

**FOR IMMEDIATE RELEASE**

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**ICRA Lanka Assigns Issuer Rating of [SL]BBB- to  
Sri Lanka Savings Bank**

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the Issuer Rating of [SL]BBB- (pronounced SL triple B minus) with a stable outlook for Sri Lanka Savings Bank (SLSB).

The rating takes note of the 100% Government of Sri Lanka (GoSL) ownership in SLSB, which provides a strong likelihood of sovereign support to the Bank, when needed. The Bank has a comfortable capital profile characterised by core capital of about 88% on June 30, 2016. The rating notes that the bank would have to enhance its core capital to LKR 5 Bn by December 2016 (LKR 3.8 Bn as on June 30, 2016); GoSL intervention is expected in meeting the same. The rating takes note of the relatively weak franchise of the bank with only 4 branches and a modest total asset base of about LKR 8.8 Bn as on June 30, 2016. Further, the rating is affected by the high risk profile of the market segments serviced by the bank, namely microfinance, MSME (micro & small scale enterprise) & retail credit and, consequently its weak asset quality indicators; overall gross NPA ratio as on June 30, 2016 was 37% (Gross NPA 14% for the loan portfolio excluding the legacy Pramuka Savings and Development bank portfolio). ICRA Lanka further notes that it would be crucial for the bank to broad-base its management team and augment its risk management and internal control systems, going forward.

SLSB is a licensed specialised bank with a very moderate sized loan portfolio of LKR 2.4 Bn as on June 30, 2016. The company extends re-financing facilities to micro finance organizations that include rural co-operative banks, thrift & credit societies, non-government microfinance organizations and other specialised banks; as on June 30, 2016 the refinance portfolio contributed to about 33% of the total lending portfolio. In addition to bulk refinancing, SLSB is involved in several direct lending activities, including retail credit, MSME and micro leasing. As in June 30, 2016, the contribution of the retail credit segment was about 17% of the total portfolio, while the MSME and leasing segments contributed to about 10% each. Growth of the direct lending activities is capped due to its limited operational bandwidth. After bulk microfinance lending, the most significant contributor to the loan portfolio is the PSDB (Pramuka Savings and Development Bank) portfolio that was vested in 2008. As in June 30, 2016 the gross PSDB portfolio was LKR 1.1 Bn (29% of the total portfolio) and the portfolio was largely non-performing.

SLSB's asset quality indicators are weak with gross NPA ratio as on June 30, 2016 at 37% (41% as on December 31, 2016). The gross NPA of the operational portfolio (excluding PSDB book) was 14% as on June 30, 2016 (16% as on December 31, 2015). Further, the rating takes note of the significant portfolio concentration, with the top 10 borrowers accounting for about 30% of the loan portfolio (Excluding PSDB).

The borrowing profile is characterized by public deposits contributing about 17% of the total debt as on June 30, 2016, while refinance from ADB accounted for about 40%. Close to 38% of the borrowings are the PSDB liabilities, which include LKR 1.3 Bn debentures (former deposits converted into debentures), LKR 60 Mn in deposits and borrowings of about LKR 70 Mn as on June 30, 2016. As per CBSL guidelines, SLSB has a commitment to repay the debentures in 2017; significant holdings of

liquid investments (about LKR 5.3 Bn as on June 30, 2016) and likely support from GoSL provide comfort for meeting the said obligations.

The bank is primarily dependent on investment income, as investments in government securities and bank deposits accounted for about 60% of the asset base as on June 30, 2016. The interest income was significantly affected in CY<sup>1</sup>2015 due to the lower interest rate regime that prevailed during the period. However, the interest income rebounded during the 1H CY2016 as the systemic rates increased since December 2015. Bank enjoys good net interest margins (NIM 1H CY2016 was 7.1%), as the bank's funding profile primarily consist of equity and low cost borrowings, such as the ADB refinance. This along with moderate operating costs and credit costs resulted in good RoA of about 4.0% in CY2015 (4.9% in 1H CY2016).

### **Company Profile**

The Sri Lanka Savings Bank Limited (SLSBL) was established in July 2006 as a state owned licensed specialized bank, with the primary objective of taking over the assets and liabilities of Pramukha Savings and Development Bank (PSDB). In 2010, with state intervention, National Development Trust Fund (NDTF) was merged with SLSB to meet the capital deficiency of the bank. Subsequently, in 2011, the articles of the bank was amended to enable SLSB to commence its own lending operations.

During CY2015, SLSB reported a net profit of LKR 351 Mn on a total asset base of LKR 8.78 Bn, compared to a profit of LKR 235 Mn on a total asset base of LKR 8.68 Bn in CY2014.

For the six months ended June 30, 2016 bank reported a net profit of LKR 216 Mn on a total asset base of LKR 8.79 Bn.

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<sup>1</sup> CY-Calendar Year



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