the bank is making returns we have to declare dividends but you have to also have a balance in terms of capital adequacy and profits. Considering all these aspects, Board of directors will decide by the indications and certainly management would also recommend some dividend recreation keeping the capital reserve ratios also intact

#### **02: Is there charity on social security levy of 2.5 %. Will it be on Nil, Interest Income or total Operating Income?**

Suvendrini Muthukumarana : We are yet to receive clarity on it, there are many interpretations and this this is still not legalized yet.

#### **03: What are your expectations from the fourth march Central Bank policy meeting?**

Niran Mahawatte : When answering that we have to look at the current market sentiment since the treasury bill yields and the treasury bond yields also have slightly picked up over the last couple of auctions. With this there is a sentiment that there might be a rate hike addressing the inflation as well, rates have adjusted upward to some extent probably because of the current economic situation also the high borrowing costs will dampen further the borrowers or the SMEs sector.

However, we are not fully sure what the central bank will do taking other reasons also into consideration especially the borrowing costs going up will have dampened the economic growth prospects of it.

**Q 04 : Have you seen a deterioration in debt services level of import relying customers ?**

Yes, I think going forward we would see that because the limited available foreign currency you need to ensure that that is distributed among the clients so we have a very structured way of allocating this funding every morning there is a committee that will decide so we also prioritize the essential items there's a priority list also which is in line with the regulatory direction accommodating this but in that process there can be some customers who may not be able to get the required level of foreign currency to do the transaction that might lead later on to some other serviceability. In which case you have to look at restructuring them and then supporting them knowing the genuine situations.

**Q 05 : Fitch downgrade has triggered further impairment on foreign currency bond's, what was the probability of default should it be 20% and LGD's is used for this increase and how much in total taken as impairment for foreign currency bond portfolio so far ?**

Suvendrini Muthukumarana : On the PD's we have applied a PD of 30% based on the country downgrading by Fitch and the other rating agencies have been mapped to a rating scale so that was supplied across the industry and in terms LGD we have applied 20%. So we carry approximately LKR 2.3 Bn as impairments for foreign currency bonds.

**06: Overnight excess liquid is a deficit around LKR 700 Bn, do you see this easing anytime soon**

Niran Mahawattha: For that of course, we have to see some inflows so that you can set it off against your reserves and your liquidity levels, the chances are less right now that it will ease to a comfortable level. We might see this shortfall for a while for an extended time period.

**07. What are your thoughts on National Development Bank's foreign debt payment capacity?**

I think we are quite comfortable with that if you look at our Balance Sheet about 17% of the exposure is in foreign currency but yes we have been deployed in foreign currency low portfolios and exporters are doing very well so that we are quite comfortable that our ability to service these foreign currency obligations as and when those are matured.

**08. Was the previous probability of default on foreign currency bonds were 20%?**

That was 10% which was increased to 30%.

**09. How large is your ISB portfolio? Adding or reducing?**

We are not adding we are reducing we saw a payment even in January this year and there are some maturing in July so we are comfortable that we should be able to get that reduced. Our annual report would give the details once it is published but in a very high level we have roughly around LKR 150 Mn dollars in ISBs at various tenors.

**10. What is NDB's outlook on asset quality for 2022 ?**

Despite the COVID-19 situation we are quite comfortable that we should be able to further improve the asset quality we saw improvement despite the COVID-19 challenges. This year most of the customers were under moratorium are coming out from their moratorium so that's why we have been usually approaching them especially the business banking SME teams approaching them and so far our feedback is they will be able to serve these exposures. So at the moment we are comfortable that we should be able to manage this.

However, all these depends on the how the economic revival is also happening with current exchange situation the power crisis and all that it's all another combination of factors that might affect the overall banking and the industry environment which might lead to some deferment so which is something we have to be mindful but at the moment we are quite comfortable that these customers should be able to come out from their challenges

**11. How much of the loan book is still under moratorium?** I think somewhere around 15% - 16 %. It has come down from 20%, 17% now around 15 %

**12. How much has your SME book grown YoY?**

Indika Ranaweera : As a result of SME remedial unit we see some of the settlement of highly impacted SMEs as well, because with the remedial unit we look at the SMEs and based on the cash flows and based on the percentages of the business we gave some solutions as a result we saw improvement in the NPL position as well. So I think we expected some of the things beyond our control like the power cuts, dollar crisis etc. At the moment we see the SMEs are resilient but hopefully the things get sorted then we'll be able to further improve the quality side as well.

**13. Will the bank take the surcharge tax impact adjustment from the next quarter and how is it going to get counted and what is the estimated number?**

Suvendrini Muthukumarana : Okay so on the tax surcharge the impact will be the taxable profit for the year 2020 and not 2021 and it will be on a group basis and how we will account it is against equity and we estimate approximately around more than LKR 2.5 Bn.

**14. What contributes most in the fee component between digital services and loans?** I would say that it's equally contributed. We had 19% growth in loan book. Also we had a focus growth on the trade side which has helped us to grow most of the trade and fee income. Quite a substantial growth was seen from digital side also even though the fee income per transaction is low when the volume is high we do collect substantial fees on that, so I think both have contributed.

**15. Does the bank see an upside to solar loans?**

I am happy to share that the National Development Bank during last five years provided support for the Government's driving indicating the renewable energy sector. So NDB's contribution towards last five years total Sri Lanka's renewable energy projects is 30%. This also talks something how National Development Bank has contributed to the economy.

Ishani Palliyaguru - We have seen a significant interest in solar and as of now we have a very strong pipeline where all the project promoters are now finding mechanism of managing the capital LC's due to the foreign exchange challenges.

**16. Has your CASA granularity improved?**

Sanjaya Perera : Yes certainly it has improved. The products that we have introduced is paying dividends so therefore I would say granularity has improved significantly throughout the branch network both in terms of individual as well as the business clients.

**17. Will there be a chance of further capital raising on increase tax and impairment charges?**

Unlikely in the immediate future, I think we are comfortable with the impairment side but if this tax charge continues naturally we would be compelled to, but at least we have been advised it's only for one year. At the moment we don't see any requirement for us to go and tap capital markets. But I think later towards the latter part of the year based on what the developments, we may have to consider this but right now there is no need for us to raise capital.

**18. Will there be a chance of minimum capital requirements being revised back to original levels?**

Unlikely it will remain this year

**End of Q&A.**

**Closing Remarks**

I would like to thank everybody for taking part and be part of National Development Bank's investor webinar. Thank you for your participation and thank you for being shareholders and also keen investors in National Development Bank and looking forward to your continued participation in these webinars because that's one thing that we are quite keen to share our story every quarter as we have been doing that with all our investors.

The Bank has many growth plans in line with our Voyage 25 strategy and I am sure that we have a great team to work and good staff who can deliver that so that we are quite comfortable that we should be able to do well and continue this momentum that we have been maintaining over the last five years and in more years to come. Thank you very much again for all your patience and taking part in this investor webinar.

**End of edited transcript.**