

National Savings Bank: [SL]AAA(Stable) assigned to the LKR 20,000-Mn senior unsecured redeemable debenture programme

September 03, 2019

Instrument	Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]AAA (Stable); Outstanding
Senior Unsecured Debenture Programme	20,000	[SL]AAA (Stable); Assigned

Rating action

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the issue rating of [SL]AAA (pronounced SL triple A) with Stable outlook to the proposed LKR 20,000 Mn senior, unlisted, unsecured, redeemable debenture programme of National Savings Bank (NSB or the Bank). ICRA Lanka has an outstanding issuer rating of [SL]AAA (pronounced SL triple A) with Stable outlook for the Bank.

Rationale

The rating takes note of the 100% Government of Sri Lanka (GoSL) ownership, which provides a strong likelihood of sovereign support and, the 100% explicit guarantee provided by the Government of Sri Lanka (GoSL) on the moneys deposited with the bank and the interest thereof through the National Savings Bank Act (NSB Act). The rating factors in the low risk investment portfolio, good quality lending portfolio and the presently adequate capital profile. The Bank's investment portfolio is characterised by low risk with NSB mandated to invest a minimum of 60% of the total deposits in government securities; as in Jun-19, 63% (64% in Dec-18) of the deposits was in government securities and was placed with investment grade banks. The quality of the lending portfolio is driven by zero NPAs reported on its exposure to GoSL, SOE¹ and corporate portfolio which accounted for 40% of the lending portfolio in Jun-19. The gross NPA ratio (GNPA%) of the retail portfolio stood at 1.69% in Jun-19 as compared to 1.44% in Dec-18. The Bank's GNPA ratio continued to remain lower than the Licensed Specialised Bank (LSB) segment where the GNPA ratio was 5.21% in Mar-19 as compared to the Bank's GNPA ratio of 1.45% in the same period. NSB's BASEL III complied total capital adequacy ratio (CAR) stood at 15.20% (Tier-I capital ratio at 12.65%) as compared to 14.00% (Tier-I capital ratio at 10.00%) regulatory requirement as of Jun-19. ICRA Lanka notes that moderation in internal generation will require the Bank to secure commensurate capital from GoSL in the medium term. Going forward, maintenance of adequate buffers (at least 1%) over and above the minimum capitalisation requirements (Tier-I plus CCB and total CAR) would be critical for sustenance of the current rating.

Pleas refer to the detailed rationale dated [June 24, 2019](#).

¹ SOE – State Owned Entity

Outlook: Stable

ICRA Lanka believes that NSB will continue to benefit from Government support because of its systemic importance considering its position as the largest licenced specialised bank in Sri Lanka, which also provides vital funding support to GoSL as per the NSB Act. The outlook may be revised to 'Negative' in case a steady shortfall in NSB's capital buffers over the regulatory requirements as compared to ICRA Lanka's expectations or in case of further weakening in the profitability and asset quality indicators.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria: [ICRA Lanka's Credit Rating Methodology for Banks](#)

About the entity

National Savings Bank (NSB) was established in 1972 through the Parliament Act, No.30 of 1971 by amalgamating the Ceylon Savings Bank, the Ceylon Post Office Savings Bank, the savings certificate section of the Post Master General's Department and the Ceylon War Savings movement. Currently, NSB operates with 255 branches and a network of over 4,000 post offices as at March 31, 2019. The Bank's sole subsidiary, NSB Fund Management Co. Ltd is the dedicated primary dealer. During the CY2018, NSB reported a PAT of LKR 4,500 Mn on a total asset base of LKR 1,037 Bn as compared to a PAT of LKR 9,716 Mn on a total asset base of LKR 1,011 Bn in the previous financial year. For 6MCY2019, NSB reported a PAT of LKR 2,293 Mn on a total asset base LKR 1,092 Bn.

Key financial indicators

LKR Mn	CY2017	CY2018	6MCY2018	6MCY2019
Net Interest Income	2.61%	2.43%	2.65%	2.58%
Profit after Tax	9,716	4,500	3,054	2,293
Net worth (adjusted for revaluation reserves)	31,303	35,940	34,493	37,180
Loans and Advances	375,704	423,532	408,305	447,810
Investment Portfolio	591,972	561,101	620,173	589,181
Total Assets	1,010,977	1,037,483	1,078,221	1,091,879
Return on Equity	27.24%	10.87%	14.81%	10.34%
Return on Assets (based on PAT)	1.01%	0.44%	0.58%	0.43%
Gross NPA ratio	1.34%	1.44%	1.69%	1.69%
Net NPA ratio	1.22%	1.22%	1.53%	1.39%
Total Capital Adequacy Ratio (BASEL III)	15.31%	16.14%	13.16%	15.20%
Gearing (times, adjusted for revaluation reserve)	30.88	26.46	29.74	27.80
Gearing (times)	24.73	21.74	24.26	22.98

Rating history for last three years

Chronology of Rating History for the past 3 years						
Type	Amount Rated (LKR Mn)	Date & Rating CY2019 Sep-19	Date & Rating CY2019 Jun-19	Date & Rating in CY2018	Date & Rating in CY2017	Date & Rating in CY2016
Issuer Rating	N/A	[SL]AAA (Stable)	[SL]AAA (Stable)	-	-	-
Senior Debenture Programme	20,000	[SL]AAA (Stable)	-	-	-	-

ANALYST CONTACTS

Mr. Dasith Fernando
+94 11 4339907
dasith@icralanka.com

Mr. Niraj Jalan
+91 33 71501146
niraj.jalan@icraindia.com

RELATIONSHIP CONTACT

Mr. W. Don Barnabas
+94 11 4339907
wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

© Copyright, 2019 ICRA Lanka Limited. All Rights Reserved.
Contents may be used freely with due acknowledgement to ICRA Lanka.

ICRA Lanka ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Lanka ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA Lanka rating is a symbolic indicator of ICRA Lanka's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icralanka.com or contact ICRA Lanka's office for the latest information on ICRA Lanka ratings outstanding. All information contained herein has been obtained by ICRA Lanka from sources believed by it to be accurate and reliable, including the rated issuer. ICRA Lanka however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Lanka in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA Lanka or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA Lanka shall not be liable for any losses incurred by users from any use of this publication or its contents