Edited Transcript - Q&A Session

National Development Bank PLC
Quarterly financial results - FY 2017

Discussed at
On-line Webinar with investors and analysts
02 February (Friday) 2018 - 2.30 pm (GMT + 0530)

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Investor Forum for Analysts and investors
27 March (Tuesday) 2018 - 4.00 pm (GMT + 0530) - Hotel Galadari

Questions and answers session – Investor Webinar

(Answered by the CEO, unless specifically mentioned)

Corporate participants

Dimantha Seneviratne – Director/Chief Executive Officer
Buwaneka Perera – Vice President -Corporate Banking
Lalith T Fernando – Group Chief Financial Officer
Niran Mahawatte – Vice President -Treasury
Sanjaya Perera - Vice President -Personal Banking Branch Network Management
Indika Ranaweera – Assistant Vice President - SME, Middle Market and Business Banking
Ms. Suvendrini Muthukumarana – Assistant Vice President -Finance & Planning
Chandana Guniyangoda – Assistant Vice President -Finance & Planning

Q1: What is the reason for high growth in gains from financial investments in 2017?

Niran Mahawatte

This was mainly driven by the capital gains on the bond portfolio. There was quite a big traction there. The biggest gain was in the bills and bonds.

Q2: What is the impact if IFRS 9? Have you done any working on this and how has it impacted the Bank?

I think the industry is working with several audit firms on this to arrive at the numbers. The estimated figure is between 40% -55% in terms of increase in the provisions, which could have an impact on the balance sheet. In the case of NDB, we are finalizing those numbers, and will be within those industry averages. We are working closely with our auditors to arrive at the numbers. When we plan our capital raising activities for this year, we have taken this also in to consideration.

Q3: What would be the impact of the Debt Repayment Levy? Do you see it being implemented?

Of course, it is too early to comment about it. Industry would be meeting the Finance Ministry officials during this month to clarify on what basis the Levy would be applied. It is too early to comment about it.

Q4: Can you please elaborate on the Bank's Other Operating Income figure LKR 1.24 billion.

Ms. Suvendrini Muthukumarana

This includes partly the revaluation gains from our foreign currency reserves as well as Group dividends. We have received the same amount of group dividends in the previous year also. Actually the other operating income growth is purely coming from banking operations.

Q5: When will IFRS 9 be implemented?

Ms. Suvendrini Muthukumarana

The banking industry wrote to the ICASL and the CBSL, the ICASL has given us transitional guidelines whereby, all banks could apply the IFRS 9 impact on the annual financial statements for the year ending 31 December 2018. This is under discussion, the guidelines are available so most probably, the industry will take a call collectively on this.

Q6: Can you mention the individual figures of the gains from revelation of reserves?

It is approximately around LKR 300 million.

Q7: Do you see your deposits growth continuing in 2018 also at the same pace of 2017?

I would say yes, because we have a liability driven strategy for 2018 and onward. What you saw was just the beginning. We would have a more focused approach in growing our deposits. Coming from a DFI, compared to some of the other commercial banks, our ADR was an area that we wanted to work on. That really was showing in the growth of deposits in 2017, i.e. LKR 70 billion vs. loans of LKR 46 billion last year.

We continue to have that focus this year also, especially though our retail network, by growing our current and retail base plus of course the other deposits. This focus and momentum will continue for 2018 and beyond.

Q8: What is the Loan growth you expect next year and in the mid-term?

Loan growth for this year, we are expecting it to be in line with the regulator expectations as well. But we would say between 15-20% kind of a growth rate for 2018.

Q9: What are the loans classified as "Other", and the reason for high NLP in that category?

Ms. Suvendrini Muthukumarana

This represents all consumer facilities but it is not hard core NPLs, these are relatively low values compared to the overall loan book, although the composition looks large. This has the leasing, personal loans, housing loans, credit cards portfolios.

Q10: Are you planning on a Rights Issue this year? If yes, what is the amount you are planning to raise?

Yes, I think we need to raise capital. There is no doubt about it, especially in line with our growth plans for the next two years. We need to tap the market. The Rights Issue is on the cards. It is too early to comment on the amount. We need to consider several aspects; one is the IFRS 9 impact, and then the business growth rates we have planned. I am also confident that raising capital with this type of an ROE would not be a challenge, I am sure the investors are also in favour of us in going to the market for capital raising activities.

Q11: What led to the write-off of impairment of LKR 2 billion?

Ms. Suvendrini Muthukumarana

If you refer to the Notes that are published with the financial statements, this is the write-off that we made from the closing balance sheet provision. For these, the provisions have been made in the previous years and we have identified that they cannot be recovered. So those loans have been written off, but there is no impact on the performance for the year 2017.

Q12: When do you plan to become a systemically important bank?

I think the rate at which we are growing, our Balance Sheet is LKR 383 billion, we are looking at 2019 or 2020 to cross that level. That is one of our goals as well.

Q13: What is the outlook on interest rates this year and next year?

Niran Mahawatte

We think that it should be very stable this year, in particular the first half. Probably there might even be a marginal rate cut, if the headline inflation comes below 6%. Otherwise, the rates are expected to be very stable during the first six months and also we may see a slight increase again toward the last quarter because of the rupee depreciation/ debt repayments which is very much lined up in the last two quarters.

Q14: The provision of LKR 41 million at group level. Can you elaborate on this?

Ms. Suvendrini Muthukumarana

These represent some of the provisions that we have made for our investments in subsidiary companies, based on their net assets positions. These are not actually write-offs, but provisions which will be recovered in the near future.

Q15: What is the group dividend adjusted net profit? The ROE level comes down to about 13%. This is lower than the industry. How do you plan to improve on this?

Actually at the Bank level, the ROE has improved. At the Group level, there are some high capitals maintained at the Group level, almost close to LKR 4 billion. So when you use that as a denominator, the ROE comes down. That is the nature of the investment banking business as well. We are quite comfortable, with all these activities happening. There are opportunities in the economy that we are expecting in the coming years which will benefit the investment banking business.

We are also looking at rationalizing this capital base and try and improve our ROE.

Several discussions are also taking place to work on this Group level improvements in to the ROE.

Q16: Is there a particular customer segment that you would focus on, heading in to 2018?

I would say that we will take a more focused approach in growing the SME and the retail base. We have quite a good corporate book. Similarly we have a good project financing book. Whilst growing those sectors, we would focus more on growing the retail and SME space, because of our 107 branches; more than 55 of them have been added to the network in the last five years.

These are the branches which are getting established in their respective localities and this is the time that we need to make use of those strengths/ relationships and grow that book. That is why more focus is placed on growing the retail and SME space. So you can see more growth coming from those sectors. That would also help us to improve our risk base and margins.

Q17: How did the Bank manage to achieve a strong QoQ loan growth in the fourth quarter, despite the slowdown in the sector? What industries/ sectors do you expect to drive the loan book growth in 2018?

For the second question, we have already answered.

For the first question, QoQ growth in 4th quarter, the strategy which we implemented was focused on retail and SME side. We were working on this in the mid of last year, and the real results came towards the latter part of 2017. So there was substantial growth coming from the SME side, plus the retail side. Our incentivized sales team has done well. We continue to invest in our sales force. These combined efforts helped us grow the loan book.

Q18: Are there any sectors that you are cautious about, when growing your book in 2018?

All the sectors are growing quite well. There is no worry on any one of the sectors.

End of the Webinar Q&A session.

Questions and answers session – Investor Forum

Head Table Panelists

Ananda Atukorala - Chairman
Dimantha Seneviratne – Director/Chief Executive Officer
Buwaneka Perera – Vice President -Corporate Banking
Lalith T Fernando – Group Chief Financial Officer
Sanjaya Perera - Vice President -Personal Banking Branch Network Management
Vajira Kulatilaka – Chief Executive Officer – NDB Capital Holdings Limited

Q1: What is the Bank's Plan to improve its Return on Asset (ROA) from its current level of 1.2%?

Our ROA is below the industry, but we are seeing improvement. 1.2% of 2017 is an improvement from 0.99% in 2016. So we are on the right direction. A number of initiatives are currently underway, which will improve the ROA.

We are well managing our Balance Sheet from a number of aspects. Enhancing the local currency mix of the Balance Sheet is one such aspect. Presently our Balance Sheet mix is at 75:25 for local currency and foreign currency. We are looking at improving this ratio to somewhere round 85:15. This will help us improve our margins as local currency loans offer higher margins. Less exposure to foreign currency denominated deposits and loans will also reduce the possible losses from exchange rate fluctuations.

Another aspect of the Balance Sheet management is improving the funding mix of our assets. As we were a DFI before we converted to a commercial banking entity in 2005, we inherited a large base of institutional borrowings. These are somewhat high cost borrowings. Since of recent, we have largely improved our funding base, to be more in line with a commercial banking model, whereby the majority of our assets are funded by our own deposits. The improvement of the Advances to Deposits Ratio (ADR) from 115% in 2016 to 102% in 2017 affirms this.

Improving our CASA base within overall deposits is yet another key target we are pursuing, which will enhance our ROA. We strengthened our deposits portfolio during the year, with three new product proposition launches and one product relaunch towards improving the CASA base. The Bank's deposits portfolio is now fully fledged, with lifestyle deposit offerings for any stage of life.

Another major focus area would be our business focus. Being a retail and commercial banking entity, we have channeled our focus on the retail and SME segments. As a DFI prior to the conversion in to a commercial bank, we were predominantly project and corporate banking oriented. Whilst maintaining our forte in this area, we will place greater focus on the retail and SME segments, to uplift and empower them, and as they will also help us improve higher margin volumes.

Q2: Are there any plans for a rights issue in your capital raising activities?

Raising additional capital is one of the priorities for this year, with the envisaged business growth and other developments. We will go for a rights issue when the time is right. In addition to equity capital, we will also consider the issuance of debentures to meet the Tier II capital requirements under the Basel III guidelines.

Q 3: What is the impact of IFRS 9 on NDB?

The banking industry has done the preliminary impact assessment arising from IFRS 9, in consultation with two leading audit firms in the country. It is assessed that there would be a 40-55% increase on the cumulative impairment provision of the balance sheet. The possible impact on the Bank is in line with this industry impact.

Q 4: Among Sri Lankan Private Listed Banks, Government Banks dominate the market. In this environment what is your plan to capture the market share with the competition of the Government Banks?

Our strategy would be to cater to retail masses and SMEs. In particular the SMEs. As I mentioned before, we have a very strong corporate and project financing background. But we noticed that we have missed out the middle market segment that is between the high end corporates and the SMEs.

We see a large potential in this segment, and we have identified it as a key focus area for us. In serving this segment we launched a new banking proposition called NDB Business Class. We also have a dedicated business function, headed by a Vice President to look after this segment, titled as SME, Middle Market and Business Banking.

The Bank has a network of 107 branches. About 50% of these branches have been added to the network over the past five years. These branches are gradually establishing prominence in their respective localities. The network will contribute a lot towards reaching out to the middle market segment spread across the country.

NDB's skilled staff base will also help us stay ahead of competition. A lot of our staff members have had development banking exposure. As such, they possess sound skills in credit appraisals of all sorts of clients. Even if it is an SME without proper financial reports, our staff members would know how to evaluate the business and cater to their financial needs in a precise manner.

Q 5: What are your views on Debt Service Levy?

The industry is awaiting clarity on this Budget proposal as to what the calculation bases and method would be. As such, we are not in a position to comment on this.

Q 6: How do you define Retail & SME, and what are the ticket sizes for SME?

Retail would be any individual whose income is from salary. SMEs are defined as per the regulator guidelines, and ticket size of the facilities to them could be as much as LKR 75 million.

End of the Forum Q&A session.