

NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

MAINTAIN BUY

“STABLE CORE, SCALABLE GROWTH”

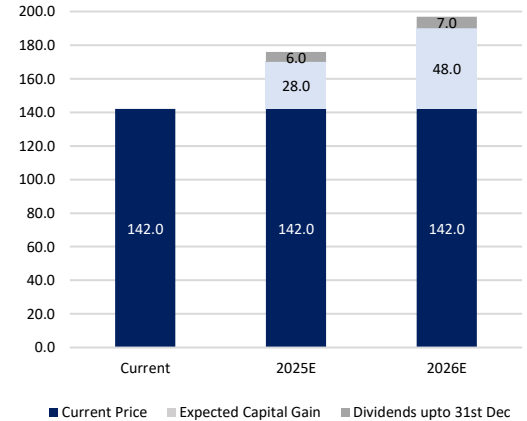
Fair Value: 2025E - LKR 170.0 [+20%]

Total Return with DPS: 2025E - 24% [AER 128%]

2026E - LKR 190.0 [+34%]

2026E - 39% [AER 30%]

NDB reported a 6.2% YoY decline in earnings for 2Q2025, primarily due to a reduction in other operating income and higher operating costs. While headline earnings weakened, the core banking fundamentals held steady. Net Interest Income (NII) increased by 1.0% YoY to LKR 8.6Bn, benefiting from the lower interest rate environment. Despite a 20.3% YoY growth in the loan book, total interest income declined by 2.0%, reflecting rate-driven pressure on yields. A more significant 3.9% YoY reduction in interest expenses partially alleviated the pressure on NII. Non-interest income showed mixed results, with net fee and commission income rising 15.5% YoY, supported by broad-based business growth, while other income sharply declined to LKR 982.9Mn from LKR 2,927.0Mn, primarily due to lower gains from de-recognition of financial assets. Looking ahead, we project a substantial 208.4% YoY increase in recurring net profit to LKR 8.7Bn in 2025E, followed by a 21% YoY increase to LKR 10.5Bn in 2026E, driven by a recovery in NII, stronger fee income, and continued reductions in impairments. We maintain a favorable outlook on NDB, underpinned by a supportive macroeconomic environment and a declining interest rate trajectory, both of which are expected to sustain loan book growth. Furthermore, growth in trade finance and the increasing adoption of digital transactions are expected to positively impact earnings through higher fee-based income. The earnings for 1H2025 align broadly with our prior expectations. As such, we are reaffirming our fair value estimate for 2026E at LKR 190.0 and for 2025E at LKR 170.0. With resilient fundamentals, a stable earnings outlook, and attractive valuation, NDB is well-positioned for long-term value creation, we **MAINTAIN BUY**.



FIRST CAPITAL RESEARCH

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Price performance of NDB vs ASPI (Indexed and rebased to 100)



Source: CSE

LKR (Mn)	2Q2024	2Q2025	YoY	1H2024	1H2025	YoY
Earnings (LKR 'Mn)						
Net Interest Income	8,495	8,578	+1.0%	16,644	17,078	+2.6%
Total Operating Income	13,508	11,971	-11.4%	24,188	23,598	-2.4%
Post Impairment Income	9,476	10,123	+6.8%	15,800	19,119	+21.0%
Pre Tax Profit	3,812	3,767	-1.2%	5,216	6,928	+32.8%
Net Profit	2,608	2,448	-6.2%	3,446	4,488	+30.2%
Balance Sheet (LKR 'Mn)						
Gross Loans	504,954	607,550	+20.3%	504,954	607,550	+20.3%
Shareholders' Equity	75,432	85,079	+12.8%	75,432	85,079	+12.8%
NAVPS	176.8	199.4	+12.8%	176.8	199.4	+12.8%

NDB earnings down by 6.2% YoY during 2Q2025

NDB posted a 6.2% YoY decline in earnings for 2Q2025, primarily reflecting pressure from reduced other operating income and elevated operating costs. While headline earnings weakened, core banking fundamentals remained resilient. NII edged up 1.0% YoY to LKR 8.6Bn, supported by a lower interest rate environment. Despite a 20.3% YoY expansion in the loan book, total interest income contracted 2.0%, highlighting rate-driven pressure on yields. A steeper 3.9% YoY drop in interest expenses partially mitigated the strain on NII. However, Net Interest Margins (NIMs) narrowed to 3.98%, down from 4.25% in 2Q2024, underscoring ongoing margin compression. Non-interest income was mixed, net fee and commission income rose 15.5% YoY, supported by broad-based business growth, while other income fell sharply to LKR 982.9Mn from LKR 2,927.0Mn, largely due to lower gains from de-recognition of financial assets. A notable improvement in asset quality was evident, as net impairment charges dropped to LKR 1.8Bn from LKR 4.0Bn in 2Q2024, driven by better outcomes in Stage 3 loans. However, elevated cost structures remained a drag on profitability, as operating expenses surged 15.1% YoY, driven by an increase in personnel expenses and higher investments in IT infrastructure. Taxation also added pressure, with VAT on financial services up 1.0% YoY and corporate tax increasing by 9.9% YoY.

Loan book expands as private credit gains momentum

Amid the sustained low-interest rate environment, private sector credit growth accelerated to 17.9% year-YoY as of June 2025, up from 14.0% YoY in March 2025. In this context, NDB's gross loan portfolio posted a YoY growth of 20.3%, reaching LKR 607.5Bn in 2Q2025. On an annual basis, domestic currency lending, which accounted for 70.2% of the total portfolio, rose by 8.9% YoY, supported by continued demand for medium and short-term credit, alongside pawning and Islamic banking facilities. On the other hand, foreign currency lending expanded by 59.9% YoY, largely due to the depreciation of the LKR against the USD during the quarter. The easing interest rate trend, evidenced by the decline in the Average Weighted Lending Rate (AWLR) to 11.56% at end-2Q2025 from 11.80% in 1Q2025, combined with a broad-based economic recovery, is expected to drive further credit growth in the near term, albeit with the potential for a gradual moderation. On the funding side, NDB's total deposits rose by 12.5% YoY to LKR 695.8Bn in 2Q2025, while the loan-to-deposit ratio increased to 80.1%, from 75.6% in 1Q2025 and 74.2% in 2Q2024. The CASA ratio improved to 30.2%, up from 25.7% in 1Q2025 and 24.2% in 2Q2024.

Minimum Return for BUY:

Buy Below 2026E [AER of 14.0% with DPS]: LKR 167.0
NDB categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of NDB during the five trading days prior to the issuance of this document



Capital adequacy surpasses regulatory requirements

Denoting sound capital adequacy, Tier I and Total capital adequacy of the group stood at 12.79% and 16.95%, above the minimum requirements of 8.5% and 12.5% respectively.

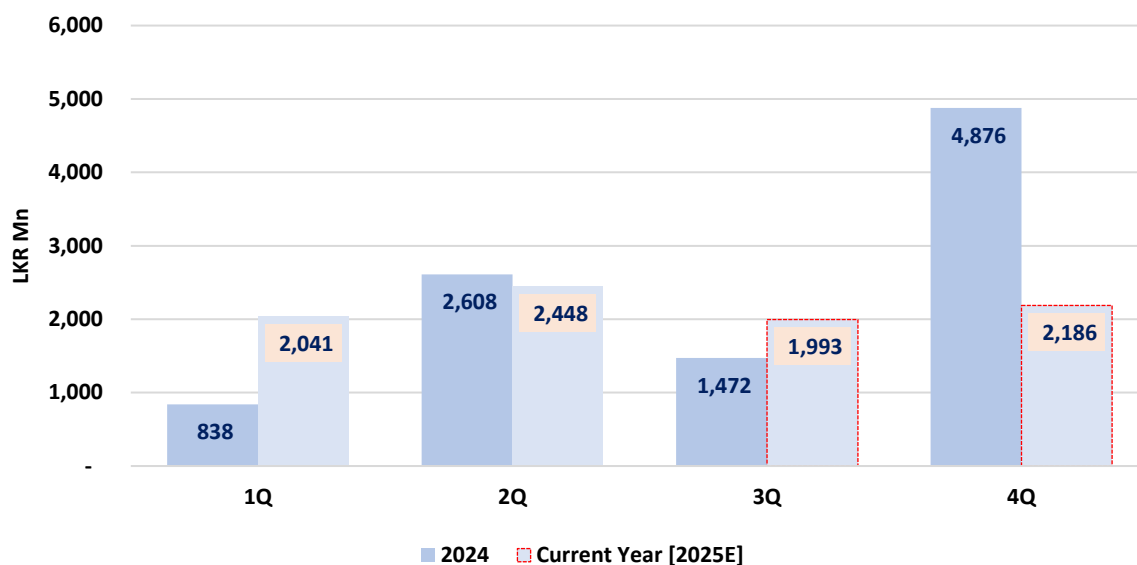
FV for 2026E maintained at LKR 190.0 – MAINTAIN BUY

We maintain a positive outlook on NDB, supported by a favorable macroeconomic environment and a declining interest rate trend, both of which are expected to foster continued growth in the loan book. Additionally, the growth in trade finance and the rising adoption of digital transactions are anticipated to positively influence earnings, driven by higher fee-based income. The earnings for 1H2025 are also broadly in line with our previous projections. Consequently, we are reaffirming our fair value estimate for 2026E at LKR 190.0 and our 2025E fair value estimate at LKR 170.0. With strong fundamentals, a stable earnings trajectory, and an attractive valuation, NDB is well positioned for sustained long-term value creation, we

MAINTAIN BUY.



Quarterly Earnings



Note: 4Q2024 earnings include the impact of impairment reversals on ISB holdings

Estimate Revision

In LKR Mn	2025E - O	2025E - R	% Change	2026E - O	2026E - R	% Change
Earnings Estimate						
Net Interest Income	28,055	28,055	0%	31,070	31,070	0%
Total Operating Income	44,920	44,920	0%	49,102	49,102	0%
Net Operating Income	37,108	37,108	0%	40,978	40,978	0%
Profit before Tax	12,506	12,506	0%	15,080	15,080	0%
Net Profit	8,667	8,667	0%	10,451	10,451	0%
Adjusted EPS	20.1	20.1	0%	23.3	23.3	0%
Balance Sheet Estimate						
Loans & Advances	505,963	505,963	0%	547,027	547,027	0%
Shareholders' Equity	89,863	89,863	0%	98,786	98,786	0%
Adjusted NAVPS	208.0	208.0		219.8	219.8	
Ratio Estimate						
ROE (%)	10.0%	10.0%		11.1%	11.1%	
PER (x)	6.7	7.1		5.8	6.1	
PBV (x)	0.6	0.7		0.6	0.6	



Valuation Table

P/E 31 December	2021	2022	2023	2024	2025E	2026E	2027E
Estimates (LKR 'Mn)							
Net Interest Income	21,741	31,130	32,380	34,494	28,055	31,070	35,460
Total Operating Income	32,996	44,448	47,124	48,388	44,920	49,102	54,627
Net Profit	6,904	3,009	5,759	9,794	8,667	10,451	11,490
Adjusted Net Profit	6,904	3,009	5,759	2,810	8,667	10,451	11,490
Adjusted EPS (LKR)	16.2	7.1	13.5	6.8	20.1	23.3	24.6
Net Profit YoY Growth (%)	35%	-56%	91%	-51%	208%	21%	10%
Valuations							
PER (x)	8.8x	20.1x	10.5x	21.0x	7.1x	6.1x	5.8x
PBV (x)	1.0x	0.9x	0.8x	0.7x	0.7x	0.6x	0.6x
DY (%)	3.9%	1.8%	3.5%	3.5%	4.2%	4.9%	5.2%
Adjusted NAVPS	147.0	158.2	174.5	193.9	208.0	219.8	232.8
Adjusted DPS	5.5	2.5	5.0	5.0	6.0	7.0	7.4
Dividend Payout	34%	35%	37%	74%	30%	30%	30%

Note: Recurring net profit for 2024 indicates reported net profit adjusted for impairment reversal on ISB holdings and net losses from derecognition of financial assets.

Ratio Analysis

		2021	2022	2023	2024	2025E	2026E	2027E
Growth	Asset	12.4%	18.1%	-6.2%	2.1%	6.7%	6.4%	6.9%
	Deposit	12.6%	21.9%	-8.4%	2.6%	6.0%	6.5%	7.0%
	Net Loans	18.5%	8.2%	-17.1%	1.8%	9.8%	8.1%	7.3%
Profitability	Return on Equity	12.5%	4.6%	8.1%	12.5%	10.0%	11.1%	11.1%
	Return on Average Assets	1.0%	0.4%	0.7%	1.2%	1.0%	1.2%	1.2%
	Net Interest Spread	3.2%	4.2%	4.2%	4.2%	3.2%	3.4%	3.5%
	Net Interest Margin	3.4%	4.9%	5.0%	5.4%	4.4%	4.4%	4.7%
Funding & Liquidity	Loan/ Deposits	91.5%	81.3%	73.6%	73.0%	75.6%	76.8%	77.0%
	Loan/ Assets	71.0%	65.1%	57.5%	57.3%	59.0%	60.0%	60.2%
	Deposit/ Liabilities	85.2%	87.2%	86.5%	87.7%	87.3%	87.8%	88.2%
	CASA	26.7%	21.1%	22.3%	24.7%	24.5%	24.0%	23.0%



Valuation Summary

Expected NDB price	2025E	2026E
Justified PBV based target price	176.8	186.8
Residual Income based Valuation	163.0	181.3
PER Valuation based target price	160.5	186.0
Average Target Price	166.7	184.7
Target Price after Rounding off	170.0	190.0

Return	2025E	2026E
Target Price	170.0	190.0
Current Price	142.0	142.0
Capital Gain (LKR)	28.0	48.0
Dividends upto 31st Dec (LKR)	6.0	7.0
Capital Gain %	20%	34%
Dividend Yield %	4%	5%
Total Return %	24%	39%
Annualized Return %	128%	30%

Justified PBV Valuation

Justified PBV based Valuation	2025E	2026E
ROAE	10.0%	11.1%
Growth	3.0%	3.0%
COE	14.2%	14.2%
PBV	0.9	0.9
NAVPS	208.0	219.8
Target Price	176.8	186.8

PER Valuation

PER based Valuation	2025E	2026E
Earnings (LKR 'Mn)	8,667	10,451
No. of Shares ('Mn)	432	449
EPS	20.1	23.3
Expected PER	8.0x	8.0x
Value per Share	160.5	186.0

Residual Income Valuation

Residual Income based Valuation	2025E	2026E
PV of Residual Income	-13,354	-11,957
No. of Shares ('Mn)	432	449
RI per Share	-30.9	-26.6
Opening Book value per Share	193.9	208.0
Value per Share	163.0	181.3

COE	2025E	2026E
Rf	9.0%	9.0%
Rm	17.0%	17.0%
Growth %	3.0%	3.0%
β	0.7	0.7
$Ke=Rf+\beta(Rm-Rf)$	14.2%	14.2%

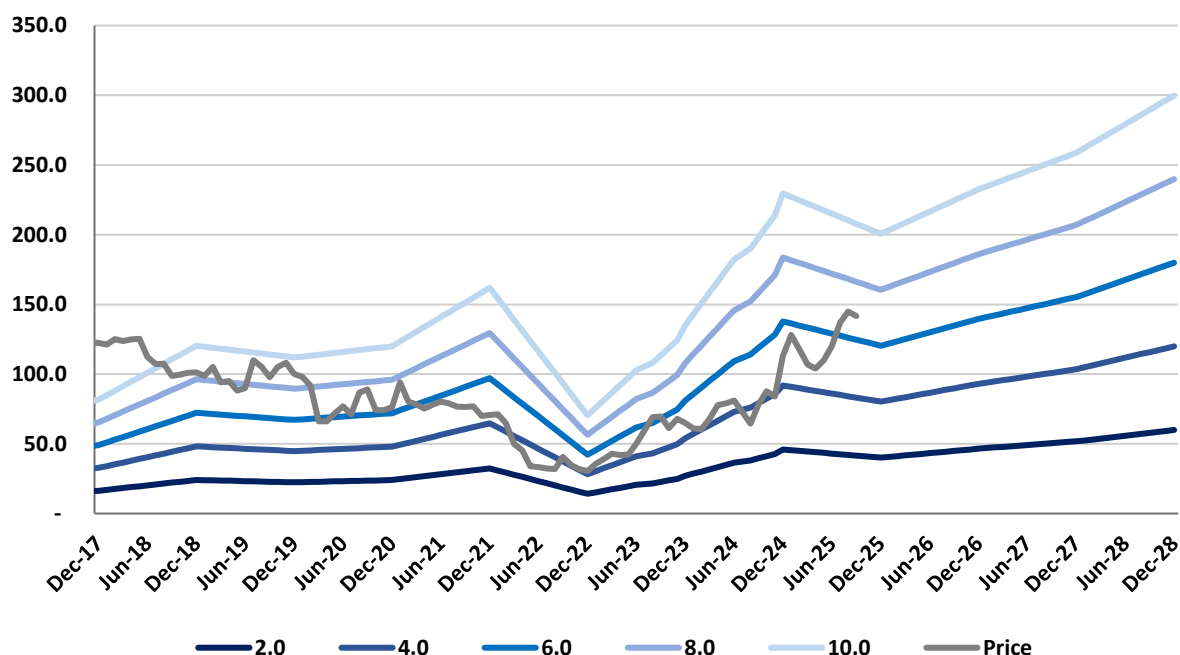
Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.00%	10.00%	10.00%
Grade B	Rest of the Companies	17.00%	12.00%	12.00%
Grade C	Companies less than LKR 1Bn Market Cap	20.00%	15.00%	15.00%



PER Chart



Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
As at 31st December							
Gross Income	64,083	111,552	134,473	102,204	93,617	101,841	111,116
Interest Income	52,795	98,217	119,722	88,283	76,752	83,810	91,948
Interest Expenses	-31,053	-67,087	-87,342	-53,789	-48,697	-52,740	-56,488
Net Interest Income	21,741	31,130	32,380	34,494	28,055	31,070	35,460
Fee & Other Income	11,255	13,317	14,743	13,895	16,865	18,032	19,168
Total Operating Income	32,996	44,448	47,124	48,388	44,920	49,102	54,627
Loss on restructuring of SLISBs	0	0	0	-14,344	0	0	0
Impairment (Charges)/ Reversal	-10,253	-29,277	-21,137	10,055	-7,812	-8,124	-11,059
Net Operating Income	22,743	15,171	25,987	44,099	37,108	40,978	43,569
Less : Operating expenses							
Personal Expenses	-6,323	-6,277	-7,379	-9,909	-10,524	-10,696	-10,870
Depreciation and Amortization	-914	-926	-1,054	-1,168	-1,258	-1,319	-1,384
Other Operating Expenses	-4,278	-5,296	-6,649	-7,330	-7,765	-8,225	-8,711
Operating profit before value added tax	11,229	2,672	10,904	25,691	17,561	20,738	22,604
VAT on financial services	-2,015	-1,203	-2,750	-5,524	-5,055	-5,658	-6,025
Debt Repayment Levy	0	0	0	0	0	0	0
Operating profit after value added tax	9,214	1,469	8,154	20,167	12,506	15,080	16,578
Share of associate companies' profit	0	0	0	0	0	0	0
Profit Before Tax	9,214	1,469	8,154	20,167	12,506	15,080	16,578
Income Tax Expense	-2,151	1,607	-2,296	-10,275	-3,752	-4,524	-4,974
Profit for the Year	7,063	3,076	5,858	9,892	8,754	10,556	11,605
Minority Interest	158	67	99	98	87	105	115
Profit attributable to Equity Holders	6,904	3,009	5,759	9,794	8,667	10,451	11,490
Recurring Profit attributable to Equity Holders	6,904	3,009	5,759	2,810	8,667	10,451	11,490
Adjusted EPS	16.2	7.1	13.5	6.8	20.1	23.3	24.6



Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
As at 31st December							
ASSETS							
Cash and cash equivalents	13,765	35,728	28,581	18,682	33,110	26,185	25,749
Balances with Central Bank	16,403	18,188	7,040	8,053	8,125	8,634	9,217
Placements with banks	8,299	4,109	33,744	22,099	23,413	24,935	26,680
Derivative financial instruments	1,338	7,909	3,084	1,146	2,676	2,850	3,049
Financial assets recognised through profit or loss	4,784	20,789	26,040	9,905	20,068	21,373	22,869
Loans and advances to customers	504,374	545,920	452,740	460,781	505,963	547,027	586,829
Financial assets at amortised costs	54,263	135,048	125,672	166,356	153,858	163,858	175,328
Financial assets measured at Fair value through OCI	89,697	45,454	84,645	94,659	86,963	92,616	99,099
Other assets	5,671	7,038	5,564	7,518	6,689	7,124	7,623
Intangible assets	1,217	1,813	1,898	1,815	2,907	2,768	2,614
Deferred tax	3,443	9,049	9,718	4,217	4,849	5,577	6,413
Property, plant & equipment	3,735	3,908	3,817	4,071	4,205	4,357	4,526
Investment properties	2,528	2,879	3,112	3,108	3,170	3,233	3,298
Total assets	710,832	839,198	786,959	803,780	857,398	911,967	974,759
LIABILITIES							
Due to Banks	24,821	20,299	7,679	4,841	6,284	6,844	7,370
Derivative financial instruments	1,049	96	93	345	506	547	587
Due to customers	551,257	671,713	615,232	631,081	668,946	712,428	762,298
Debt securities issued and other borrowed funds	26,570	32,503	40,269	30,027	38,082	40,215	42,722
Tax liabilities	2,586	6,635	7,431	5,474	6,566	5,202	4,227
Other liabilities	11,123	9,183	8,608	11,712	9,613	10,394	11,150
Subordinated term debts	27,961	27,980	29,389	33,565	33,302	33,039	32,776
Deferred Tax	569	873	921	976	976	976	976
Retirement benefit obligations	830	1,019	1,439	1,557	1,713	1,884	2,072
Total liabilities	646,765	770,302	711,063	719,578	765,988	811,530	864,179
EQUITY ATTRIBUTABLE TO PARENT							
Stated capital	18,264	19,871	20,738	21,757	23,023	24,603	26,574
Statutory reserve fund	2,571	2,746	3,046	3,521	3,521	3,521	3,521
Investment Fund	-839	3,772	5,608	9,188	9,372	9,559	9,750
Retained Earnings	42,731	41,116	45,079	48,276	53,947	61,103	68,967
Equity attributable to parent	62,727	67,505	74,471	82,743	89,863	98,786	108,813
Non-controlling interests	1,339	1,391	1,425	1,460	1,546	1,651	1,766
Total Equity	64,067	68,896	75,896	84,202	91,410	100,437	110,580
Total liabilities and total equity	710,832	839,198	786,959	803,780	857,398	911,967	974,759
Adjusted NAVPS	147.0	158.2	174.5	193.9	208.0	219.8	232.8



First Capital
A Janashakthi Group Company

First Capital Holdings PLC

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Dillon Lowe		+94 76 6160 647	Galle	Nuwan Abeynayake	+94 77 7288 274
Evelyn John		+94 77 779 2452	Kandy	Ajith Ihalawatta	+94 77 8477 530
Yudheshan Kannadasan		+94 77 415 5809	Embilipitiya	Ruwan Wanniarachchi	+94 77 3877 734

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