

Debenture Issue Briefing paper



**ASHA PHILLIP
SECURITIES LTD**

Sri Lanka

NATIONS TRUST BANK PLC - Debenture Issue 2016 -



Corporate Profile

Nations Trust Bank was established in July, 1999 when it acquired the Colombo Branch of Overseas Trust Bank Ltd. It operates through SME and Consumer Banking, Corporate Banking, Leasing, Treasury Functions, Investment Banking, Insurance Broking and Property Management segments. The company's deposit products include current, savings, and securities investment accounts and fixed and call deposits, as well as foreign currency accounts, sweep in/out accounts, investment plans, minor savings, and other services. Its loan portfolio comprises personal, auto, home, and SME loans, credit and debit cards; pawning and remittance services; and term, working capital, and trade facilities. The company also provides bancassurance, trade, vehicle leasing, hire purchase, factoring, and treasury services; foreign exchange trading and assets & liabilities gapping management services; margin trading, money market and fund & fee based services, insurance brokerage services & property rental services. It operates through a network of 93 branches, 135 ATMs, and 49 leasing centers.

ISSUE AT A GLANCE				
Issuer	Nations Trust Bank PLC			
Instrument	Listed, Rated, Unsecured, Subordinated, Redeemable Debentures			
Issue Rating	"A - (Ika)" by Fitch Ratings Lanka Limited			
Issuer Rating	"A(Ika)" Stable Fitch Rating Lanka Limited			
Trustees to the Issue	Deutsche Bank AG			
Number of Debentures to be Issued	An initial Issue of Thirty Million (30,000,000) Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with an option to issue up to a further Twenty Million (20,000,000) of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue in order to issue up to a maximum of Fifty Million (50,000,000) Debentures.			
Total Value of the Issue	Sri Lankan Rupees Three Billion (LKR 3,000,000,000/-) with an option to issue up to a further Sri Lankan Rupees Two Billion (LKR 2,000,000,000) at the discretion of the Bank in the event of an over subscription of the initial issue, in order to raise up to a maximum of Sri Lankan Rupees Five Billion (LKR 5,000,000,000).			
Par/ Issue Value of a Debenture	Rs.100/- per Debenture			
Interest Rate	Type	Interest rate	AER	Redemption
	Type A	Fixed interest rate of 12.65% (Payable semi-annually)	13.05% p.a.	5 years
	Type B	Fixed interest rate of 12.80% (Payable annually)	12.80% p.a.	5 years
	Type C	Six Month (Gross) Treasury Bill Rate + 1.50% per annum,	N/A	5 years

Issue Opening Date	1st November 2016
Issue Closing Date	21st November 2016 such earlier date on which the initial Thirty Million (30,000,000) debentures are fully subscribed, unless otherwise the Bank decides to keep the issue open until further Twenty Million (20,000,000) Debentures or part thereof as may be decided by the Bank are subscribed.
Minimum Subscription	100 Debentures of LKR 100/- (LKR 10,000/-) each debenture type and thereafter in multiples of 100 Debentures of LKR 100/- each (LKR10,000/-) thereafter.
Listing	The Debentures will be listed on the Colombo Stock Exchange

Objectives of the Issue

The debenture will provide the necessary medium term more, stable funding to expand the lending portfolio of the bank. Given that our portfolio consists of a sizable medium term asset portfolio comprising of Leasing - LKR 30.1Bn, Housing loans - LKR 2.2Bn and Consumer loans - LKR 16.52Bn, raising 5 year funds will further improve the banks funding profile by reducing the tenor mismatch between the shorter term liabilities and medium term assets by the amount similar to the issue. This will also reduce the interest rate risk exposure of the bank by reducing the funding gaps.

Furthermore, this debenture would provide our investors an additional instrument to invest medium term funds and secure attractive returns while the bank would reach an additional source of funds by tapping capital markets, away from the traditional deposit base. Subordinated funds raised through the Debenture Issue are expected to further improve the Capital Adequacy of the Bank's Balance Sheet by increasing its Tier II Capital base thus strengthening its Total Eligible Capital.

Present Capital Adequacy Ratio (CAR) of the Bank and effect of proposed Debenture Issue as at 30th September 2016 is as follows:

	Without proposed Debentures as at 30th September 2016	In the event of successful allotment of Debentures of Rs. 3 Billion	In the event of Successful allotment of Debentures of Rs. 5Billion
Tier II Capital ('000)	15,090,791	18,090,791	20,090,791
Tier II - Minimum 10% Requirement	11.58%	13.88%	15.42%

NTB will utilize the medium term liabilities generated through the debenture to fund both existing and future growth of medium term assets in the following manner: Leasing assets - LKR 3.0Bn, Housing loans - LKR 500Mn, Consumer Finance - LKR 1.5Bn

Risks Related To Achieving The Objectives Of The Issue

As the primary objective of the Bank is to carry on the business of lending or advancing of money, the business of lending to customers whether they are related parties or not, are recurrent transactions carried out in the ordinary course of business of the Bank. Nevertheless, the Bank has an internal threshold limits to related parties against its regulatory capital and therefore the exposure will be limited to such applicable limits.

Since the proposed Debenture Issue is to raise up to Rs. 5 Billion and as there is a demand for credit there is no specific risk factor that may lead to non-achievement of the objective of the Issue. Further the Bank intends to utilize the entire proceeds of the Issue to expand the Bank's loan book via diverse lending products in the ordinary course of business over a period of three to twelve months based on the current credit demand and

until such time, any unutilized Debenture proceeds will be invested in Government Securities or any other suitable investment instrument/(s) at the discretion of the Bank.

Taxes With Regard To Interest Payment on Listed Debentures

As per Section 9(o) of the Inland Revenue Act No.10 of 2006 as amended subsequently by Inland Revenue (Amendment) Act, No.18 of 2013 as at the date of this Prospectus, the interest income from any investment made on or after 01st January 2013 in corporate debt securities (i.e. debentures), quoted in any stock exchange licensed by the SEC is exempt from income tax. Furthermore, in terms of Section 13(xxxxxxx) of the Inland Revenue Act No.10 of 2006 [as amended by Section 5 of the Inland Revenue (Amendment) Act No.18 of 2013], the profits and income earned from any such investment has also been exempted from income tax. However, a different tax treatment could be brought in by the future amendments to the same Act.

Procedure for Application

- All applicants should indicate their CDS account number.
- Applicants should apply only for one Type of Debentures (i.e. either Type A Debentures or Type B Debentures) under one Application Form. In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used.
- Payment in full for the total value of Debentures applied for should be made separately in respect of each Application either by cheque/s, bank draft/s, bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS/SLIPS transfers directed through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the following:
 - ❖ Payments for Application values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by a Bank draft/cheque drawn upon any licensed commercial bank operating in Sri Lanka. Cheques or Bank Drafts should be payable to “**Nations Trust Bank PLC – Debenture Issue 2016**” crossed “Account Payee Only” and must be honoured on the first presentation.
 - ❖ Payments for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either
 - ✓ Bank guarantee issued by a licensed commercial bank; or
 - ✓ Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-.
 - ✓ RTGS transfer with value on the date of the Issue Opening Date.
 - ❖ Multiple cheques or RTGS will not be accepted for Application values **below** LKR 100 Mn.
 - ❖ Payment for the Debentures by **non-residents** should be made only out of funds received as inward remittances or available to the credit of “Securities Investment Account” (SIA) maintained with any licensed commercial bank in Sri Lanka in accordance with directions given by the Controller of Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the applicant maintains the SIA, should be attached to the application form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the SIA.

Long Term Instruments and their corresponding interest rates

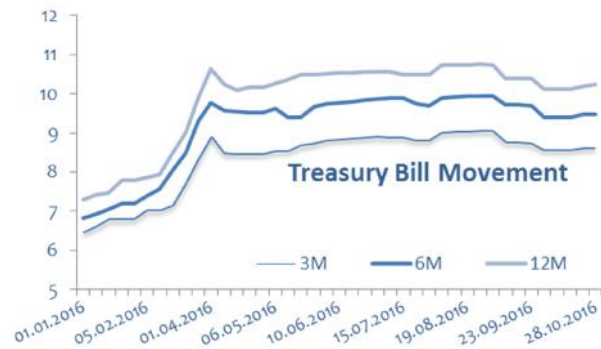
Treasury Bond			
Date	Rate	AER	Maturity
03 rd Oct 16	10.61%	10.89%	4 Years
1 st Sep 16	11.76%	12.11%	5 Years
03 rd Oct 16	10.96%	11.26%	8 Years
03 rd Oct 16	11.06%	11.37%	10 Years

5 Year Fixd Deposit Rates (~ AER)		
BANK	Rate	With effect from
NDB	11.35%	25 th Oct 2016
Sampath	8.45%	11 th Oct 2016
COMB	10.50%	13 th Oct 2016
HNB	10.55%	8 th Sep 2016

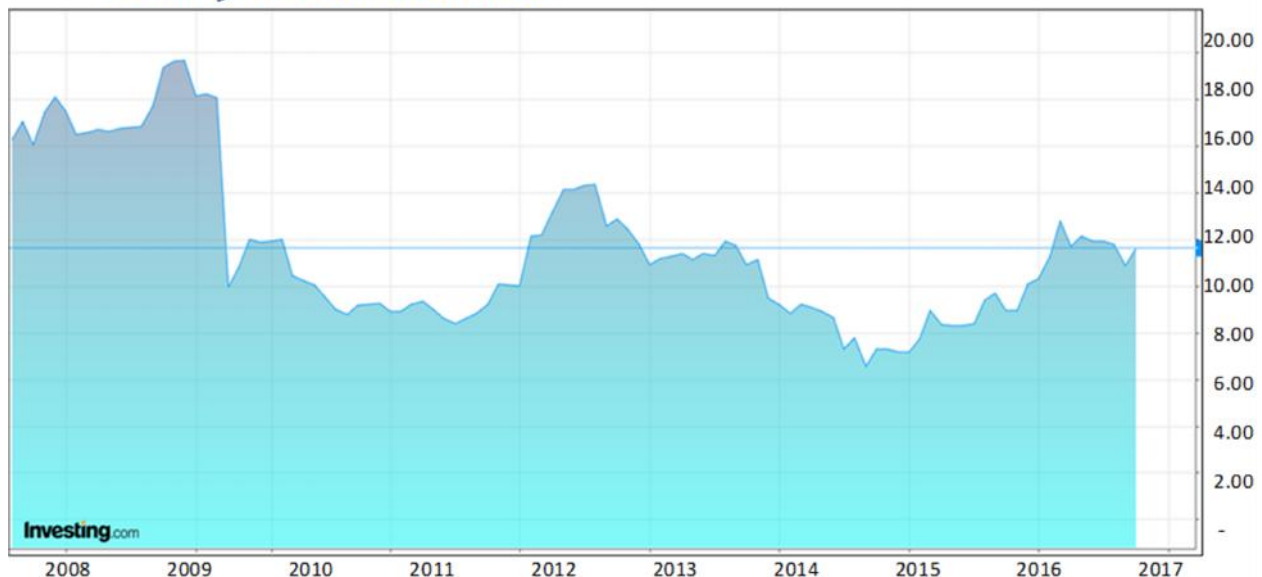
Central Bank's Policy Rates	
Description	Rate (PA)
Standing Deposit Facility (SDF)	7.00 %.
Standing Lending Facility (SLF)	8.50 %.
Bank Rate	15.00 %.
Statutory Reserve Ratio (SRR)	7.50 %.

Recent Debenture Issues		
Company	Issue Rating	Rate
SFIN- 2016 Mar	BBB (Fitch)	12.00% (4Y)
SAMP - 2016 Jun	A+ (Fitch)	12.75% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.00% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.75% (7Y)
COMB -2016 Oct	AA- (Fitch)	12.00% (5Y)
HNB - 2016 Oct	A+ (Fitch)	11.75% (5Y)
Proposed		
DFCC - 2016 Nov	A+ (Fitch)	12.15% (5Y)

Treasury Bill Rates	182 Days	364 Days
Date	Rate (PA)	Rate (PA)
26 th Oct 2016	9.48	10.24
19 th Oct 2016	9.46	10.19
05 th Oct 2016	9.39	10.11



Sri Lanka 5-Year Bond Yield Overview



Financial Information of the Group

OPERATING RESULTS	2011	2012	2013	2014	2015
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Gross Income	11,885	17,673	20,362	20,854	20,279
Profit Before Taxation	2,335	2,766	3,151	3,827	3,905
Taxation	(729)	(815)	(1,015)	(1,290)	(1,291)
Profit After Taxation	1,607	1,951	2,136	2,537	2,614
Other Comprehensive Income	-	-	(9)	104	(32)
Deposits	67,633	86,274	95,730	111,010	129,158
Borrowings and Debentures	20,203	18,695	27,508	25,402	23,433
Loans & Advances	61,188	73,424	82,327	98,347	121,143
Total Assets	102,073	122,447	142,128	158,781	176,262

Performance Indicators		2011	2012	2013	2014	2015
Return on Average Assets	%	1.73	1.74	1.61	1.69	1.56
Return On Average Shareholders' Funds	%	20.82	20.84	19.57	19.79	17.99
Net Income Growth	%	(2.94)	28.31	18.95	22.27	3.33
Cost/Income Ratio	%	61.87	56.39	58.31	52.52	54.81
Property, Plant and Equipments to Shareholder's Funds	%	21.91	18.90	17.45	15.79	14.13
Total Assets to Shareholder's Funds	Times	11.83	12.13	12.11	11.43	11.62
Dividend Payout Ratio	%	30.13	24.82	22.92	20.36	19.74
Capital Adequacy Ratio Tier I	%	13.42	13.82	14.78	14.16	13.15
Capital Adequacy Ratio Tier II	%	17.44	18.18	20.00	18.28	15.53

Analysis for Investment

The Type “A” debentures of Nations Trust Bank PLC will generate an Annual Equivalent Rate of 13.05 % (12.65% Payable semi-annually), Type “B” debentures of Nations Trust Bank PLC will generate an Annual Equivalent Rate of 12.80%. Type “C” Debentures would pay 6 month Gross Treasury Bill Rate plus 1.50% payable semi-annually. The 182 days Treasury bill rate ranges between 9.39% and 9.48%. Based on current rates the debenture will fetch around 11.45% to 11.55% p.a. All three types of debentures are for tenure of Five Years.

The AER for 5-year period fixed deposits with interest paid annually of four selected leading high credit worthy banks in Sri Lanka (such as NDB, Sampath, COMB, and HNB) range between 8.45% to 11.35%. The 5-year Treasury bond will yield an AER of 12.11% and the 10-year Treasury bond will yield an AER of 11.37% .

In terms of risk levels, Treasury Bonds and Bills are the least risky in comparison to Commercial Banks as they are government gilt edged securities. The selected Commercial Banks are rated high by the various credit rating agencies and thus have a low risk level.

Nations Trust Bank PLC debentures are Listed, Rated, Unsecured, Subordinated, Redeemable Debentures. Rated “A (lka)” by Fitch Ratings Lanka Limited and are redeemable at the time of maturity. Listed Debentures are tradable on the secondary market but are fairly illiquid in the present context.

The decision to invest is based on the expected risk-return profile of the investor.

Contact Information

Contact Information (Head Office)

Research Team	apslresearch@ashaphillip.net	+94 112429129 +94 113020186
Sales Team		
Thakshila Hulangamuwa	thakshi@ashaphillip.net	+94 11 2429108
Upul Priyantha	upul@ashaphillip.net	+94 11 2429106
Shanmugam Sudhagar	sudha@ashaphillip.net	+94 11 2429107
Vasantha Wicramasinghe	vasantha@ashaphillip.net	+94 11 2429114

Contact Information (Regional Offices)

Colombo (H/O)	Matara	Jaffna
# 321, Lakshmans Building, 2nd Floor, Galle Road, Colombo 03. Tel - 94 112429100 Fax - 94 112429199 www.ashaphillip.net Email - research@ashaphillip.net	#24-1/3A, E.H. Cooray Tower, 2 nd Floor, Anagarika Dharmapala Mw, Matara. Tel: 041 2235191-5	#147, 2/3 K.K.S. Road, Jaffna. Tel: 021 2221614
Kiribathgoda	Embilipitiya	Kandy
#94, Udeshi City Shopping Complex, 2nd Floor, #2/12, Makola Road, Kiribathgoda. Tel. 011 2908511	#62, Sampath Bank Building, Main Street, Embilipitiya. Tel. 047 2261950	# 88, Ceybank House, Dalada Vidiya, Kandy. Tel. 081 2204750
Anuradhapura	Negombo	Gampaha
# 2nd floor, 488/8/2, Town hall place, Maithreepala senanayaka mawatha, Anuradhapura Tel. 025 2234705	#72 A 2/1, Old Chilaw Road, Negombo. Tel. 031 2227474	#107, Sanasa Ideal Complex, Buddhaloka Mawatha, Gampaha. Tel. 033 2234888

Important Information

This document has been prepared and issued by Asha Phillip Securities Ltd, on the basis of publicly available information, internally developed data and other sources, believed to be reliable. Whilst all responsible care has been taken to ensure that the facts stated are accurate and the opinions given are fair and reasonable neither Asha Phillip Securities Ltd, nor any Director Officer or employee, shall in any way be responsible for any decisions made on its contents. Asha Phillip Securities Ltd may act as a Broker in the investments which are the subject of this document or related investments and may have acted upon or used the information contained in this document, or the research or analysis on which it is based, before its publication. Asha Phillip Securities Ltd., Its Directors, Officers or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document.