



Lanka Rating Agency

Rating Report

National Savings Bank	Report Contents
	<ul style="list-style-type: none"> 1. Rating Analysis 2. Financial Information 3. Rating Scale 4. Regulatory and Supplementary Disclosure

Rating History				
Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
31-Dec-2024	AAA	Stable	Maintain	-
05-Jan-2024	AAA	Stable	Maintain	-
30-Dec-2022	AAA	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The National Savings Bank's (NSB or the Bank) rating reflects 100% ownership of the Government of Sri Lanka and explicit guarantee of the Government on all of its deposits and interest thereon as mandated by the National Savings Bank Act. The Act requires the Bank to invest 60% of its deposits in government securities, which lowers its credit risk and strengthens liquidity. On the other side, this restricts NSB's ability to extend loans limiting its profitability. Being a government-owned savings bank, NSB has a strong foothold in Sri Lankan household. The Bank holds the highest market share in the Licensed Specialized Banks (LSBs) industry in terms of its total assets and deposit base standing at LKR~1.7tn and LKR~1.5tn, respectively, as of 9MCY24. This has led to significant market share in banking industry's total deposits (~8.7% of industry deposits) for the Bank. The Bank remains exposed to interest rate risk due to high exposure in government securities, as reflected by variance in its profitability over the years. During 9MCY24, the Bank's liquidity profile demonstrated a notable improvement with liquidity coverage ratio (LCR) at ~343.78% at 9MCY24 (CY23: ~293.71%, CY22: ~193.59%). The Bank's net interest income surged to LKR~53.4bn (CY23: LKR~29.6bn), a ~191.0% increase from 9MCY23. Additionally, the Bank's core spread improved 9MCY24 to ~6.7% (CY23: ~3.5%), in line with decreasing interest rates in Sri Lanka as liabilities were re-priced at lower rates. The Profit Before Tax (PBT) recorded significant growth in 9MCY24 (LKR~25.5bn) compared to 9MCY23 due to significant drop in interest expenses, lower impairment charges and higher fee and commission income. The Bank recorded Profit After Tax (PAT) of LKR~7.2bn and LKR~2.5bn in CY23 and CY22, respectively. The Bank's Impaired Loans (Stage 3) Ratio (net of stage 3 Impairment) was well below the industry average and stood at ~4.05% in 9MCY24, demonstrating its robust asset quality. The Bank maintained very strong Capital Adequacy Ratio (CAR) of ~20.5% as of 9MCY24, well above the regulatory minimum requirement of ~12.5%.

The rating is dependent on continuation of government's guarantee on the deposits of the Bank as per the National Saving Bank Act. Any significant change in the Act or significant deterioration in the Bank's liquidity position amidst the government's inability to support the Bank can impact ratings. The Bank's continuous ability to meet regulatory requirements will remain key while maintaining its profitability and other key performance indicators.

Disclosure	
Name of Rated Entity	National Savings Bank
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Financial Institution Rating(Aug-24)
Related Research	Sector Study Commercial Bank (Dec-24)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099



Lanka Rating Agency

Profile

Structure National Savings Bank ("NSB" or "the Bank") was established in 1972 under the National Savings Bank Act, No.30 of 1971. The Bank was granted the status of a Licensed Specialized Bank (LSB) in terms of the Banking Act No. 30 of 1988, and is regulated by the Central Bank of Sri Lanka.

Background The Bank initially known as "The Ceylon Savings Bank", commenced operations in the year 1832 by Sir Robert Wilmot Horton to inculcate the savings habit amongst the people as well as to introduce formal banking practices to the nation.

Operations NSB operates with 262 branches spread across the island and has 4,251 staff members. The principal activities of the Bank are accepting deposits, retail lending, corporate lending, international banking, treasury, and trade finance services.

Ownership

Ownership Structure The Bank's 100% shares are held by the Government of Sri Lanka (GoSL) in the name of the Secretary to the Treasury in its official capacity and who shall not dispose of those shares in any manner whatsoever.

Stability NSB is one of the state-owned LSBs and is of strategic importance to the Government of Sri Lanka. The Bank's ownership has remained stable, with the GoSL maintaining its ownership since 1971.

Business Acumen The GoSL provides NSB with industry-specific working knowledge and strategic thinking capabilities as the only shareholder. The Ministry of Finance appoints the relevant individuals with the requisite experience to run the affairs of the Bank and enable the Bank to achieve its objectives.

Financial Strength The Bank operates under the Ministry of Finance and is the only Bank in the country with a 100% Government guarantee on all deposits as per the National Savings Bank Act No. 30. of 1971. Hence, the financial strength of the GoSL to support the Bank is considered excellent.

Governance

Board Structure The overall control of the Bank vests in the seven-member Board of Directors (BoD) as per the National Savings Bank Act, No.30 of 1971. However, the present Board of Directors consists of five members.

Members' Profile The collective background of the BoD provides a balanced mix of skills and experience. The Chairperson, Dr. Harsha Cabral PC, assumed duties in May 2023. He currently serves as an Independent Non-Executive Director at DIMO PLC, Hayleys PLC, Alumex PLC, Tokyo Cement Company PLC and others.

Board Effectiveness The BoD has constituted six Committees namely Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Human Resources and Remuneration Committee (BHRRC), Board Nomination Committee (BNC), Board Non-urgent Non-Essential Expenditure Committee (BNNEC) and Board Information Technology Strategic Committee (BITSC).

Financial Transparency The Auditor General acts as the external auditor of the Bank. The Auditor has given an unqualified opinion on the financial statements for CY23.

Management

Organizational Structure NSB operates through a well-defined, detailed organization structure, which comprises main functional segments of the Bank.

Management Team The management team is headed by the Chief Executive Officer ("CEO")/ General Manager ("GM"), Ms. Shashi Kandambi. She has an overall experience of over 35 years in the industry. however, She was appointed as the CEO and has also been in the Bank for eight months. Ms. Shashi has a Master of Business Administration from Postgraduate Institute of Management of the University of Sri Jayawardenapura, a post-graduate Diploma in Business and Financial Administration of the Institute of Chartered Accountants of Sri Lanka, and a Diploma in Banking.

Effectiveness The Bank has formed eighteen management committees through which they effectively manage the operations.

MIS The Bank has implemented Temenos T24 (often simply referred to as T24) in September 2024 is a significant transformation initiative that involves integrating a highly scalable, flexible core banking system to modernize operations and improve customer experience.

Risk Management Framework There are committees at both the Board and Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.

Business Risk

Industry Dynamics The banking sector recorded an asset base of LKR~20.7tn as of June'24, reflecting an increase of ~7.9%, compared to the same period of the last year (June'23). This growth is driven by an increase in the loans and receivables on the back of a monetary easing decision taken by the CBSL in June 2023. Similarly, the sector's deposit base has also increased by ~10.2% from LKR~15.4tn as of June'23 to LKR~17.0tn as of June'24, as the depositors opted for low-risk avenues. In contrast, the banking sector borrowings reduced by ~15.4% during the same period, reducing funding concentration and enhancing the financial flexibility of the sector.

Relative Position NSB is considered a large-sized bank, holding a high share in the Banking sector's total advances and total deposits as of Sep'24. NSB's deposit base (LKR~1.5tn) accounted for ~9.0% of the total deposits and asset base (LKR~1.7tn) accounted for ~8.2% of the total assets of the banking sector as of June'24.

Revenues The interest income of the Bank declined by 9.1% to LKR~154.9bn in 9MCY24 from LKR~170.3bn in 9MCY23, amid the low interest rate environment. Similarly, in line with the reduced cost of funds, the interest expense of the Bank also declined by ~33.2% to LKR~101.5bn in 9MCY24 from 9MCY23. The gross income of the Bank stood at LKR~232.1bn in CY23 which is a ~33% increase from CY22. The Bank's core spread (Advances Yield – Adjusted Deposits Cost) increased substantially to ~6.7% (CY23: ~3.5%) in 9MCY24.

Performance During 9MCY24, the Bank's Profit After Tax ("PAT") significantly improved by ~211.7% to LKR~15.3bn from LKR~5.0bn in 9MCY23. This was majorly driven by the increase in the weighted average net spreads of the Bank amid reduced interest rates. The PAT was recorded at LKR~7.2bn CY23 compared to LKR~2.5bn during CY22, reflecting a ~185.3% growth.

Sustainability Aligning with the global movement towards sustainability, NSB has incorporated green banking practices into its operations. This approach enables the Bank to take advantage of potential future fiscal and regulatory benefits while actively promoting sustainable development in Sri Lanka's banking sector.

Financial Risk

Credit Risk The Bank has been able to maintain the Impaired Loans (Stage 3) Ratio (net of Stage 3 Impairment) significantly below the industry average over the periods. In 9MCY24, the Bank's Impaired Loans (Stage 3) Ratio (net of Stage 3 Impairment) stood at ~4.05% while the industry average ratio was recorded at ~12.6%.

Market Risk Over the periods from CY20 and 9MCY24, the Bank's investment book represents more than 95% of the total investments in Government Securities (G-Sec). Most of these securities of 82% are treasury bonds. This exposes the Bank to interest rate risk. The Bank intends to shift the mix of its G-Sec portfolio slightly towards treasury bills to reduce the risk and minimize its asset-liability mismatch.

Liquidity And Funding NSB reported a deposit base of LKR~1.5tn as of Sep'24 and the Top 20 depositors' concentration remained moderate at 7.1% as of Sep'24 (CY23: ~8.6%). The Bank's Net Stable Funding Ratio (NSFR) remained strong at ~184.89% in 9MCY24 (CY23: ~180.49%), whereas the Central Bank stipulated minimum requirement is 100%.

Capitalization The Bank's Total Capital Adequacy Ratio (CAR) further strengthened to ~20.5% in 9MCY24 from ~19.3% in CY23 (CY22: ~18.0%), and is well above the regulatory minimum requirement of 12.50%.



Financials (Summary) in LKR mln

Lanka Rating Agency

LKR mln

National Savings Bank #	Sep-24	Dec-23	Dec-22	Dec-21
	9M	12M	12M	12M

A BALANCE SHEET

1 Stage I Advances - net	472,483	485,822	515,658	504,897
2 Stage II Advances - net	15,801	28,027	21,774	20,350
3 Stage III Advances (NPLs)	35,612	27,120	25,509	19,999
4 Stage III Impairment Provision	(14,978)	(14,449)	(9,913)	(6,304)
5 Investments	940,423	896,597	834,008	845,480
6 Debt Instruments	126,308	134,093	134,298	128,071
7 Other Earning Assets	16,200	22,577	10,466	7,121
8 Non-Earning Assets	100,677	107,178	84,887	59,484
Total Assets	1,692,526	1,686,965	1,616,686	1,579,098
6 Deposits	1,505,518	1,482,532	1,476,740	1,428,467
7 Borrowings	51,846	94,210	44,631	52,935
8 Other Liabilities (Non-Interest Bearing)	38,017	28,848	22,423	21,682
Total Liabilities	1,595,382	1,605,590	1,543,794	1,503,085
Equity	97,144	81,374	72,892	76,013

B INCOME STATEMENT

1 Mark Up Earned	154,852	226,967	172,940	131,438
2 Mark Up Expensed	(101,482)	(197,402)	(140,477)	(76,809)
3 Non Mark Up Income	2,939	5,097	1,617	3,501
Total Income	56,309	34,662	34,080	58,131
4 Non-Mark Up Expenses	(22,502)	(24,815)	(21,455)	(19,283)
5 Provisions/Write offs/Reversals	(25)	(4,259)	(4,862)	(4,304)
Pre-Tax Profit	33,783	5,589	7,763	34,544
6 Taxes on Financial Services	(8,273)	(1,301)	(3,253)	-
Profit Before Income Taxes	25,510	4,287	4,510	34,544
7 Taxes	(10,175)	2,929	(1,980)	(12,424)
Profit After Tax	15,335	7,216	2,530	22,120

C RATIO ANALYSIS

1 Revenues

Advances' Yield	15.2%	16.0%	13.1%	9.3%
Spread Asset Yield - Cost of Funds	4.6%	2.0%	2.1%	3.8%

2 Performance

Cost of Funds [Mark Up Expensed / Average (Deposits + Borrowings)]	8.6%	12.7%	9.4%	5.5%
ROE	22.9%	9.4%	3.4%	33.9%

3 Capital Adequacy

Capital Adequacy Ratio	20.5%	19.3%	18.0%	20.8%
Net Stable Funding Ratio [Available Stable Funding / Required Stable Funding]	184.9%	180.5%	180.5%	160.8%

4 Funding & Liquidity

Demand & Saving Deposit Coverage Ratio	3.0	3.1	3.1	2.6
Top 20 Deposits / Deposits	7.1%	8.6%	9.0%	13.5%

5 Credit Risk

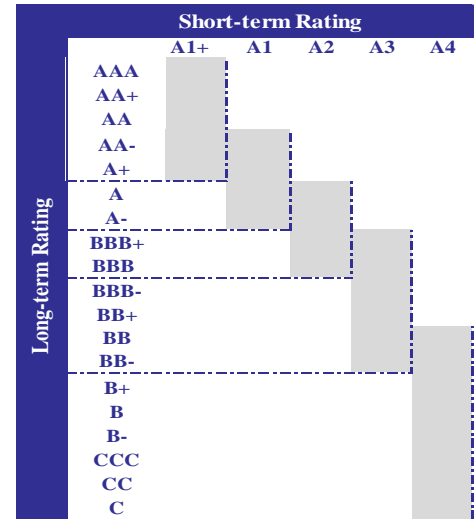
Impaired Loan Ratio [Stage III Advances (NPLs) / Net Advances]	4.1%	2.4%	2.8%	2.5%
Provision Coverage Ratio [Impairment Provision / Stage III Advances (NPLs)]	42.1%	53.3%	38.9%	31.5%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

Disclaimer: LRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. LRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of LRA documents may be used, with due care and in the right context, with credit to LRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit-worthiness of any issuer or a specific issue of securities. <https://www.sec.gov.lk/credit-rating-agency/>

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii. LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.