IDLC Finance Limited

Earnings Disclosure

FY 2018

18 February 2019

Forward Looking Statements

This presentation may contain statements that constitute forward-looking statements about the Company, within the general meaning of the term and within the meaning of applicable securities laws, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations. These statements may appear in a number of places in this document and may include statements regarding our intent, belief or current expectations regarding our customer base, estimates regarding future growth in our different business lines, market share, financial results and other aspects of our activity and situation relating to the Company. The forward looking statements in this document can be identified, in some instances, by the use of words such as “expects”, “anticipates”, “intends”, “believes”, and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions.

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Macro factors that shaped 2018

- AD Ratio guidelines affecting liquidity scenario
  - As banks scrambled for funds to maintain their AD ratio, and further reduce it to 83.5% following directives from the central bank, **interest rates moved upwards at the beginning of the year**
  - Situation was **stabilized by mid-year**
- Current Account deficit and pressure on exchange rate
  - Current account deficit of Bangladesh reached its historical highest at USD 9.8 bn in 2018
  - As USD got dearer, **Central Bank supported the currency throughout the year, soaking up further BDT liquidity from the market**
- Capital market scenario
  - Transaction volume dried up as stocks fell. Large caps were affected the most and pulled the index down with them
  - **Corporate profitability was also hit** as cost of imported raw materials and cost of financing rose
  - As interest rates rose, **some investors were incentivized to pull money out of the capital market** and invest rather in fixed income instruments
- Political environment
  - Political environment was rather calm and there was **no significant disruption in the business climate,** though activities slowed in the months approaching the election at the end of the year

IDLC has displayed resilience in this environment

17% ↑ **CUSTOMER ADVANCES**

BDT 83.9 bn

57 bps ↓ **NON PERFORMING LOANS**

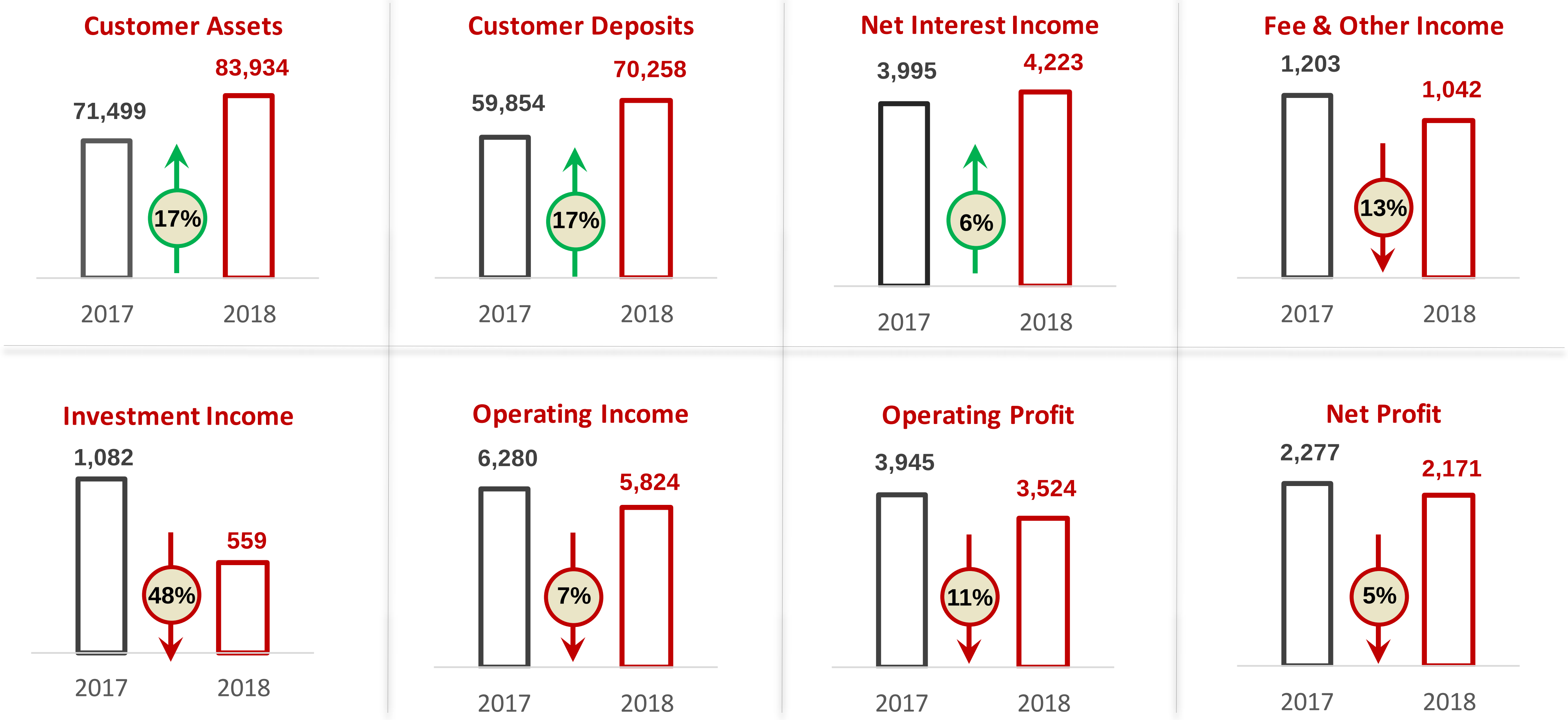
2.20%

5% ↓ **NET PROFIT AFTER TAX**

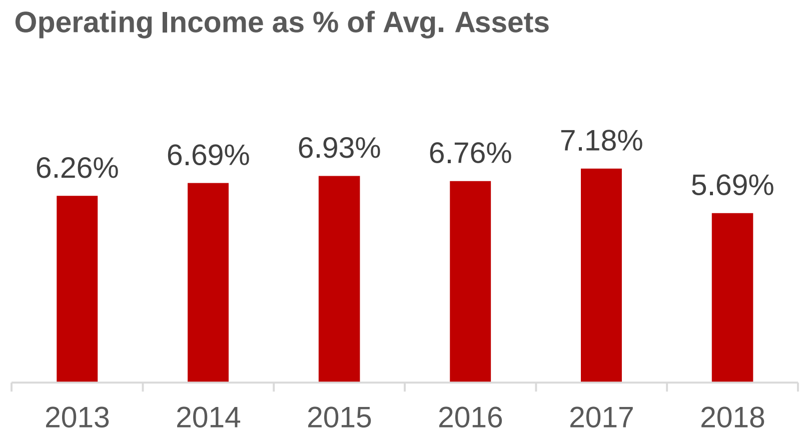
BDT 2,171 mn

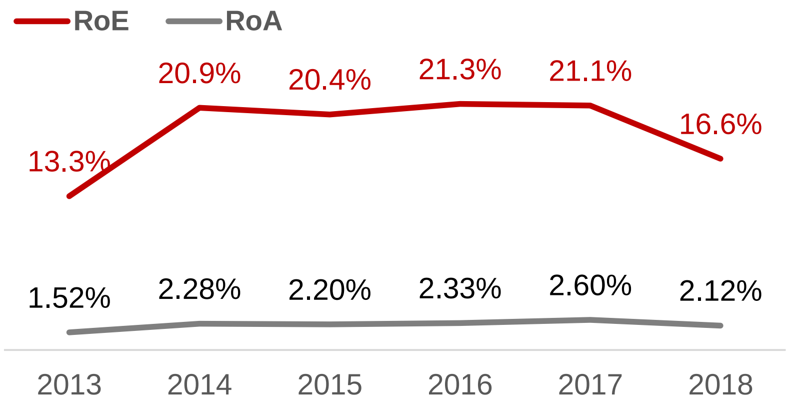
YoY Performance Metrics

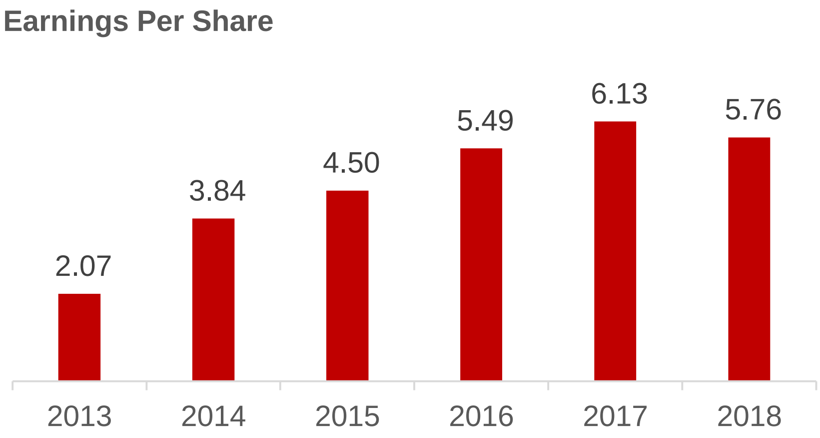
BDT mn

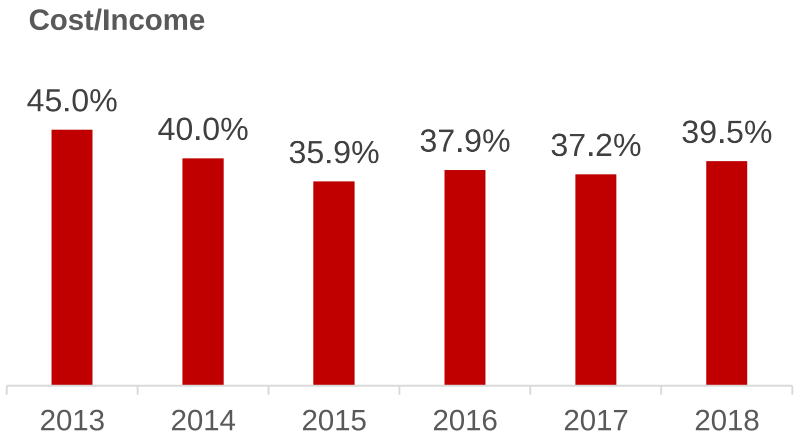


YoY Performance Metrics



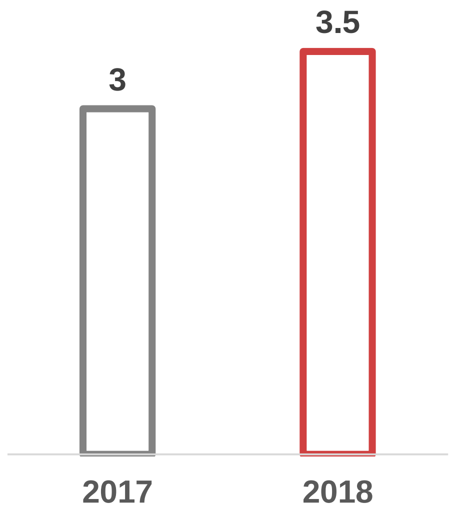




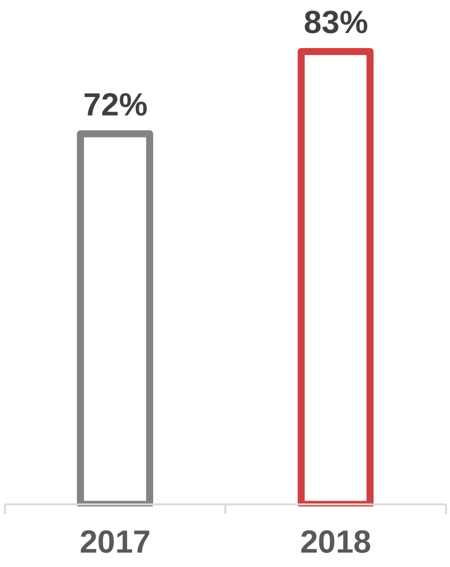


Dividend, payout ratio and capital adequacy

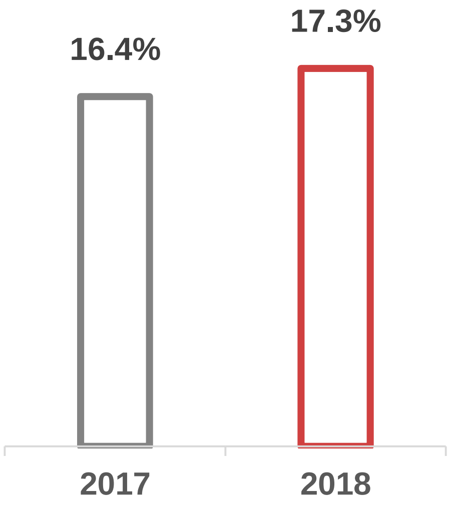
Dividend per Share (in BDT)



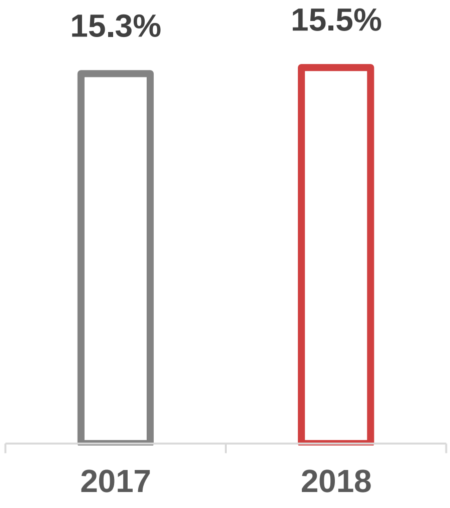
Payout Ratio*



Capital Adequacy Ratio (Consolidated)



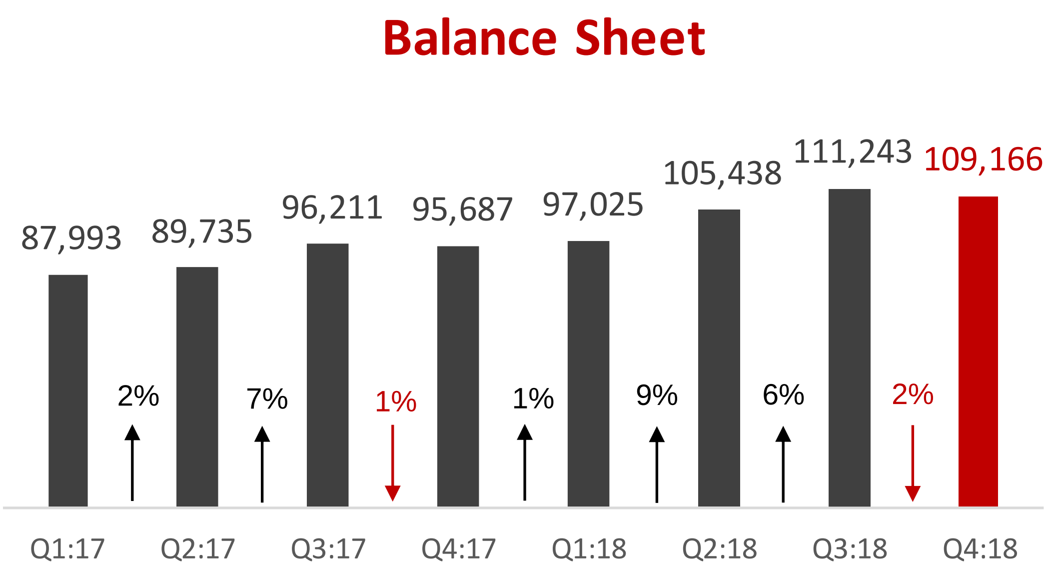
Capital Adequacy Ratio (Solo)

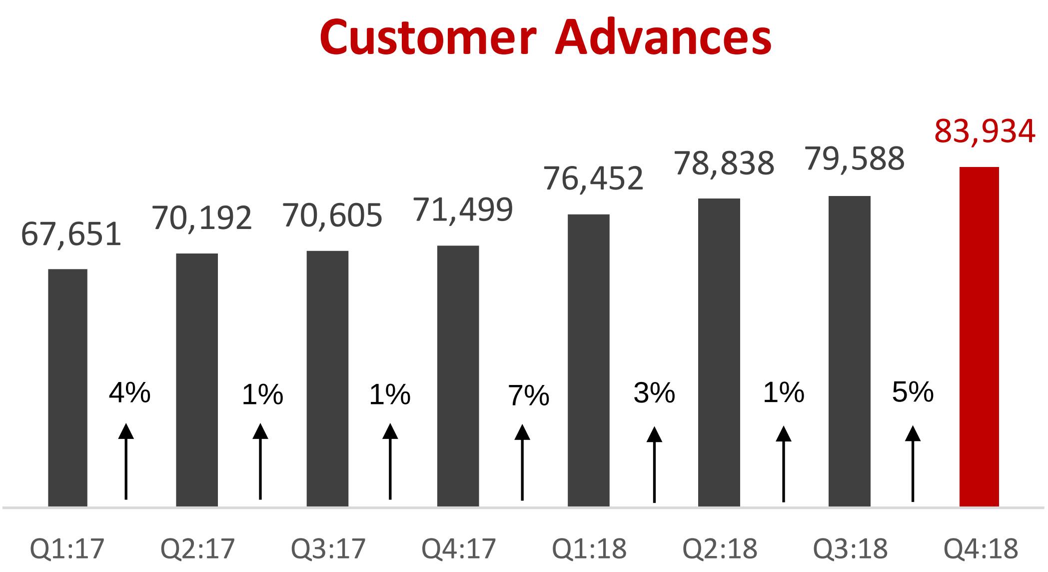


- Payout ratio mentioned above has been calculated on stand-alone earnings of IDLC Finance Limited. Considering consolidated earnings, payout ratio in 2017 and 2018 are 50% and 60% respectively
- Capital Adequacy Ratio (CAR) has increased, despite a 72% payout ratio in 2017 and a 17% portfolio growth in 2018, on the back of improved asset quality restricting growth of risk-weighted assets

Loan growth remained strong throughout 2018

BDT mn



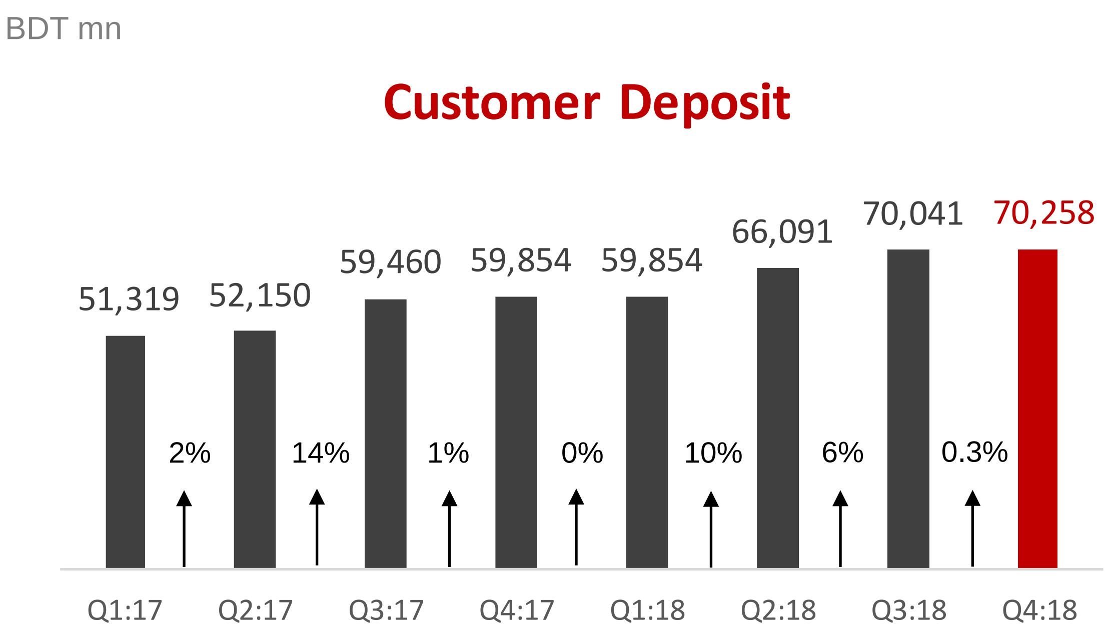


Loan growth adequately facilitated by deposit volumes in earlier quarters

- IDLC achieved significant deposit growth in the second and third quarters, in preparation of a comparatively tight liquidity scenario, as expected, at the end of the year

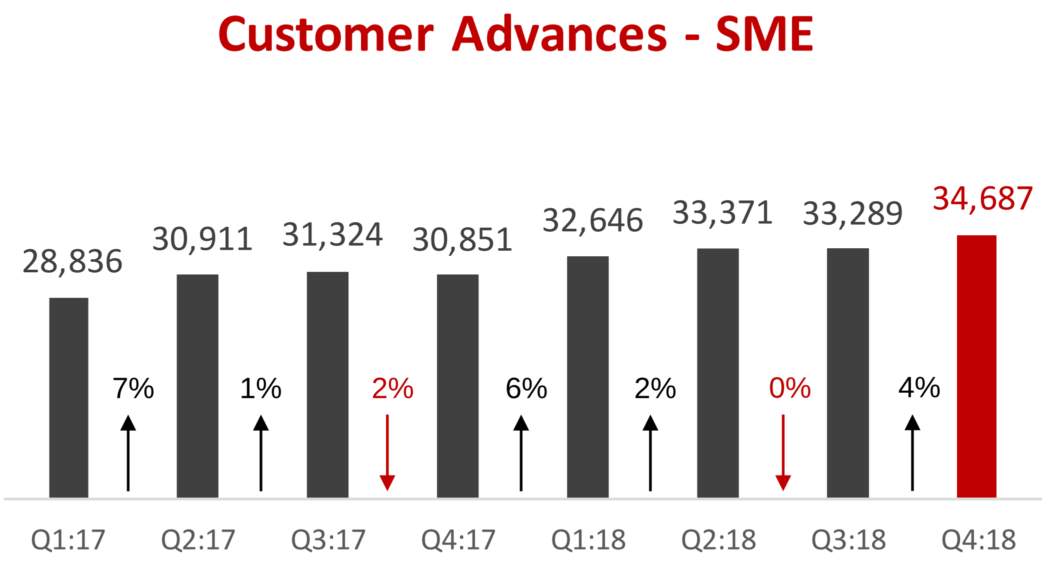
- Deposits contributed 85.33% to the total funding basket

- Money market tightened again in the last month of the year, as anticipated



SME Portfolio growth picked up after festive seasons

BDT mn



- Loan growth picked up in Q4, following festive seasons in the previous quarters, moving the SME portfolio up by 12.4% since 2017 close

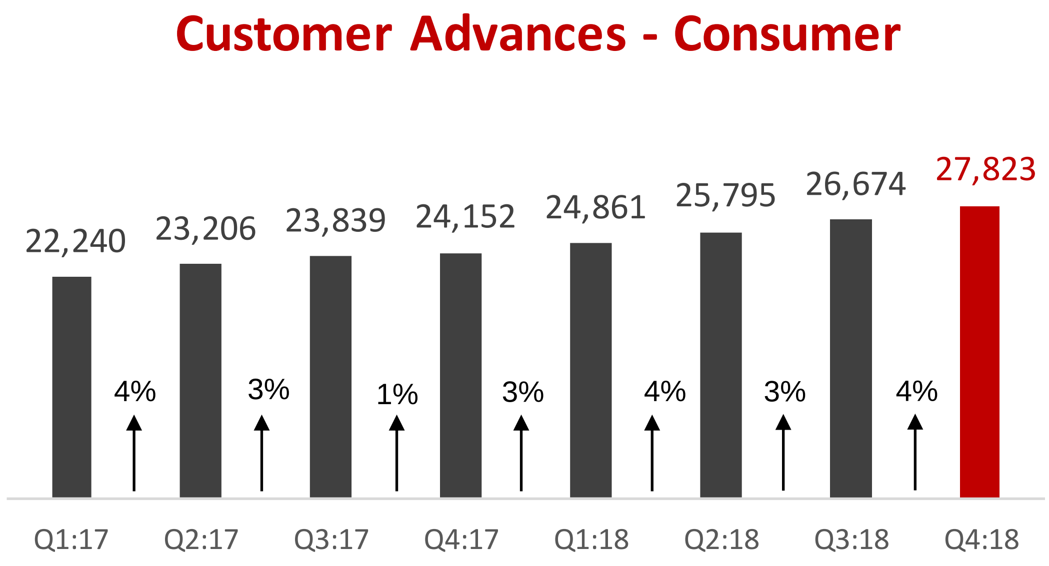
- SME accounts for 42.1% of the total Loan Book

- Focus on smaller loans to be increased in 2019, with a new operating model designed to cater to this segment being piloted now

- This technology centric model is expected to usher in added productivity for sustainable growth

15% growth achieved in Consumer portfolio in 2018

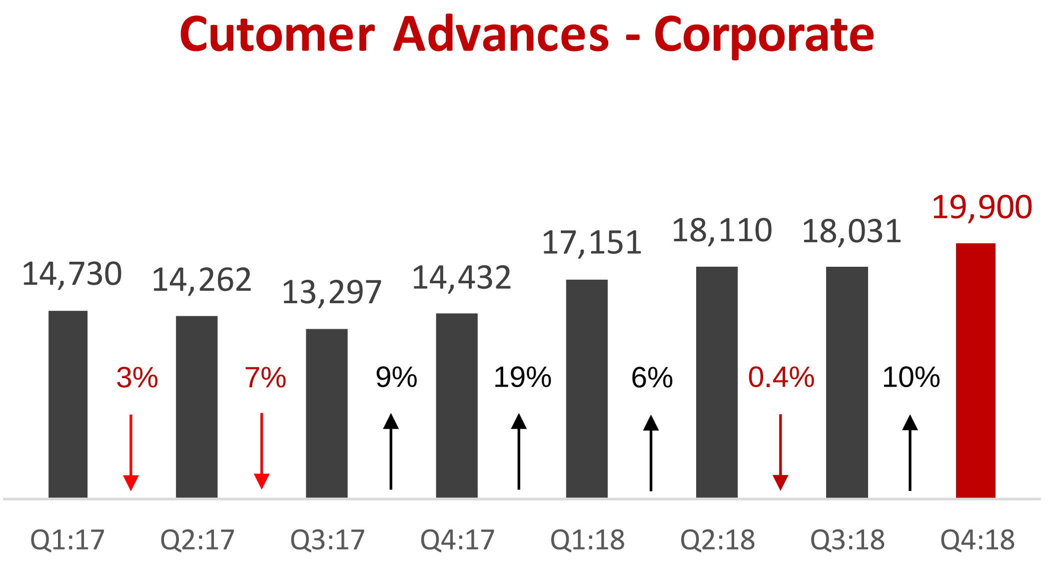
BDT mn



- Consumer portfolio grew mainly on the back of home loans – which rose by 17.1% in 2018 – comprising 91.5% of the Consumer loan book
- Recent modifications in the Consumer division's business model has enabled much of this growth without additional hires
- Product developments targeted towards markets beyond the capital city expected to bring in further advancements

Market opportunities enabled hike in Corporate portfolio

BDT mn



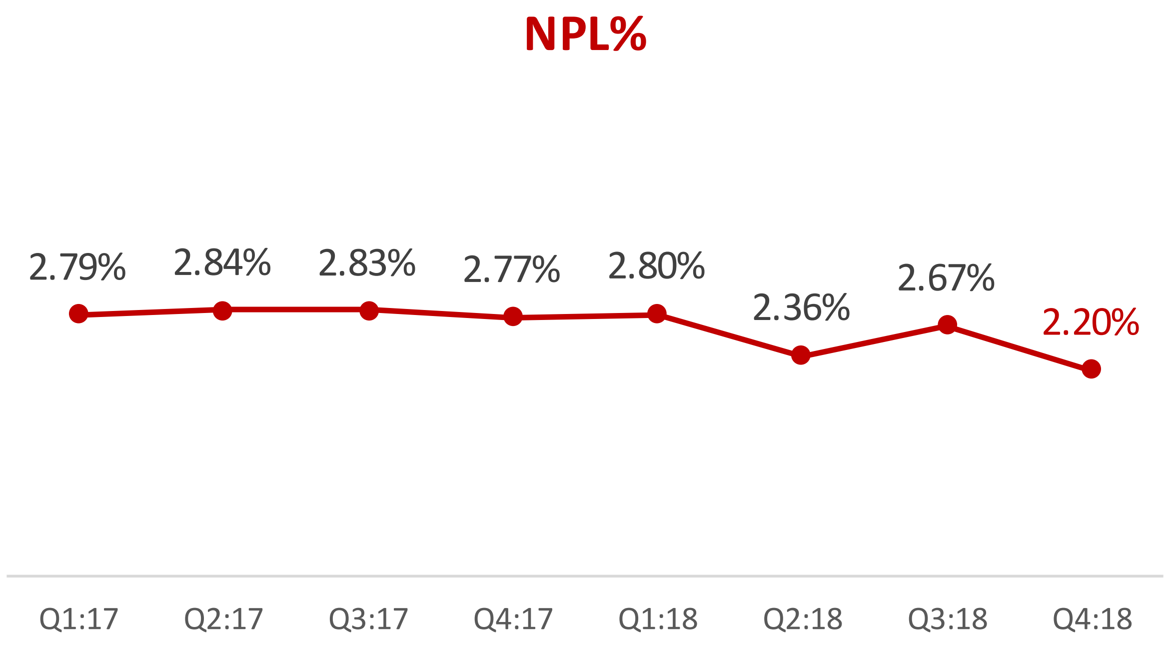
- Posted 37.9% Y-o-Y growth amid a comparatively dry liquidity scenario in the market
- Makes up 24.1% of the company's portfolio and remains the major source of structured finance, agency operations and advisory businesses

NPLs under control

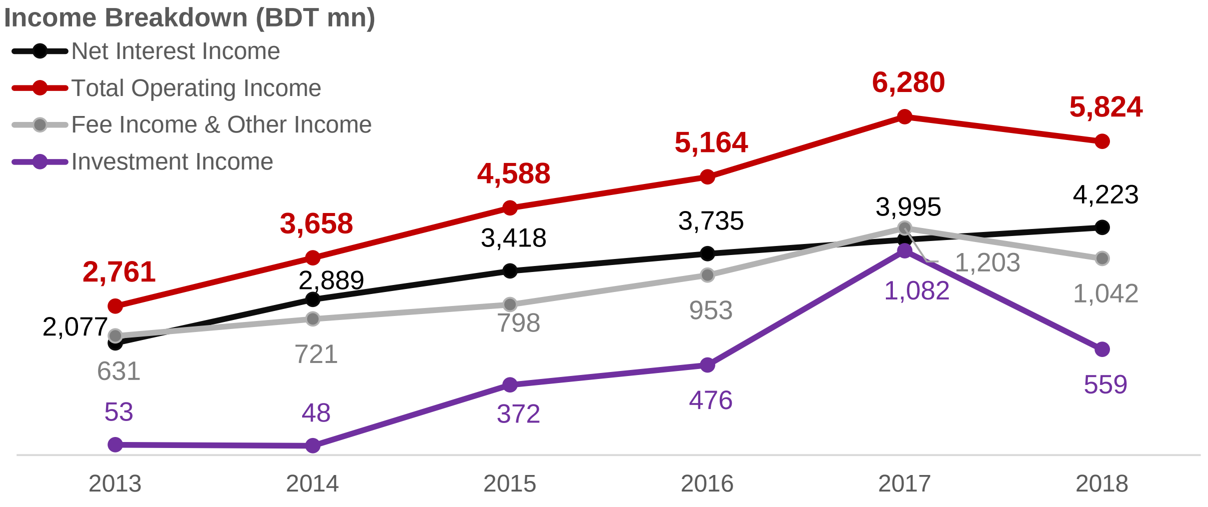
- NPL% fell on the back of increased monitoring and collection efforts and rescheduling of few clients who suffered temporary difficulties with liquidity

- Write-offs were 0.27% of the company’s standalone portfolio balance

- Cost of Specific Risk (incremental specific provision as a % of average portfolio) was low at 0.15% for the year 2018 compared to 0.24% in the preceding year



Item-wise trend of IDLC Group's Operating Income



	Growth: 2018	5 Year CAGR
Total Operating Income	**-7%**	**16%**
Net Interest Income	6%	15%
Fee & Other Income	-13%	11%
Investment Income	-48%	60%

- **Operating Income** dropped for the first time in last 5 years posting a de-growth of 7.26% compared to the previous year, on the back of significant drop off in investment income
- **Net Interest Income** grew by 5.71% to BDT 4.22bn despite tightening margins, consequent to a 17% growth in customer advances
- **Investment Income** fell to BDT 559.29mn, reflecting a de-growth of 48.33% owing to the slump in equity market return, following a ~14% decline in DSE Index in 2018, subsequent to extraordinary market conditions in 2017
- **Fee & Other Income** stood at BDT 1,042.23mn at the end of the year, registering de-growth of 13.37%. It mainly resulted from a 28.59% decline in Brokerage fees over the year. There has also been a fall in Processing Fees and Service Charges despite increased disbursement, essentially due to a decline in fee rates across the industry, following directives issued by the regulators

2018: Profit contribution from different entities

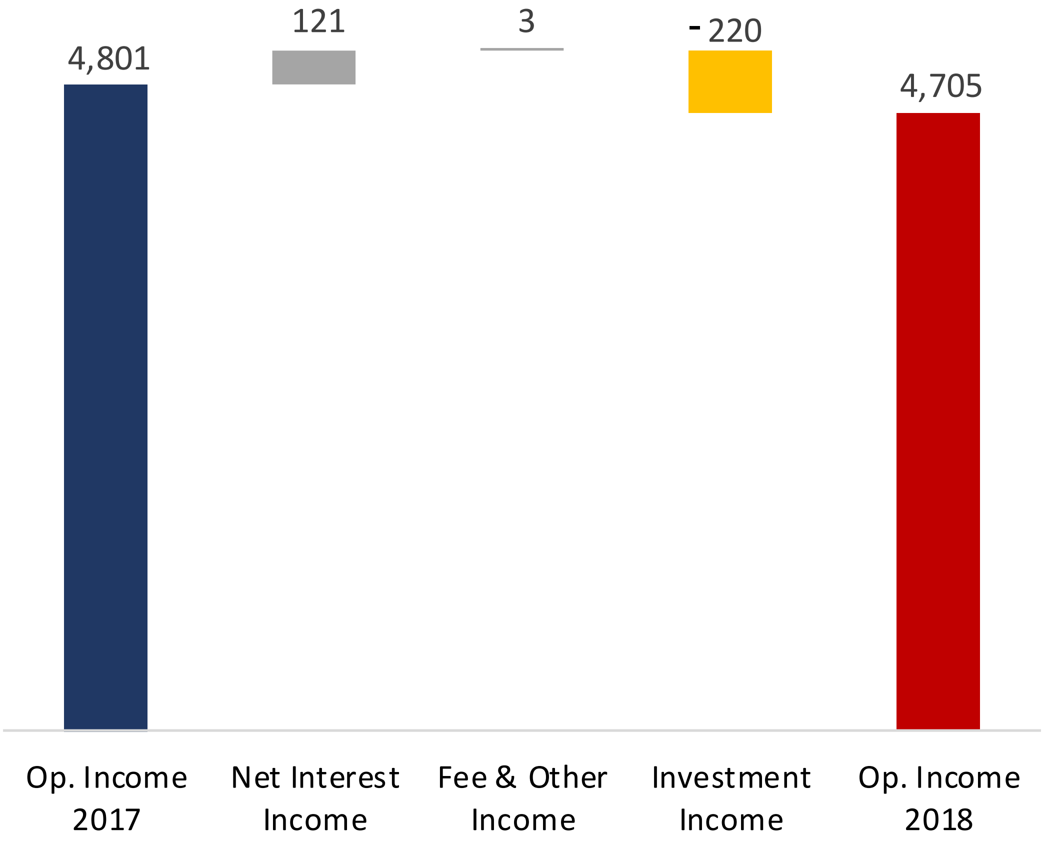
Entity	NPAT (BDT mn)		Growth	NPAT Contribution %	
	2018	2017		2018	2017
IDLC Finance Limited	1,591	1,582	1%	73%	69%
IDLC Securities Limited	366	379	-4%	17%	17%
IDLC Investments Limited	180	277	-35%	8%	12%
IDLC Asset Management Limited	35	39	-11%	2%	2%
Consolidated NPAT	**2,171**	**2,277**	**-5%**	**100%**	**100%**

IDLC Finance Limited (Standalone): Marginal increase in parent company's profits. Detailed elaborations provided in upcoming slides

Capital Market Subsidiaries: Net Profits of IDLC's 3 subsidiaries show de-growth following extraordinary results in 2017. However, it should be noted that:

- In 2018, average daily turnover in the major stock exchange dropped by 37% compared to the previous year, impacting the brokerage business
- The major Index fell by 13.8% (following a 24.0% positive return in 2017), DSE 30 fell by 17.6% (positive return of 26.1% in 2017) – impacting proprietary investment returns
- Yet, our subsidiaries have shown resilience and have outperformed the market as well as many of their peers

IDLC FL standalone Operating Income – YoY Changes

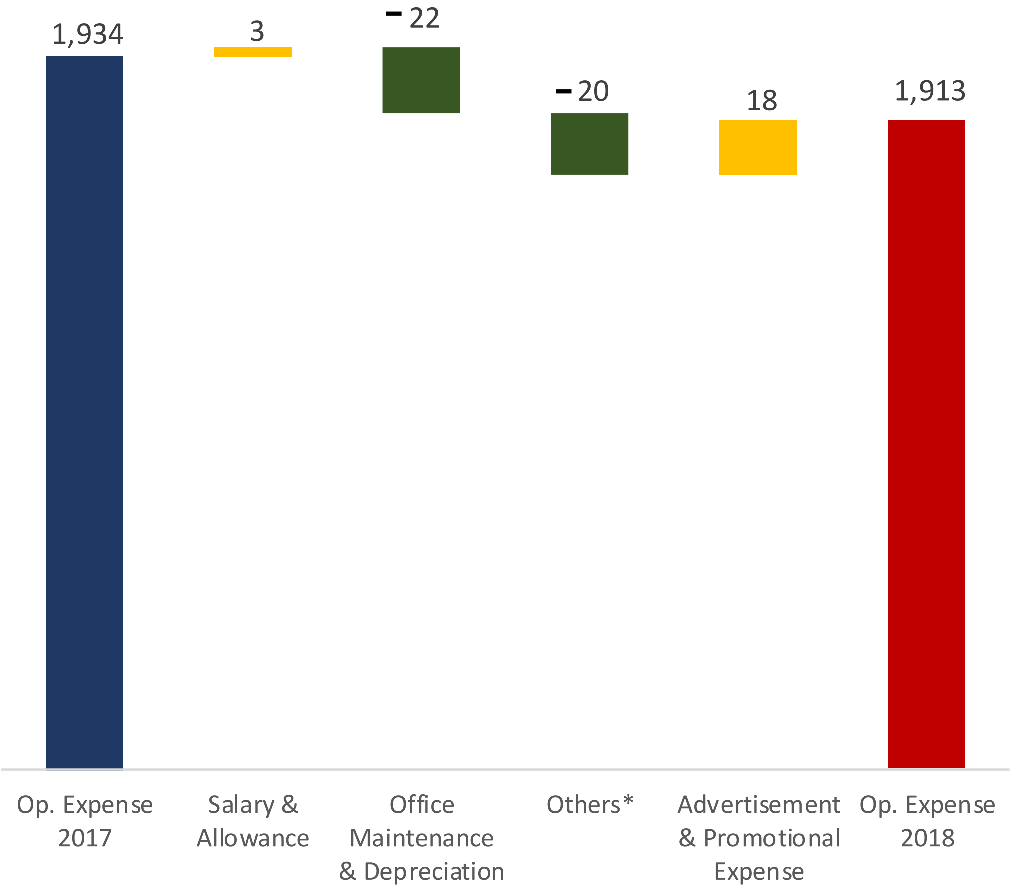


- Despite an 17% growth in customer advances, NII grew by only 3%, on the back of rising interest rate and the decision not to revise up the rates for small business clients
- Loan Processing fees have been on decline across the industry owing to regulatory directives
- 43% de-growth in investment income – overall investment return was positive despite a 14% fall in major index

Actions and Way Forward

- The planned venture into smaller ticket SME loans should provide an uptick in spreads for that segment. However, overall SME spreads are not expected to increase in the short term.
- Margins in Home Loan should stabilize at the current level and further deterioration is not expected as things stand right now.
- Processing fees as a % of disbursements might continue to slide, however, overall number should get a boost as disbursement volumes increase
- Portfolio growth expected to accelerate post election and with increased emphasis in new segments
- Proprietary investments in fundamentally strong shares are expected to generate value over the coming periods

IDLC FL standalone Operating Expense – YoY Changes



*Port. mgt. fee, printing & stationaries, sales commissions, travel & conveyance, professional fees, entertainment expenses

- Major process improvements allowed us to respond to turnovers with fewer replacements. Portfolio growth has been achieved through productivity enhancements rather than additional hires
- Depreciation expense decreased due to full depreciation of Core Banking System (CBS). Improvement and customization of CBS will require Capex in 2019.
- Significant cost optimization has been achieved in other areas as well, on back of our efforts to rationalize, standardize and simplify processes and activities
- Planned marketing campaigns to boost business growth led to a rise in advertisement and promotional expenditure

Actions and Way Forward

- Planned customization of the CBS will pave ways for further automation in operations with major improvement expected in customer on-boarding and payment/collections handling
- All front line sales personnel are expected to be equipped with Tabs with proprietary apps by Q2 2019. These apps will be integrated with the loan appraisal software which, in turn, will be integrated with CBS. This is expected to boost productivity significantly.

IDLC FL standalone Provisions

Particulars	2018	2017	Amt. Change	% Change
Provision for doubtful A/Cs	**366**	**228**	**138**	**60%**
General Provision	94	57	36	64%
Specific Provision	119	171	(52)	-30%
Provision for diminution in value of investment	153	-	153	0%
Provision for tax	**835**	**1,057**	**(222)**	**-21%**

- Growth in portfolio resulted in higher **General Provision**
- Successful collection efforts and regularization of payments from few large clients restricted **Specific Provision**
- **The provision for diminution** in value of Investments is fully attributable to investments in publicly traded shares and caused as a result of the significant fall in the major index. Nonetheless, the holdings in the portfolio remain fundamentally strong and expected to generate more value in the coming days
- **Tax rate** has been revised to 37.5% from 40% in 2018, effective from 2017; while some other adjustments of prior excess provisions have also come into effect

Ongoing challenges and mitigation avenues

- **Maturity mismatch** – lack of a mature bond market and limited availability of other long-term funding means creates a maturity mismatch for most Banks and NBFIs that book long-term loan assets
  - Focus on maintaining renewal rates
    - On an average, 75%-80% deposits in IDLC are renewed upon maturity
  - Continue to seek long-term funding opportunities through the bond market and other avenue for borrowing
  - Any reform of the National Savings Certificate will potentially boost mobilization of long term deposits

- **Tightening margins** – growing competition in home loans as well as SMEs have gradually reduced margins over the years
  - Roll-out product development initiatives targeted towards markets beyond the capital city
    - Mainly through developing the right offerings for lower ticket sizes, both for SME and Home Loans
  - Continue efforts at improving operational efficiency and scalability to reduce loan acquisition and management costs
  - Continue improvements in loan underwriting and collections policies and procedures to decrease cost of risk further

Ongoing challenges and mitigation avenues

- **Shrinking Fee Incomes –** reduction in fee rates on loan disbursements following regulatory directives
  - Growth in disbursement volumes is expected to restrict further deterioration in fee incomes
  - Focus to be on Brokerage Fees, Structured Finance, Advisory Services, Investment Banking and Fund Management businesses for a sustainable source of Fee Income. However, these will only start contributing significantly in the medium-long term

- **Rise in Operating Expenses –** while numerous process improvements have shown a glimpse of cost minimization for the year in review, rate of OPEX growth is expected to catch up in 2019.
  - Unlocking tectonic shifts in organizational productivity and resource utilization will require investments as well as regulatory support in some cases
  - While some scalability measures require policy level advancements in the regulatory landscape, our business model change initiatives and various tech adoption strategies are expected to bring in significant productivity improvements over the coming years under the existing regulatory guidelines

Accomplishments of 2018 and focus areas going forward

- **Upgradation of customer acquisition, loan processing and management model**
  - Business model of Consumer Division upgraded to improve scalability of operations expected to achieve business growth with less than proportionate increase in resources
  - Business model of SME Division also undergoing change for added efficiency, while general process improvement efforts are being conducted for all verticals
  - The aim of all the adopted changes are to enable the organization to handle significantly increased number of small ticket cases, in line with the overall strategy of being a more retail centric organization

- **Diagnostics for customization of core banking software and preparations for tech adoptions**
  - These customizations are expected to –
    - Boost productivity
    - Enable a more data-driven culture of strategy formulation and decision-making
  - Most of these are expected to be executed in 2019, while some undertakings are estimated to take place over the next 2-3 years, in alignment with organizational and customer readiness

Accomplishments of 2018 and focus areas going forward

- **New product developments and initiatives that have aided in building the bedrocks for new business opportunities**
  - Affordable housing segment,
  - Micro business segments
  - Flexible savings schemes for recurring depositors deposit and other wealth management products
  - New avenues opened up with the alternative investments license obtained in July 2018
- **Customization and development of product offerings based on customer feedback are to continue**

- **HR initiatives, particularly in talent recognition and development have had significantly positive impact**
  - Performance management process has been revitalized with renewed emphasis on rewarding top talents and nurturing potential achievers
  - Voluntary attritions have come down to 11% in 2018, from 15% in the previous year – expected to improve further as more talent recognition and employee engagement initiatives come into effect

Thank you

Q & A