

NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

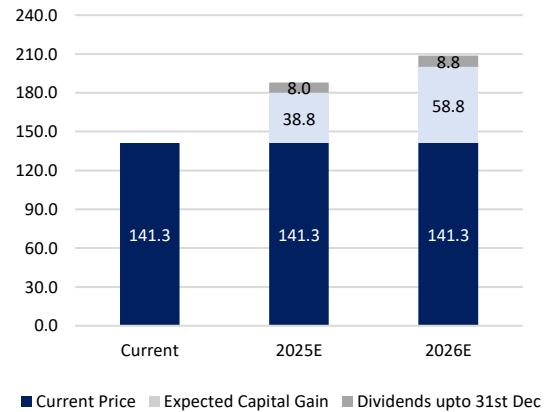
MAINTAIN BUY

"RESILIENT BASE, RISING POTENTIAL"

Fair Value: 2025E - LKR 180.0 [+27%] 2026E - LKR 200.0 [+42%]

Total Return with DPS: 2025E - 33% [AER 68,208%] 2026E - 48% [AER 45%]

NDB reported a robust 145.6%YoY surge in earnings for 3Q2025, outperforming FCR's expectations, primarily on the back of stronger net interest income (NII) and higher fee-based revenues. NII grew 13.8%YoY to LKR 9.1Bn, supported by the low interest-rate environment, while net fee and commission income rose 24.3%YoY, reflecting broad-based business momentum. Other income jumped to LKR 1,041.3Mn from just LKR 27.7Mn a year earlier, mainly due to higher operating income. In parallel, impairment charges declined 46.9%YoY, signalling improving macroeconomic conditions and better credit quality. We maintain a constructive outlook on NDB, supported by a favourable macro backdrop and a stable interest-rate trend, both of which should continue to fuel loan book expansion. Growth in trade finance and increasing digital adoption are also expected to strengthen fee-based earnings. However, recent adverse weather events pose a near-term risk to asset quality, particularly given NDB's sizable SME exposure. Accordingly, we expect some uptick in non-performing loans (NPLs) over the coming quarters. Despite these risks, NDB's 3Q2025 performance exceeded expectations by a wide margin. We have therefore revised our earnings forecasts upward, lifting our 2025E estimate by 33.5% to LKR 11.6Bn and our 2026E estimate by 26.1% to LKR 13.2Bn. Consequently, our fair value estimates have increased to LKR 180.0 for 2025E and LKR 200.0 for 2026E. With resilient fundamentals, a stable earnings outlook, and attractive valuation, NDB is well-positioned for long-term value creation, we **MAINTAIN BUY**.



LKR (Mn)	3Q2024	3Q2025	YoY	9M2024	9M2025	YoY
Earnings (LKR 'Mn)						
Net Interest Income	7,968	9,069	+13.8%	24,612	26,147	+6.2%
Total Operating Income	10,221	12,875	+26.0%	34,409	36,474	+6.0%
Post Impairment Income	7,573	11,469	+51.4%	23,373	30,588	+30.9%
Pre Tax Profit	2,276	5,018	+120.5%	7,492	11,947	+59.5%
Net Profit	1,472	3,615	+145.6%	4,918	8,103	+64.8%
Balance Sheet (LKR 'Mn)						
Gross Loans	501,221	637,025	+27.1%	501,221	637,025	+27.1%
Shareholders' Equity	76,401	88,513	+15.9%	76,401	88,513	+15.9%
NAVPS	179.0	207.4	+15.9%	179.0	207.4	+15.9%

NDB earnings up by 145.6%YoY during 3Q2025

For 3Q2025, NDB delivered a 145.6%YoY increase in earnings, above FCR's expectations, driven primarily by higher NII and increased fee and commission income. NII rose 13.8%YoY to LKR 9.1Bn, a gain supported by the lower interest-rate environment. With the loan book expanding 27.1%YoY, total interest income grew 10.3%YoY, while interest expenses increased more modestly by 8.0%YoY. As a result, net interest margins (NIMs) improved to 4.07%, up from 3.98% in 2Q2025 (though lower than the 4.21% recorded in 3Q2024). Net fee and commission income advanced 24.3%YoY, supported by broad-based business growth, and other income surged to LKR 1,041.3Mn from LKR 27.7 Mn, largely driven by an increase in other operating income. At the same time, impairment charges fell by 46.9% YoY, reflecting improved macroeconomic conditions. However, elevated costs weighed on profitability as operating expenses rose 14.5%YoY, largely due to higher personnel costs and increased investments in IT infrastructure. Tax expenses also surged, with VAT on financial services rising 60.6%YoY and corporate tax up 74.3%YoY.

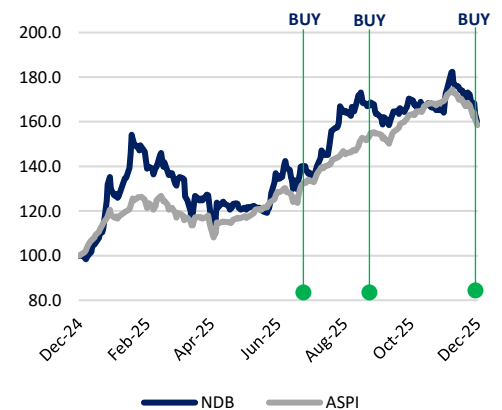
Loan book expands as private credit gains momentum

Amid the prevailing low-interest-rate environment, reflected in the Average Weighted Prime Lending Rate (AWPR) easing to 8.05% at end-3Q2025 from 8.11% in 2Q2025, private sector credit growth strengthened to 22.1%YoY as of Sep 2025, compared with 17.9%YoY in Jun 2025. Within this backdrop, NDB's gross loan portfolio expanded by 27.1%YoY to LKR 637.0Bn in 3Q2025. Domestic currency lending, which represented 71.6% of the total portfolio, grew by 18.0%YoY, supported by sustained demand for medium and short-term facilities, as well as pawning and consumer loans. Notably, the SME segment recorded robust growth of over 24%YoY, with the portfolio surpassing LKR 100.0Bn. Meanwhile, foreign currency lending rose sharply by 57.6%YoY, largely driven by the depreciation of the LKR against the USD during the quarter. On the funding side, total deposits increased by 15.0%YoY to LKR 702.6Bn in 3Q2025. The loan-to-deposit ratio climbed to 83.3%, up from 80.1% in 2Q2025 and 74.3% in 2Q2024. The CASA ratio eased to 28.6%, compared with 30.2% in 2Q2025, though it remained higher than the 24.9% recorded in 3Q2024.

FIRST CAPITAL RESEARCH

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



Source: CSE

Minimum Return for BUY:

Buy Below 2026E [AER of 14.0% with DPS]: LKR 182.1
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

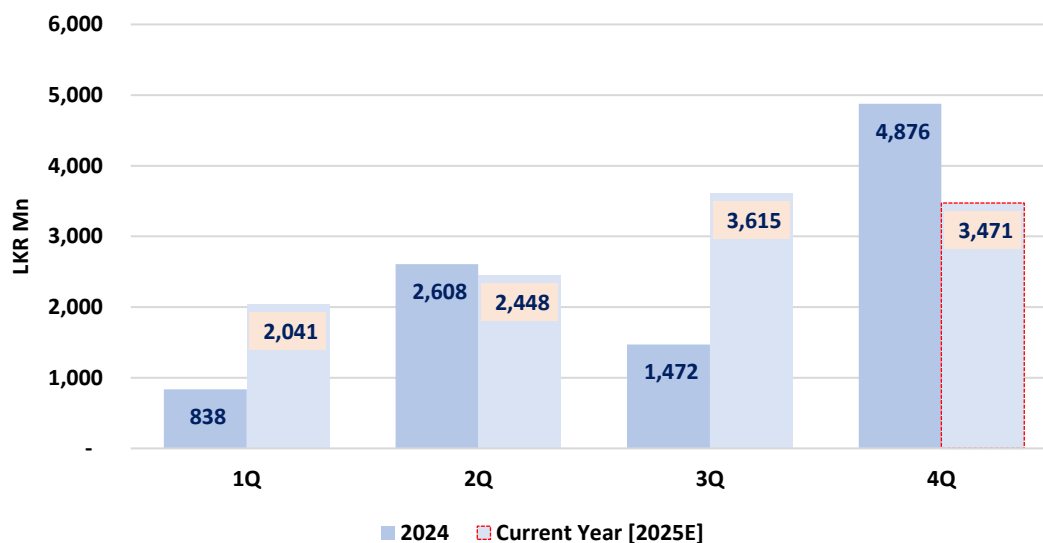
Denoting sound capital adequacy, Tier I and Total capital adequacy of the group stood at 12.03% and 15.79%, above the minimum requirements of 8.5% and 12.5% respectively.

FV for 2026E revised to LKR 200.0 – MAINTAIN BUY

Our outlook on NDB remains positive, underpinned by supportive macroeconomic fundamentals and a stable interest-rate trajectory. These conditions are expected to sustain loan-book expansion, though at a somewhat slower rate. Growth in trade finance, along with rising adoption of digital transactions, is also likely to boost earnings via increased fee-based income. However, in light of recent adverse weather impacts on the Sri Lankan economy and given the bank’s significant exposure to SMEs, which are likely the hardest hit, we anticipate a near-term increase in NPLs. The impact would be somewhat contained by the moratoriums outlined by the CBSL. Despite this risk, NDB’s 3Q2025 earnings came in well above expectations. We have therefore revised our earnings forecasts upward, lifting our 2025E estimate by 33.5% to LKR 11.6Bn and our 2026E estimate by 26.1% to LKR 13.2Bn. Consequently, our fair value estimates have increased to LKR 180.0 for 2025E and LKR 200.0 for 2026E. 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	29,699	+6%	31,070	34,864	+12%
Total Operating Income	44,920	52,164	+16%	49,102	59,204	+21%
Net Operating Income	37,108	42,475	+14%	40,978	47,255	+15%
Profit before Tax	12,506	16,702	+34%	15,080	19,214	+27%
Net Profit	8,667	11,574	+34%	10,451	13,181	+26%
Adjusted EPS	20.1	26.8	+34%	23.3	29.3	+26%
Balance Sheet Estimate						
Loans & Advances	505,963	605,556	+20%	547,027	674,333	+23%
Shareholders' Equity	89,863	90,290	+0%	98,786	101,066	+2%
Adjusted NAVPS	208.0	208.9		219.8	224.9	
Ratio Estimate						
ROE (%)	10.0%	13.4%		11.1%	13.8%	
PER (x)	6.7	5.3		5.8	4.8	
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	29,699	34,864	39,515
Total Operating Income	32,996	44,448	47,124	48,388	52,164	59,204	65,892
Net Profit	6,904	3,009	5,759	9,794	11,574	13,181	14,882
Adjusted Net Profit	6,904	3,009	5,759	2,810	11,574	13,181	14,882
Adjusted EPS (LKR)	16.2	7.0	13.5	6.8	26.8	29.3	31.8
Net Profit YoY Growth (%)	35%	-56%	91%	-51%	312%	14%	13%
Valuations							
PER (x)	8.7x	20.0x	10.5x	20.9x	5.3x	4.8x	4.4x
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%	5.7%	6.2%	6.8%
Adjusted NAVPS	147.0	158.2	174.5	193.9	208.9	224.9	243.2
Adjusted DPS	5.5	2.5	5.0	5.0	8.0	8.8	9.6
Dividend Payout	34%	35%	37%	22%	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%	15.0%	9.1%	9.3%
	Deposit	12.6%	21.9%	-8.4%	2.6%	15.4%	9.5%	9.5%
	Net Loans	18.5%	8.2%	-17.1%	1.8%	31.4%	11.4%	10.2%
Profitability	Return on Equity	12.5%	4.6%	8.1%	12.5%	13.4%	13.8%	13.9%
	Return on Average Assets	1.0%	0.4%	0.7%	1.2%	1.3%	1.4%	1.4%
	Net Interest Spread	3.2%	4.2%	4.2%	4.2%	3.2%	3.3%	3.4%
	Net Interest Margin	3.4%	4.9%	5.0%	5.4%	4.4%	4.4%	4.5%
Funding & Liquidity	Loan/ Deposits	91.5%	81.3%	73.6%	73.0%	83.2%	84.6%	85.2%
	Loan/ Assets	71.0%	65.1%	57.5%	57.3%	65.5%	66.9%	67.5%
	Deposit/ Liabilities	85.2%	87.2%	86.5%	87.7%	87.5%	88.0%	88.5%
	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	188.0	202.4
Residual Income based Valuation	174.5	191.2
PER Valuation based target price	187.5	205.3
Average Target Price	183.4	199.6
Target Price after Rounding off	180.0	200.0

Return	2025E	2026E
Target Price	180.0	200.0
Current Price	141.3	141.3
Capital Gain (LKR)	38.8	58.8
Dividends upto 31st Dec (LKR)	8.0	8.8
Capital Gain %	27%	42%
Dividend Yield %	6%	6%
Total Return %	33%	48%
Annualized Return %	68208%	45%

Justified PBV Valuation

Justified PBV based Valuation	2025E	2026E
ROAE	13.4%	13.8%
Growth	3.0%	3.0%
COE	15.8%	15.8%
PBV	0.9	0.9
NAVPS	208.9	224.9
Target Price	188.0	202.4

PER Valuation

PER based Valuation	2025E	2026E
Earnings (LKR 'Mn)	11,574	13,181
No. of Shares ('Mn)	432	449
EPS	26.8	29.3
Expected PER	7.0x	7.0x
Value per Share	187.5	205.3

Residual Income Valuation

Residual Income based Valuation	2025E	2026E
PV of Residual Income	-8,337	-7,980
No. of Shares ('Mn)	432	449
RI per Share	-19.3	-17.8
Opening Book value per Share	193.8	208.9
Value per Share	174.5	191.2

COE	2025E	2026E
Rf	9.0%	9.0%
Rm	17.0%	17.0%
Growth %	3.0%	3.0%
β	0.9	0.9
$Ke=Rf+\beta(Rm-Rf)$	15.8%	15.8%

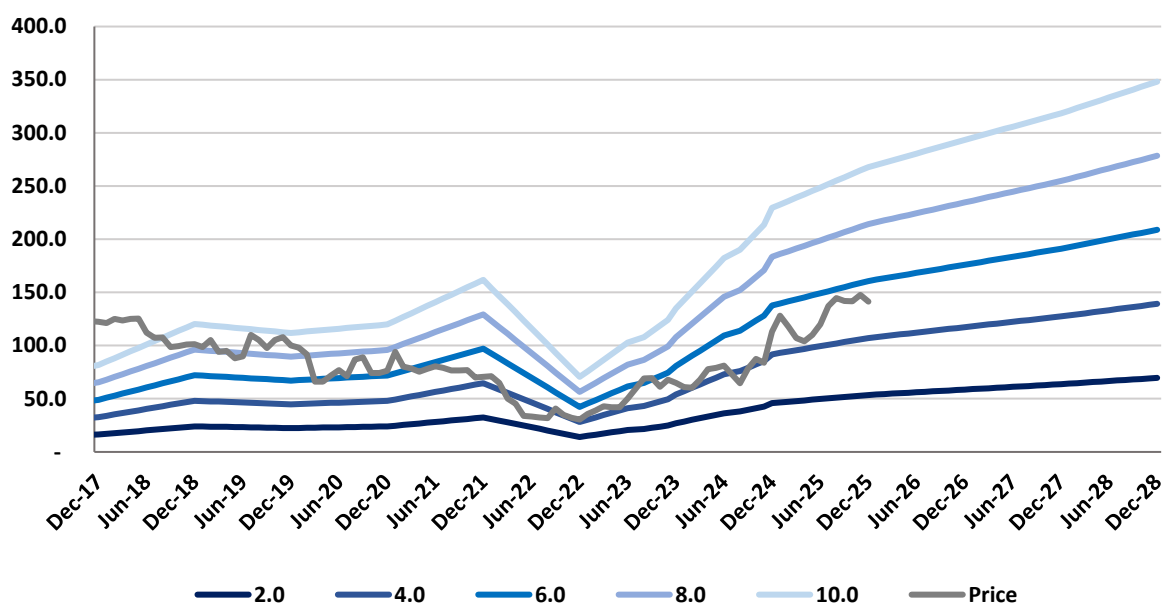
Recommendation Criteria

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	104,286	118,365	132,167
Interest Income	52,795	98,217	119,722	88,283	81,822	94,026	105,791
Interest Expenses	-31,053	-67,087	-87,342	-53,789	-52,122	-59,162	-66,276
Net Interest Income	21,741	31,130	32,380	34,494	29,699	34,864	39,515
Fee & Other Income	11,255	13,317	14,743	13,895	22,465	24,339	26,376
Total Operating Income	32,996	44,448	47,124	48,388	52,164	59,204	65,892
Loss on restructuring of SLISBs	0	0	0	-14,344	0	0	0
Impairment (Charges)/ Reversal	-10,253	-29,277	-21,137	10,055	-9,689	-11,949	-13,764
Net Operating Income	22,743	15,171	25,987	44,099	42,475	47,255	52,128
Less : Operating expenses							
Personal Expenses	-6,323	-6,277	-7,379	-9,909	-10,759	-11,613	-12,534
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	-7,728	-8,342	-9,003
Operating profit before value added tax	11,229	2,672	10,904	25,691	22,730	25,981	29,206
VAT on financial services	-2,015	-1,203	-2,750	-5,524	-6,028	-6,767	-7,513
Debt Repayment Levy	0	0	0	0	0	0	0
Operating profit after value added tax	9,214	1,469	8,154	20,167	16,702	19,214	21,693
Share of associate companies' profit	0	0	0	0	0	0	0
Profit Before Tax	9,214	1,469	8,154	20,167	16,702	19,214	21,693
Income Tax Expense	-2,151	1,607	-2,296	-10,275	-5,011	-5,764	-6,508
Profit for the Year	7,063	3,076	5,858	9,892	11,691	13,450	15,185
Minority Interest	158	67	99	98	117	269	304
Profit attributable to Equity Holders	6,904	3,009	5,759	9,794	11,574	13,181	14,882
Recurring Profit attributable to Equity Holders	6,904	3,009	5,759	2,810	11,574	13,181	14,882
Adjusted EPS	16.2	7.0	13.5	6.8	26.8	29.3	31.8



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	17,716	18,374	18,253
Balances with Central Bank	16,403	18,188	7,040	8,053	8,494	9,529	10,432
Placements with banks	8,299	4,109	33,744	22,099	25,478	26,293	28,790
Derivative financial instruments	1,338	7,909	3,084	1,146	2,912	3,187	3,490
Financial assets recognised through profit or loss	4,784	20,789	26,040	9,905	21,839	27,886	26,173
Loans and advances to customers	504,374	545,920	452,740	460,781	605,556	674,333	743,443
Financial assets at amortised costs	54,263	135,048	125,672	166,356	123,752	135,446	148,314
Financial assets measured at Fair value through OCI	89,697	45,454	84,645	94,659	94,634	87,642	95,968
Other assets	5,671	7,038	5,564	7,518	7,280	7,967	8,724
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	924,192	1,008,024	1,101,902
LIABILITIES							
Due to Banks	24,821	20,299	7,679	4,841	6,931	8,319	9,216
Derivative financial instruments	1,049	96	93	345	606	674	743
Due to customers	551,257	671,713	615,232	631,081	727,952	796,744	872,435
Debt securities issued and other borrowed funds	26,570	32,503	40,269	30,027	40,572	44,035	48,204
Tax liabilities	2,586	6,635	7,431	5,474	8,768	6,629	5,532
Other liabilities	11,123	9,183	8,608	11,712	11,506	12,812	14,125
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	832,326	905,112	986,079
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	6,891	6,202	5,582
Retained Earnings	42,731	41,116	45,079	48,276	56,855	66,740	77,996
Equity attributable to parent	62,727	67,505	74,471	82,743	90,290	101,066	113,674
Non-controlling interests	1,339	1,391	1,425	1,460	1,577	1,846	2,149
Total Equity	64,067	68,896	75,896	84,202	91,866	102,912	115,823
Total liabilities and total equity	710,832	839,198	786,959	803,780	924,192	1,008,024	1,101,902
Adjusted NAVPS	147.0	158.2	174.5	193.9	208.9	224.9	243.2



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