



Lanka Rating Agency

Rating Report

National Savings Bank – Senior Redeemable Debentures | LKR 6.323 bn

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Jan-2024	AA+	-	Stable	Maintain	-
30-Dec-2022	AA+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating of the National Savings Bank (NSB or the Bank) reflects 100% ownership of the Government of Sri Lanka and the government's explicit guarantee on all of its deposits mandated by the National Savings Bank Act. The Act requires the Bank to invest 60% of its deposits in government securities, which lowers its risk and improves liquidity. Being a government-owned savings bank, NSB has a strong foothold in Sri Lankan household. This has led to significant market share in industry deposits (9.2% 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 the Bank's profitability over the years. The Profit Before Tax (PBT) remained low in 9M23 (LKR 499Mn) while Profit After Tax (PAT) stood at LKR 4.9Bn as the interest expense increased in higher proportion, resulting in lower core spread. The Bank is expected to improve its spread going forward as it re-prices its deposits. The Bank recorded PAT of LKR 2.5Bn and LKR 22.1Bn in CY22 and CY21, respectively. The Bank's Impaired Loans (Stage 3) Ratio (net of Stage 3 Impairment) was well below the industry average which stood at 3.06% in 9MCY23. Despite a recent decrease in margins, increased provisioning expense and decrease profitability, the capital adequacy of the Bank remained strong with Total Capital Adequacy Ratio (CAR) standing at 16.25% as of 9MCY23, 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. At the same time, minimizing asset liability gap remains important for the rating.

Disclosure

Name of Rated Entity	National Savings Bank – Senior Redeemable Debentures LKR 6.323 bn
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Financial Institution Rating(Jun-22)
Related Research	Sector Study Commercial Bank (Dec-22)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +92-42-35869504



Profile National Savings Bank (NSB or the Bank) was incorporated in 1972 by the National Savings Bank Act, No.30 of 1971. It is regulated by the Central Bank of Sri Lanka. The Bank was granted the status of a Licensed Specialized Bank in terms of the Banking Act No. 30 of 1988. 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. NSB operates with 262 branches spread across the island and has 4,528 staff members. Principal activities of the Bank are accepting deposits, retail lending, corporate lending, international banking, treasury, and trade finance services.

Ownership 100% of the shares are held by the Government of Sri Lanka (GoSL) in the name of the Secretary to the Treasury in his/her official capacity and who shall not dispose of those shares in any manner whatsoever. NSB as one of the state-owned specialized banks and is of strategic importance to the Government of Sri Lanka. The Bank's ownership has remained stable, with the government maintaining its ownership since 1971. 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. The Bank operates under the Ministry of Finance and is the only Bank in the country with 100% Government guarantee on all deposits as per National Savings Bank Act No 30. of 1971. Hence, the financial strength of the government to support the Bank is considered excellent as the government also has the ability to print the money, if needed.

Governance The overall control of the Bank vests in the seven-member Board of Directors as per the National Savings Bank Act, No.30 of 1971 and the present Board consists of four members, which is appointed by the Government. 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 etc. The Board has constituted five Committees to run the operations smoothly in the Bank. The Auditor General acts as the external auditor of the Bank. The Auditor has given an unqualified opinion on the financial statements for CY22.

Management NSB operates through a well-defined, detailed organization structure, which comprises main functional segments of the Bank. As a result of retirement of previous Chief Executive Officer (CEO) currently Ms. G V A D D Silva has been assigned to oversee the functions of General Manager/ CEO. She is the current Deputy General Manager of Treasury and International Banking of the Bank. She is supported by a large and well versed corporate and executive management. The new GM/CEO is expected to take over the Bank in January 2024. The Bank has formed eighteen management committees through which they effectively manage the operations. The Bank is in the process of implementing a new core banking solution that is expected to be launched by March/April 2024. This is considered a crucial milestone for the Bank as it intends to increase its digital footprint.

Business Risk The banking sector, as at 9MCY23, recorded an asset base of LKR 19.8Tn, which is an improvement of 2.8%, while investments increased by 18.1% compared to the same quarter of the previous year. The deposits increased by 6.1% as at 9MCY23 to LKR 16.1Tn and net loans and advances decreased by 7.6% to LKR 9.8Tn, compared to the same quarter of the previous year. The sector's Profit After Tax (PAT) recorded a notable increase of 71.1% as at 9MCY23 to LKR 146.4Bn, compared to LKR 85.5Bn in 9MCY22. NSB is considered a large-sized bank, holding the majority of the Licensed specialized banking sector in terms of total advances and total deposits for CY22. NSB's deposits (LKR 1.5Tn) account for 9.6% of total deposits of the banking sector in the country in CY22. The interest income of the Bank has increased by 44.1% to LKR 170.2Bn in 9MCY23 (CY22: LKR 172.9Bn) compared to the same quarter of previous year. Similarly, the interest expense of the Bank increased by 71.4% to LKR 151.9Bn in 9MCY23 (CY22: LKR 140.5Bn) compared to 9MCY22. As a result, the Bank's Net Interest Income (NII) recorded at LKR 18.3Bn in 9MCY23 (CY22: LKR 32.5Bn) which indicates a decline of 37.8% compared to LKR 29Bn of the same quarter of previous year. This resulted in lower core spreads for the Bank. The Profit Before Tax (PBT) of the Bank in 9MCY23 stands at LKR 499Mn (CY22: LKR 4.5Bn) compared to LKR 4.9Bn in 9MCY22. PAT in 9MCY23 is LKR 4.9Bn after adjusting for deferred tax reversal of LKR 4.4Bn, which has improved by 54.5% from 9MCY22. However, PAT has a drop by 88.7% to LKR 2.5Bn in CY22 from LKR 22.1Bn in CY21. The decline was due to considerable increase in interest expenses outpacing the growth in interest income and increase in operating expenses including impairment provisions. The Bank intends to focus on providing superior banking solutions to its clients by moving towards digitization and is adopting new technology platforms to sustain its competitive edge.

Financial 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 9MCY23, the Bank's Impaired Loans (Stage 3) Ratio (net of Stage 3 Impairment) stood at 3.06% while the industry ratio recorded at 13.6%. At the end of CY22, the Bank's investment book comprised mainly of government securities (83.9%). Most of these are treasury bonds. This exposes the Bank to interest rate risk. The Bank intends to change the mix of its government securities portfolio slightly towards treasury bills to reduce the risk and minimize its asset liability gap. NSB reported a deposit base of LKR 1.5Tn as of 9MCY23, which was only a marginal decrease compared to CY22. Majority of the deposits are maturing in next 6 months. The Bank has a strong retention rate and is expected to rationalize expensive deposits. The Bank's Statutory Liquid Asset Ratio (SLAR) and Net Stable Funding Ratio (NSFR) remained strong at 40.62% in CY22 (9MCY23: 52.57%) and 180.51% in CY22 (9MCY23:177.46%) respectively, whereas the Central Bank stipulated minimum requirements are 20% and 100%. The Bank's Total Capital Adequacy Ratio (CAR) reduced to 17.99% in CY22 from 20.83% in CY21 and marginally reduced in 9MCY23 to 16.25% from CY22, but it is well above the regulatory minimum requirement of 12.50%.

Instrument Rating Considerations

About the Instrument NSB went into an Unlisted, Rated, Senior, Unsecured, Redeemable Debenture issue on 26th August 2019. The initial issue was up to LKR 10Bn and if oversubscribed up to LKR 15Bn. The objective of the issue was to partly finance the USD/LKR SWAP agreement with the Central Bank of Sri Lanka. The tenure of the instruments is 3 years and 5 years. Type A, which is issued for 3 years is issued at a fixed interest rate of 11% with interest being paid annually. Type B is issued for 3 years with a floating interest rate of 06M T. Bill+1.75 %, interest is paid semi-annually. Type C instruments are issued at a fixed interest rate of 11.25%, with interest being paid annually. The last instrument, which is Type D is issued at a floating interest rate of 06M T.Bill+2%, with interest being paid semi-annually.

Relative Seniority/Subordination of Instrument The claims of the Debenture holders shall in the event of winding up of the Company rank above the subordinated debt, ordinary voting and non-voting shareholders and preference shareholders of the Company.

Credit Enhancement Debenture subscription was enhanced up to LKR 20Bn on 02nd September 2019. The debenture is not underwritten. The debenture spans up to 3 years and 5 years from the date of allotment and repayment of the capital being made as a bullet payment.



Financials (Summary) in LKR mln

Lanka Rating Agency

National Savings Bank
Public Limited Company

Sep-23 Jun-23 Dec-22 Dec-21
9M 6M 12M 12M

A BALANCE SHEET

1 Stage I Advances - net	486,701	492,588	515,658	504,897
2 Stage II Advances - net	31,255	28,343	21,774	20,350
3 Stage III Advances (NPLs)	30,166	27,445	25,509	19,999
4 Stage III Impairment Provision	(13,806)	(11,839)	(9,913)	(6,304)
5 Investments	890,133	858,766	834,008	845,480
6 Debt Instruments	131,771	138,572	134,298	128,071
7 Other Earning Assets	19,556	12,749	10,466	7,121
8 Non-Earning Assets	111,431	104,535	84,887	59,484
Total Assets	1,687,207	1,651,158	1,616,686	1,579,098
6 Deposits	1,474,536	1,470,662	1,476,740	1,428,467
7 Borrowings	107,378	79,862	44,631	52,935
8 Other Liabilities (Non-Interest Bearing)	25,210	21,353	22,423	21,682
Total Liabilities	1,607,124	1,571,876	1,543,794	1,503,085
Equity	80,083	79,282	72,892	76,013

B INCOME STATEMENT

1 Mark Up Earned	170,276	112,601	172,940	131,438
2 Mark Up Expensed	(151,936)	(100,558)	(140,477)	(76,809)
3 Non Mark Up Income	2,598	1,389	1,617	3,501
Total Income	20,938	13,432	34,080	58,131
4 Non-Mark Up Expenses	(17,560)	(11,154)	(21,455)	(19,283)
5 Provisions/Write offs/Reversals	(2,877)	(1,697)	(4,862)	(4,304)
Pre-Tax Profit	500	582	7,763	34,544
6 Taxes	4,419	3,385	(5,233)	(12,424)
Profit After Tax	4,919	3,967	2,530	22,120

C RATIO ANALYSIS

1 Revenues

Advances' Yield	16.9%	16.7%	13.1%	9.3%
Spread Asset Yield - Cost of Funds	1.7%	1.7%	2.1%	3.8%

2 Performance

Cost of Funds [Mark Up Expensed / Average (Deposits + Borrowings)]	13.1%	13.1%	9.4%	5.5%
ROE	8.6%	10.4%	3.4%	33.9%

3 Capital Adequacy

Capital Adequacy Ratio	16.3%	17.1%	18.0%	20.8%
Net Stable Funding Ratio [Available Stable Funding / Required Stable Funding]	177.5%	172.2%	180.5%	160.8%

4 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	54.2%	54.0%	54.3%	57.0%
Demand & Saving Deposit Coverage Ratio	3.1	3.1	3.1	2.6
Top 20 Deposits / Deposits	7.9%	8.4%	9.4%	13.5%

5 Credit Risk

Impaired Loan Ratio [Stage III Advances (NPLs) / Gross Advances]	5.4%	4.9%	4.5%	3.6%
Provision Coverage Ratio [Impairment Provision / Stage III Advances (NPLs)]	45.8%	43.1%	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.

Long-term Rating	
Scale	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	
CC	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.
C	
D	Obligations are currently in default.

Short-term Rating	
Scale	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.
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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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security		Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at FY22 (LKR)
Unlisted Rated Senior Unsecured Redeemable Debenture Issue	20Bn	Type A - 03 Years Type C - 05 Years	Unsecured		N/A	N/A	NSB Fund Management Co. Ltd	6.323Bn

Name of Issuer	National Savings Bank	
Issue Date	September 10, 2019	
Maturity	Type A -September 10 2022	Type C -September 10 2024
Coupon Basis	Type A - 11% p.a. Type C - 11.25% p.a.	Annually
Repayment	Bullet payment at the end of tenor	
Option		

NSB

Due Date Principal	Opening Principal	Principal Repayment	Coupons Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR				LKR	LKR		
Type A								
	13,677,000,000	-	10-Sep-19	11.00%		13,677,000,000		
	13,677,000,000	-	10-Sep-20	11.00%	1,504,470,000	13,677,000,000		
	13,677,000,000	-	10-Sep-21	11.00%	1,504,470,000	13,677,000,000		
12-Sep-22	13,677,000,000	10,925,000,000	12-Sep-22	11.00%	1,208,334,932	2,752,000,000		
16-Sep-22	2,752,000,000	2,752,000,000	16-Sep-22	11.00%	310,247,591	-		
Type C								
	6,323,000,000	-	10-Sep-19	11.25%		6,323,000,000		
	6,323,000,000	-	10-Sep-20	11.25%	710,649,590	6,323,000,000		
	6,323,000,000	-	10-Sep-21	11.25%	711,337,500	6,323,000,000		
	6,323,000,000	-	10-Sep-22	11.25%	711,337,500	6,323,000,000		
	6,323,000,000	-	10-Sep-23	11.25%	675,770,625	6,323,000,000		
10-Sep-24	6,323,000,000	6,323,000,000	10-Sep-24	11.25%	-	-		