

National Savings Bank: [SL]AA+ (Stable) assigned to the LKR 6,000-Mn subordinated unsecured redeemable debenture programme

September 17, 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); Outstanding |
| Subordinated Unsecured Redeemable Debenture Programme | 6,000 | [SL]AA+ (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]AA+ (pronounced SL double A plus) with Stable outlook to the existing LKR 6,000 Mn subordinated, unsecured, redeemable debenture programme of National Savings Bank (NSB or the Bank).

ICRA Lanka has an issuer rating outstanding of [SL]AAA (pronounced SL triple A) with Stable outlook for the Bank. ICRA Lanka also has issue rating outstanding of [SL]AAA (pronounced SL triple A) with Stable outlook for the LKR 20,000 Mn senior, unlisted, unsecured, redeemable debenture programme.

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 (1.45% as on Mar-19) continued to remain lower than the Licensed Specialised Bank (LSB) segment GNPA ratio of 5.21% as on Mar-19. 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.

Please 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 17-Sep-19 | Date & Rating CY2019 03-Sep-19 | Date & Rating CY2019 24-Jun-19 | Date & Rating in CY2018 | Date & Rating in CY2017 | Date & Rating in CY2016 |
| Issuer Rating | N/A | [SL]AAA (Stable) | [SL]AAA (Stable) | [SL]AAA (Stable) | - | - | - |
| Senior Debenture Programme | 20,000 | [SL]AAA (Stable) | [SL]AAA (Stable) | - | - | - | - |
| Subordinated Debenture Programme | 6,000 | [SL]AA+ (Stable) | - | - | - | - | - |

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