



Lanka Rating Agency

Rating Report

National Savings Bank – Senior Redeemable Debentures | LKR 11.541 bn

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

Rating History table with columns: Dissemination Date, Long Term Rating, Outlook, Action, Rating Watch. Rows include dates 31-Dec-2024, 05-Jan-2024, and 30-Dec-2022.

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. 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 table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.



Issuer Profile

Profile 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. 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 4,251 staff members. The principal activities of the Bank are accepting deposits, retail lending, corporate lending, international banking, treasury, and trade finance services.

Ownership 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. 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. 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 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 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. 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. 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). 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 NSB operates through a well-defined, detailed organization structure, which comprises main functional segments of the Bank. 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. The Bank has formed eighteen management committees through which they effectively manage the operations. 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. 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 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. 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. 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. 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. 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 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%. 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. 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%. 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%.

Instrument Rating Considerations

About The Instrument NSB went into an Unlisted, Rated, Senior, Redeemable Debenture issue in September 2021. The initial issue was LKR~10bn with an option to increase up to further LKR~5bn at the discretion of the Management. The objective of the issue was to stable funding for 5 years and more. Type A and Type C instruments were issued for 5 years with a fixed interest rate of ~8.5% and with a floating interest rate of 6 months AWPLR +1% per annum being paid semi-annually. Type B and Type D instruments were issued for 7 years with a fixed interest rate of ~8.75% per annum and with a floating interest rate of 6 months AWPLR +1% per annum paid semiannually. Capital redemption is done as a bullet payment at the end of the tenor.

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 The debenture is not underwritten. The debenture spans up to 5 years and 7 years from the date of allotment and repayment of the capital is made as a bullet payment at the end of the tenor.



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

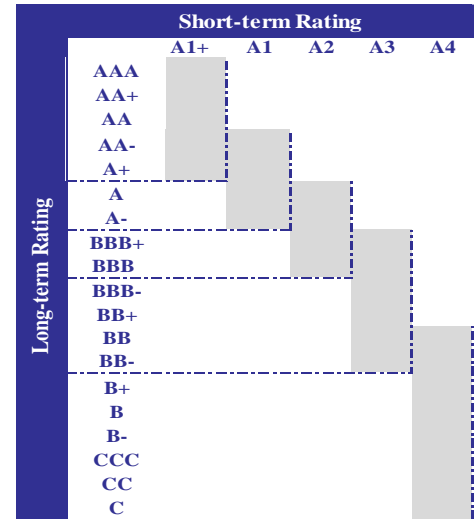
Impaired Loan Ratio [Stage III Advances (NPLs) / Net Advances]	4.1%	2.4%	2.8%	2.5%
Provision Coverage Ratio [Impairment Provision / Stage III Advances (NPLs)]	42.1%	53.3%	38.9%	31.5%

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+	
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-	
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.

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

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 9MCY24 (LKR)
Unlisted Rated Redeemable Senior Debentures	11,541,000,000	Type A & Type C - 5 Years Type B & Type D - 7 Years	Unsecured	Not Applicable	Not Applicable	NSB Fund Management Company Ltd	11,541,000,000

Name of Issuer	National Savings Bank																							
Issue Date	September 24, 2021																							
Maturity	Type A & Type C - 5 Years Type B & Type D - 7 Years																							
Coupon Basis	<table border="1"> <thead> <tr> <th>Type of Debentures</th> <th>Tenor</th> <th>Interest Rate (p.a.)</th> <th>Interest Payment Frequency</th> </tr> </thead> <tbody> <tr> <td>Type A (Fixed rate)</td> <td>5 years</td> <td>8.50% (AER 8.68%)</td> <td>Semi-Annual</td> </tr> <tr> <td>Type B (Fixed rate)</td> <td>7 years</td> <td>8.75% (AER 8.94%)</td> <td>Semi-Annual</td> </tr> <tr> <td>Type C (Floating rate)</td> <td>5 years</td> <td>06 Months AWPLR + 1.00%</td> <td>Semi-Annual</td> </tr> <tr> <td>Type D (Floating rate)</td> <td>7 years</td> <td>06 Months AWPLR + 1.00%</td> <td>Semi-Annual</td> </tr> </tbody> </table>	Type of Debentures	Tenor	Interest Rate (p.a.)	Interest Payment Frequency	Type A (Fixed rate)	5 years	8.50% (AER 8.68%)	Semi-Annual	Type B (Fixed rate)	7 years	8.75% (AER 8.94%)	Semi-Annual	Type C (Floating rate)	5 years	06 Months AWPLR + 1.00%	Semi-Annual	Type D (Floating rate)	7 years	06 Months AWPLR + 1.00%	Semi-Annual			
Type of Debentures	Tenor	Interest Rate (p.a.)	Interest Payment Frequency																					
Type A (Fixed rate)	5 years	8.50% (AER 8.68%)	Semi-Annual																					
Type B (Fixed rate)	7 years	8.75% (AER 8.94%)	Semi-Annual																					
Type C (Floating rate)	5 years	06 Months AWPLR + 1.00%	Semi-Annual																					
Type D (Floating rate)	7 years	06 Months AWPLR + 1.00%	Semi-Annual																					
Repayment	Bullet payment at the end of the tenor																							
Option																								

NSB

Due Date Principal	Opening Principal	Principal Repayment	Coupons Due Date	Fixed Rate	Coupon (Net)	Principal Outstanding	
	LKR					LKR	
Type A					Fixed		
	1,016,000,000		24.09.2021				1,016,000,000
	1,016,000,000	-	24.03.2022	8.50%	43,061,698.63		1,016,000,000
	1,016,000,000	-	26.09.2022	8.50%	43,534,904.10		1,016,000,000
	1,016,000,000	-	24.03.2023	8.50%	40,683,841.10		1,016,000,000
	1,016,000,000	-	25.09.2023	8.50%	41,358,158.90		1,016,000,000
	1,016,000,000	-	25.03.2024	8.50%	40,857,026.55		1,016,000,000
	1,016,000,000	-	24.09.2024	8.50%	41,245,158.47		1,016,000,000
	1,016,000,000	-	24.03.2025	8.50%			1,016,000,000
	1,016,000,000	-	24.09.2025	8.50%			1,016,000,000
	1,016,000,000	-	24.03.2026	8.50%			1,016,000,000
24.09.2026	1,016,000,000	1,016,000,000.00	24.09.2026	8.50%			-
Type B					Fixed		
Type C				Floating	Floating		
	9,000,000,000		24.09.2021				9,000,000,000
	9,000,000,000	-	24.03.2022	6.70%	300,673,972.61		9,000,000,000
	9,000,000,000	-	26.09.2022	8.86%	401,976,986.28		9,000,000,000
	9,000,000,000	-	24.03.2023	19.90%	843,732,739.71		9,000,000,000
	9,000,000,000	-	25.09.2023	28.02%	1,207,700,383.56		9,000,000,000
	9,000,000,000	-	25.03.2024	20.90%	889,903,507.76		9,000,000,000
	9,000,000,000	-	24.09.2024	13.99%	601,340,655.74		9,000,000,000
	9,000,000,000	-	24.03.2025				9,000,000,000
	9,000,000,000	-	24.09.2025				9,000,000,000
	9,000,000,000	-	24.03.2026				9,000,000,000
24.09.2026	9,000,000,000	9,000,000,000	24.09.2026				-
Type D				Floating	Floating		
	1,525,000,000		24.09.2021				1,525,000,000
	1,525,000,000	-	24.03.2022	6.70%	50,947,534.26		1,525,000,000
	1,525,000,000	-	26.09.2022	8.86%	68,112,767.09		1,525,000,000
	1,525,000,000	-	24.03.2023	19.90%	142,965,825.35		1,525,000,000
	1,525,000,000	-	25.09.2023	28.02%	204,638,120.53		1,525,000,000
	1,525,000,000	-	25.03.2024	20.90%	150,789,205.46		1,525,000,000
	1,525,000,000	-	24.09.2024	13.99%	101,893,833.33		1,525,000,000
	1,525,000,000	-	24.03.2025				1,525,000,000
	1,525,000,000	-	24.09.2025				1,525,000,000
	1,525,000,000	-	24.03.2025				1,525,000,000
	1,525,000,000	-	24.09.2025				1,525,000,000
	1,525,000,000	-	24.03.2026				1,525,000,000
	1,525,000,000	-	24.09.2026				1,525,000,000
	1,525,000,000	-	24.03.2027				1,525,000,000
	1,525,000,000	-	24.09.2027				1,525,000,000
	1,525,000,000	-	24.03.2028				1,525,000,000
	1,525,000,000	1,525,000,000	24.09.2028				-

11,541,000,000