

## National Savings Bank; Ratings reaffirmed

July 23, 2020

Instrument	Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]AAA (Stable); Reaffirmed
Senior Unsecured Redeemable Debenture Programme	20,000	[SL]AAA (Stable); Reaffirmed
Subordinated Unsecured Redeemable Debenture Programme	6,000	[SL]AA+ (Stable); Reaffirmed

### Rating action

ICRA Lanka Limited has reaffirmed the issuer rating of [SL]AAA (pronounced SL triple A) with Stable outlook for National Savings Bank (NSB or the Bank). ICRA Lanka has also reaffirmed the issue rating of [SL]AAA (pronounced SL triple A) with Stable outlook for the LKR 20,000 Mn senior, unlisted, unsecured, redeemable debenture programme and the issue rating of [SL]AA+ (pronounced SL double A plus) with Stable outlook for the LKR 6,000 Mn subordinated, unsecured, redeemable debenture programme of NSB.

### Rationale

The ratings take 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) for the moneys deposited with the Bank and the interest thereof through the National Savings Bank Act (NSB Act). The ratings factor in the low-risk investment portfolio, healthy quality lending portfolio and the 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 March 2020, 61% of the deposits were in government securities.

The Bank's overall GNPA ratio (1.60% as on Mar-20) continued to remain lower than the Licensed Specialised Banks (LSB) segment's GNPA ratio of 6.58% as in Mar-20. The quality of the lending portfolio is driven by zero Gross NPAs reported on its exposure to GoSL, State-owned Entities ("SOE") and Corporate segments which accounted for 36% of the lending portfolio in Mar-20 and 2.52% gross NPA in the retail portfolio (64% of the lending portfolio) as of Mar-20 compared to 2.47% in Mar-19. NSB's BASEL III complied total capital adequacy ratio (CAR) stood at 13.59% (Tier-I capital ratio at 11.37%) as compared to regulatory requirement of 12.00% (Tier-I capital ratio at 8.00%) as of Mar-20. Further, in Dec-19, CBSL reclassified NSB as a Non-Domestic-Systemically Important Bank ("Non-DSIB") based on its new criteria for this assessment. As a result, NSB's regulatory capital requirement in terms of Tier I capital reduced to 8.50%<sup>1</sup> from 10% % earlier. ICRA Lanka notes that a reduction in regulatory capital requirements would reduce the pressure of securing external capital in the medium term. Going forward, continuous 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 the sustenance of the current rating.

<sup>1</sup> The Central Bank of Sri Lanka reduced the regulatory capital requirement by 50 basis points as a relief to the banking sector due to the pandemic. Post the relief, regulatory Tier I ratio reduced from 8.50% to 8.00% for non-DSIB banks and 10.00% to 9.0 % for DSIBs.

## Outlook: Stable

ICRA Lanka believes that NSB will continue to benefit from Government support considering its position as the largest licensed 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 of a steady shortfall in NSB's capital buffers over the regulatory requirements as compared to ICRA Lanka's expectations or significant weakening in the profitability and asset quality indicators.

## Key rating drivers

### Credit strengths

**100% government ownership and explicit guarantee on deposits:** NSB is a 100% government-owned specialised bank incorporated under the NSB Act in 1972. The main objective of the Bank is to promote savings habit in the country. GoSL provides explicit 100% guarantee through the NSB Act for the depositors' deposit money and the interest thereon. Since the Bank's inception, NSB has been able to self-fund its capital requirements and has not required any capital support from GoSL. ICRA Lanka expects GoSL's support, if needed, given the Bank's position of being the largest licensed specialised bank in the country and also being one of the important sources for its financing needs. The Government appointed Board comprises of a mix of qualified and experienced professionals, including a representative from the treasury and the Post Master General. The senior management of the Bank consists of qualified and experienced banking professionals.

**Low-risk nature of its investment portfolio:** The Bank is mandated to invest a minimum of 60% of the total deposits in government securities. As of Mar-20, 61% of the total deposits were invested in government securities, as compared to 61% as of Dec-19 (61 % as of Dec-18). As of Mar-20, 94% of the investment portfolio consisted of Treasury Bills and Bonds followed by 2% in placement with banks, 2% in Debentures and Trust Certificates, 1% in listed equity and the balance as investments in subsidiaries, unquoted equities and others. As of Mar-20, close to 99% of the government security portfolio was classified as Held to Maturity ("Financial Assets Measured at Amortised Cost") and balance as Held for Trading (Fair value through Profit and Loss and Fair Value through Other Comprehensive Income"). The Bank's FVOCI equity portfolio reported a significant mark to market (MTM) loss of LKR 1,159 Mn in Q1CY2020 as compared to the MTM loss of LKR 595 Mn reported in Q1CY2019 due to the weak equity market performance. Since the equity portfolio represents less than 1% of the total investment portfolio, the overall impact on the investment portfolio is expected to be minimal.

**Healthy overall asset quality supported by zero NPAs on corporate and GoSL & SOE portfolios;** NSB reported LKR 465 Bn lending portfolio as of Mar-20 as compared to LKR 454 Bn as of Dec-19 (LKR 423Bn as of Dec-18). The portfolio reported a Y-o-Y growth of 4.85% in Mar-20 as compared to 7.43% growth in Dec-19 (12.56% in Dec-18). The portfolio growth in CY2019 and Q1CY2020 was driven by retail lending which grew from LKR 249 Bn in Dec-18 to LKR 287 Bn in Dec-19 and LKR 296 Bn in Mar-20. As of Mar-20, NSB's portfolio included retail exposure which contributed to 64%, followed by, Government and SOE at 30% and corporate at 6%. Under the retail segment, personal loans, housing loans, pawning and loans against FDs represented 32%, 15%, 8% and 7% respectively of the total portfolio as of Mar-20. Based on NSB's Act, all the SOE loans are secured by government guarantees and are routed through the Treasury, which further strengthens the credit profile of the lending portfolio. The Bank reported a gross NPA ratio of 1.57% as of Dec-19 as compared to 1.44% as of Dec-18, it remained at 1.60% as of Mar-20. NSB's gross

NPA ratio was better as compared to the licensed specialised banks' average of 6.58% and system average<sup>2</sup> of 5.08% in Mar-20. ICRA Lanka noted that corporate and government & SoE portfolios of the Bank which accounted for 36% of the total lending portfolio as in Mar-20 had zero NPAs. The retail portfolio of the Bank reported a GNPA ratio of 2.52% as of Mar-20 as compared to 2.51% as of Dec-19 and 2.46% in Dec-18. At the product level, Auto Loans reported a GNPA ratio of 8.98% followed by Personal loans at 3.59%, Housing loans at 2.25% and Pawning at 1.09% as of Mar-20. ICRA Lanka expects the Bank to maintain its GNPA ratio below the systemic averages going forward. The Bank's regulatory provision coverage ratio improved to 54% as of Mar-20 from 51% as of Dec-19 and 43% in Dec-18. The Bank's provision coverage ratio was significantly better than the LSB sector's average of 35% in Mar-20.

**Granular deposit base;** NSB reported a deposit base of LKR 1,060 Bn as of Mar-20 as compared to LKR 1,017 Bn reported as of Dec-19 (LKR 953 Bn as of Dec-18). The NSB Act provides explicit government guarantee for the deposits and interest payable thereon. The Bank has a granular deposit base with 42% of the Rupee denominated deposits<sup>3</sup> having a ticket size of less than LKR 1.0 Mn. The savings deposits to total deposits ratio was 21% in Mar-20 as compared to 21% in Dec-19 and 24% in Dec-18. The savings deposits to total deposits ratio moderated over the period due to higher growth witnessed in term deposits in 2019. The Bank's short term (less than 1 year) negative cumulative ALM mismatch was 70% as of Mar-20 (71% as of Mar-19) as a result of its shorter tenured deposits as against longer-tenured loan portfolio. The Bank's Liquidity Coverage Ratio stood at 277% as of Mar-20 as compared to the regulatory requirement of 100%. The Bank's significant investment in government securities (95% of the investments as in Mar-20) provides comfort on the liquidity.

**Adequate capital profile;** NSB reported a Tier-I Capital Ratio of 11.37% and Total Capital Ratio of 13.59% as of Mar-20 as compared to the regulatory requirement of minimum Tier-I Capital Ratio of 8.00% and Total Capital Ratio of 12.00%. The Bank's core capital stood at LKR 44 Bn as in Mar-20 as compared to the LKR 7.5 Bn regulatory core capital threshold to be achieved by December 31, 2022. Based on ICRA Lanka's computation, the Bank will not require Tier-I capital infusion for the next 3 years to maintain a 10-15% growth factoring a 2% capital buffer and 9% internal capital generation. The Bank was reclassified as a non-systemically important bank which reduced the regulatory capital requirement by 150 basis points. ICRA Lanka believes that as the largest licensed specialised bank, the Government of Sri Lanka will provide the required funding support to the Bank when needed. Continuous maintenance of adequate buffers (at least 1%) over and above the minimum capitalisation requirements (Tier-I plus CCB and total CAR) would be critical from a rating perspective.

**Moderate profitability indicators;** NSB's NIM improved to 2.63% in CY2019 from 2.43% in CY2018 due to reduction in deposit rates and expansion of the loan book during the period. The NIM marginally declined in Q1CY2020 due to decline in Average Weighted Prime Lending Rates and lending rate cuts. The Bank reported a mark to market loss of LKR 1,159 Mn on the FVOCI equity portfolio during Q1CY2020. The Bank's PAT improved to LKR 6.7 Bn in CY2019 as compared to LKR 4.5 Bn reported in CY2018. The main reason was the improvement of the NIM of the Bank. The cost to income ratio of the bank improved to 60.39% in Q1CY2020 as compared to 65.57% in CY2019 (66.47% in CY2018) mainly due to the removal of Nation Building Tax (NBT) and Debt Repayment Levy (DRL) imposed by the Government in Nov-19. For the Latest quarter ended Mar-20, the Bank reported a PAT of LKR 1.8 Bn as compared to LKR 1.2 Bn

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<sup>2</sup> System average includes Licensed Commercial and Specialised Banks

<sup>3</sup> As in Mar-20, 96% of the total deposits were Rupee denominated

reported in the quarter ended Mar-19. The Bank's RoA (at PAT) and RoE improved to 0.61% and 15.32% in CY2019 as compared to 0.44% and 10.95% in CY2018. In Q1CY2020, the Bank reported a RoA (at PAT) and RoE of 0.60% and 16.23% as compared to 0.85% and 11.02% reported in Q1CY2019.

**Analytical approach:** For arriving at the ratings, ICRA Lanka 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 258 branches and a network of over 4,000 post offices as at March 31, 2020. The Bank's subsidiaries, NSB Fund Management Co. Ltd is the dedicated primary dealer and Sri Lanka Savings Bank is a licensed specialised bank. During the CY2019, NSB reported a PAT of LKR 6,698 Mn on a total asset base of LKR 1,158 Bn as compared to a PAT of LKR 4,500 Mn on a total asset base of LKR 1,037 Bn in the previous financial year. For Q1CY2020, NSB reported a PAT of LKR 1,782 Mn on a total asset base of LKR 1,200 Bn.

## Key financial indicators

LKR Mn	CY2018 (Audited)	CY2019 (Audited)	Q1CY2019 (Unaudited)	Q1CY2020 (Unaudited)
Net Interest Income	24,885	28,832	6,803	7,659
Profit after Tax	4,500	6,698	1,196	1,782
Net worth (adjusted for revaluation reserves)	35,302	36,584	36,468	36,171
Loans and Advances	422,895	454,395	443,543	465,051
Investment Portfolio	565,841	647,760	570,022	673,985
Total Assets	1,036,846	1,157,967	1,068,914	1,199,973
Return on Equity	10.95%	15.32%	11.02%	16.23%
Return on Assets (based on PAT)	0.44%	0.61%	0.45%	0.60%
Gross NPA ratio	1.44%	1.57%	1.45%	1.60%
Net NPA ratio	1.22%	1.17%	1.19%	1.14%
Total Capital Adequacy Ratio (BASEL III)	15.90%	14.35%	15.43%	13.59%
Gearing (times, adjusted for revaluation reserve)	26.94	30.05	27.69	31.48
Gearing (times)	22.07	24.78	22.81	25.90

## Rating history for last three years

Chronology of Rating History for the past 3 years							
Type	Amount Rated (LKR Mn)	Date & Rating CY2020 23-Jul-20	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
Issuer Rating	N/A	[SL]AAA (Stable)	[SL]AAA (Stable)	[SL]AAA (Stable)	[SL]AAA (Stable)	-	-
Senior Debenture Programme	20,000	[SL]AAA (Stable)	[SL]AAA (Stable)	[SL]AAA (Stable)	-	-	-
Subordinated Debenture Programme	6,000	[SL]AA+ (Stable)	[SL]AA+ (Stable)	-	-	-	-

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