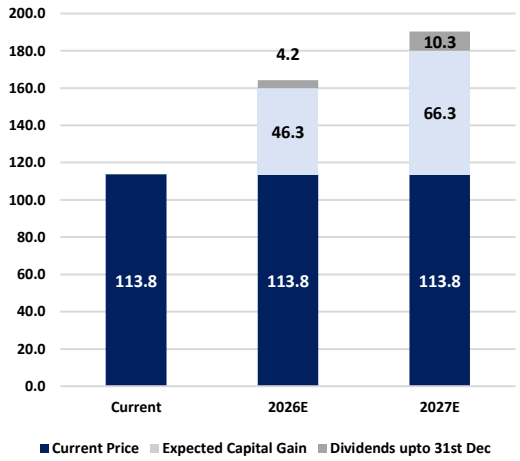
NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

MAINTAIN BUY

"WEATHERING THE DIP; POSITIONING FOR THE REBOUND"

Fair Value: 2026E - LKR 160.0 [+41%] **2027E - LKR 180.0 [+58%]**

Total Return with DPS: 2026E - 44% [AER 1,216%] *2027E - 67% [AER 60%]*



NDB reported earnings of LKR 2.8Bn in 3Q2026, reflecting a 20.9%YoY decline from restated earnings of LKR 3.5Bn in 3Q2025, which included a gross fraud-related impact of LKR 215.0Mn. Excluding the impact of fraud-related charges, recurring earnings declined 23.5%YoY to LKR 2.8Bn, coming in marginally below our expectations. Net interest income (NII) declined 11.2%YoY, as the 22.8%YoY increase in interest expenses outpaced the 8.8%YoY growth in interest income, reflecting faster repricing on the deposit side. Net fee and commission income also declined 8.1%YoY, while other non-fund-based income contracted sharply, weighed down by lower derecognition gains and fair value losses. These headwinds were partly offset by a net impairment reversal of LKR 417.8Mn, compared to an impairment charge of LKR 1.4Bn in 3Q2025. Asset quality continued to strengthen, with the NPL ratio improving to 3.00% in 3Q2026, from 3.30% in 2Q2026 and 4.45% in 3Q2025. In light of the slightly weaker-than-expected quarterly performance and our expectation of more subdued loan growth over the remainder of the year, we revise our earnings forecasts downwards, reducing our 2026E estimate by 5.3% to LKR 13.1Bn and our 2027E estimate by 3.4% to LKR 15.1Bn. Accordingly, our fair value estimates are revised to LKR 160.0 for 2026E and LKR 180.0 for 2027E. Notwithstanding the near-term earnings pressures, we remain positive on the Bank's longer-term growth prospects. With meaningful upside potential remaining at the revised fair value estimates, we Maintain BUY.

LKR (Mn)	3Q2025	3Q2026	YoY	9M2025	9M2026	YoY
Earnings (LKR 'Mn)						
Net Interest Income	9,069	8,050	-11.2%	26,147	25,639	-1.9%
Total Operating Income	12,875	10,911	-15.3%	36,474	37,119	+1.8%
Post Impairment Income	11,469	11,329	-1.2%	30,588	34,081	+11.4%
Reported Profit Before Tax	4,839	4,223	-12.7%	8,216	11,619	+41.4%
*Reported Net Profit	3,499	2,767	-20.9%	5,689	7,603	+33.7%
*Recurring Net Profit	3,615	2,767	-23.5%	8,103	10,128	+25.0%
Balance Sheet (LKR 'Mn)						
Gross Loans	637,025	653,240	+2.5%	637,025	653,240	+2.5%
Shareholders' Equity	88,590	88,513	-0.1%	88,590	88,513	-0.1%
NAVPS	205.0	204.8	-0.1%	205.0	204.8	-0.1%

NDB recurring earnings down 23.5%YoY during 3Q2026

For 3Q2026, NDB's recurring earnings declined 23.5%YoY to LKR 2.8Bn, below FCR's expectations. NII declined 11.2%YoY to LKR 8.0Bn, as the 22.8%YoY increase in interest expenses outpaced the 8.8%YoY growth in interest income, which reached LKR 24.1Bn. As a result, NIM moderated to 3.57%, compared with 3.75% in 2Q2026 and 4.08% in 3Q2025. Net fee and commission income declined 8.1%YoY to LKR 2.5Bn, partly due to weaker capital market related fees, while other non-fund-based income fell 69.4%YoY to LKR 319.0Mn, reflecting lower derecognition gains, fair value losses on FVTPL assets and negative other operating income. Operating expenses rose 13.2%YoY, led by a 51.3%YoY increase in depreciation and amortisation. These were partly offset by a net impairment reversal of LKR 417.8Mn. On a reported basis, earnings declined 20.9%YoY, as 3Q2025 included a gross fraud-related impact of LKR 215.0Mn.

Loan growth moderates as credit conditions tighten

The weekly Average Weighted Prime Lending Rate (AWPR) increased to 10.94% for 3Q2026, from 10.39% at end-2Q2026 though high from 8.05% in 3Q2025, while private sector credit growth moderated to 23.6%YoY in Sep 2026 from 22.1%YoY in Sep 2025. Against this backdrop, NDB's gross loan portfolio grew 2.5%YoY and 0.6%QoQ to LKR 653.2Bn in 3Q2026. Domestic currency lending, which accounted for 71.7% of the total portfolio, expanded 2.6%YoY but contracted 1.7%QoQ, as continued demand for pawning, consumer and AF loans was offset by a 24.2%YoY decline in medium and short-term loans. Foreign currency lending grew 2.3%YoY and 7.1%QoQ. On the funding side, total deposits increased 2.0%YoY to LKR 716.8Bn. The loan-to-deposit ratio stood at 83.7%, broadly stable compared with 83.6% in 2Q2026 and 83.3% in 3Q2025. Meanwhile, the CASA ratio declined to 22.3%, from 23.4% in 2Q2026 and 28.6% in 3Q2025.

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 2027E [AER of 15.0% with DPS]: *LKR 162.2*
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

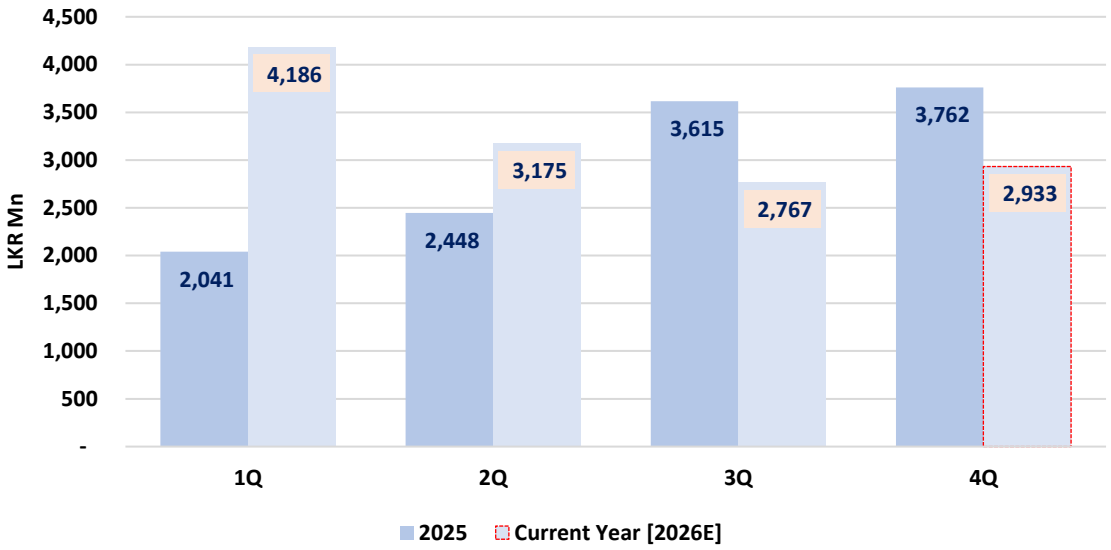
Capital adequacy surpasses regulatory requirements

At Bank level, the Common Equity Tier 1 (CET 1)/Tier I Capital and Total Capital Adequacy Ratios (CAR) stood at 9.48% and 14.77%, respectively, as of 30 Sep 2026 (30 Jun 2026: 9.67% and 15.32%), remaining above applicable regulatory minimum requirements. However, given the continued moderation in these ratios, we believe the bank may take initiatives to strengthen its capital buffers in the near term. Meanwhile, the FY2025 cash dividend of LKR 6.46 per share remains suspended following the CBSL directive, while the bank disposed of its entire stake in Seylan Bank PLC (26.6Mn shares at LKR 104.0 per share) during the period.

FV for 2027E downgraded to LKR 180.0 – MAINTAIN BUY

Reflecting the slightly weaker-than-expected 3Q2026 performance and a more conservative loan growth outlook, we revise our recurring earnings estimates downwards by 5.3% to LKR 13.1Bn for 2026E and by 3.4% to LKR 15.1Bn for 2027E. The cut is driven mainly by lower NII expectations amid slower loan growth and margin pressure from faster deposit repricing, partly offset by lower impairments as asset quality improves. Accordingly, our fair values are revised to LKR 160.0 for 2026E and LKR 180.0 for 2027E. Even after the downgrade, NDB trades at an undemanding 3.3x 2027E PER and 0.5x PBV against an ROE of c.15%, while our 2027E fair value implies only 5.2x earnings and 0.7x book value. With a total return of 67.3% to our 2027E fair value, we **MAINTAIN BUY**.

Quarterly Earnings



Note: Recurring net profit

Estimate Revision

In LKR Mn	2026E - O	2026E - R	% Change	2027E - O	2027E - R	% Change
Earnings Estimate						
Net Interest Income	36,938	35,350	-4%	42,343	41,082	-3%
Total Operating Income	54,577	52,656	-4%	60,062	58,480	-3%
Net Operating Income	47,274	45,985	-3%	51,409	50,467	-2%
Profit before Tax	20,658	19,564	-5%	23,363	22,564	-3%
Recurring Net Profit	13,792	13,062	-5%	15,598	15,065	-3%
Adjusted EPS	31.9	30.2	-5%	35.6	34.4	-3%
Balance Sheet Estimate						
Loans & Advances	649,092	633,625	-2%	702,592	686,477	-2%
Shareholders' Equity	97,286	96,556	-1%	109,295	108,031	-1%
Adjusted NAVPS	225.1	223.4		249.8	246.9	
Ratio Estimate						
ROE (%)	***15.0%***	***14.3%***		***15.1%***	***14.7%***	
PER (x)	***3.5***	***3.8***		***3.1***	***3.3***	
PBV (x)	***0.5***	***0.5***		***0.4***	***0.5***	

Valuation Table

P/E 31 December	2022	2023	2024	2025	2026E	2027E	2028E
Estimates (LKR 'Mn)							
Net Interest Income	31,130	32,380	34,494	35,234	35,350	41,082	46,915
Total Operating Income	44,448	47,124	48,388	49,509	52,656	58,480	65,416
Reported Net Profit	**3,009**	**5,759**	**5,689**	**7,603**	**11,643**	**15,065**	**16,723**
Recurring Net Profit	**3,009**	**5,759**	**-1,295**	**11,865**	**13,062**	**15,065**	**16,723**
Recurring EPS (LKR)	7.0	13.3	-3.1	27.5	30.2	34.4	37.7
Net Profit YoY Growth (%)	-56%	91%	-122%	816%	10%	15%	11%
Valuations							
PER (x)	16.3x	8.5x	-36.5x	4.1x	3.8x	3.3x	3.0x
PBV (x)	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x	0.4x
DY (%)	2.2%	4.4%	4.4%	1.8%	3.7%	9.1%	10.0%
Adjusted DPS	2.5	5.0	5.0	2.0	4.2	10.3	11.3
Dividend Payout	36%	38%	38%	12%	16%	30%	30%

Note: Recurring net profit for 2026E indicates the reported net profit estimate adjusted for the fraud-related loss pertaining to 1Q2026 (final allocation of LKR 2.56Bn as per the final forensic report, previously LKR 2.67Bn), 2025 recurring net profit indicates the reported net profit adjusted for a fraud related loss of LKR 9.62Bnwhile recurring net profit for 2024 indicates the reported net profit adjusted for impairment reversal on ISB holdings and net losses from derecognition of financial assets as well as a fraud related loss of LKR 0.91Bn.

Ratio Analysis

		2022	2023	2024	2025	2026E	2027E	2028E
Growth	Asset	18.1%	-6.2%	2.0%	16.5%	8.4%	8.7%	9.3%
	Deposit	21.9%	-8.4%	2.6%	11.9%	7.0%	9.5%	10.0%
	Net Loans	8.2%	-17.1%	1.8%	28.8%	6.7%	8.3%	8.1%
Profitability	Return on Equity	4.6%	8.1%	12.5%	14.1%	14.3%	14.7%	14.6%
	Return on Average Assets	0.4%	0.7%	1.2%	1.4%	1.3%	1.4%	1.4%
	Net Interest Spread	4.2%	4.2%	4.2%	3.9%	3.4%	3.7%	3.9%
	Net Interest Margin	4.9%	5.0%	5.4%	5.1%	4.5%	4.8%	5.0%
Funding & Liquidity	Loan/ Deposits	81.3%	73.6%	73.0%	84.0%	83.8%	82.9%	81.5%
	Loan/ Assets	65.1%	57.5%	57.4%	63.5%	62.5%	62.3%	61.6%
	Deposit/ Liabilities	87.2%	86.5%	87.8%	83.4%	82.6%	83.4%	84.1%
	CASA	21.1%	22.3%	24.7%	26.7%	24.0%	23.0%	23.0%

Valuation Summary

Expected NDB price	2026E	2027E
Justified PBV based target price	168.1	193.0
Residual Income based Valuation	158.9	181.3
PER Valuation based target price	151.1	172.1
Average Target Price	159.4	182.2
Target Price after Rounding off	160.0	180.0

Return	2026E	2027E
Target Price	160.0	180.0
Current Price	113.8	113.8
Capital Gain (LKR)	46.3	66.3
Dividends upto 31st Dec (LKR)	4.2	10.3
Capital Gain %	41%	58%
Dividend Yield %	4%	9%
Total Return %	44%	67%
Annualized Return %	1216%	60%

Justified PBV Valuation

Justified PBV based Valuation	2026E	2027E
ROAE	14.3%	14.7%
Growth	3.0%	3.0%
COE	18.0%	18.0%
PBV	0.8	0.8
NAVPS	223.4	246.9
Target Price	168.1	193.0

PER Valuation

PER based Valuation	2026E	2027E
Earnings (LKR 'Mn)	13,062	15,065
No. of Shares ('Mn)	432	438
EPS	30.2	34.4
Expected PER	5.0x	5.0x
Value per Share	151.1	172.1

Residual Income Valuation

Residual Income based Valuation	2026E	2027E
PV of Residual Income	-17,647	-18,410
No. of Shares ('Mn)	432	438
RI per Share	-40.8	-42.1
Opening Book value per Share	199.8	223.4
Value per Share	158.9	181.3

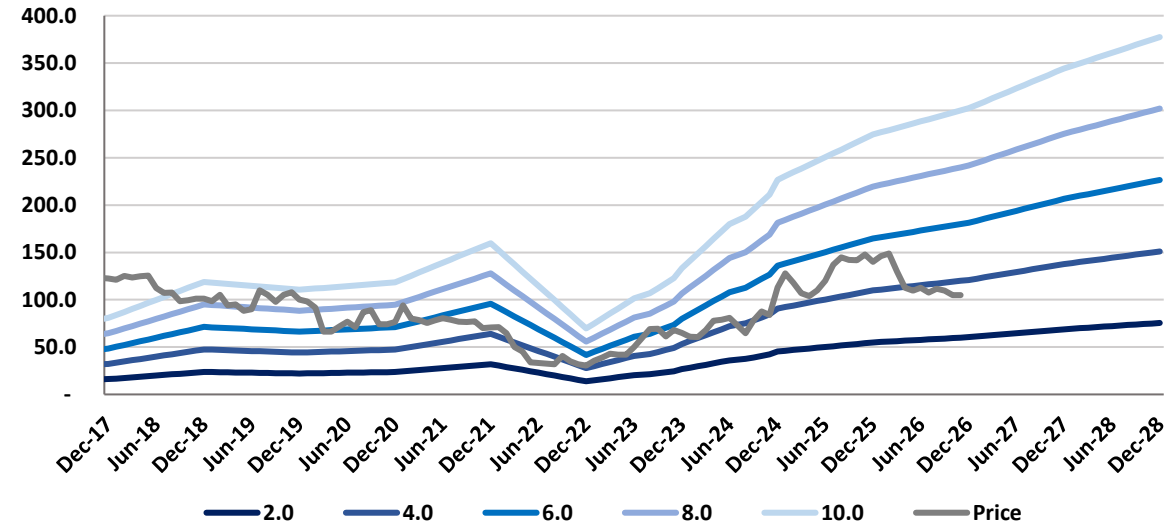
COE	2026E	2027E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
β	1.0	1.0
Ke=Rf+β(Rm-Rf)	18.0%	18.0%

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	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn) As at 31st December	2022	2023	2024	2025	2026E	2027E	2028E
Gross Income	**111,552**	**134,473**	**102,204**	**101,314**	**114,881**	**127,081**	**141,380**
Interest Income	98,217	119,722	88,283	86,857	97,575	109,683	122,880
Interest Expenses	-67,087	-87,342	-53,789	-51,624	-62,225	-68,601	-75,965
Net Interest Income	**31,130**	**32,380**	**34,494**	**35,234**	**35,350**	**41,082**	**46,915**
Fee & Other Income	13,317	14,743	13,895	14,276	17,306	17,398	18,501
Total Operating Income	**44,448**	**47,124**	**48,388**	**49,509**	**52,656**	**58,480**	**65,416**
Loss on restructuring of SLISBs	0	0	-14,344	0	0	0	0
Impairment (Charges)/ Reversal	-29,277	-21,137	10,055	-5,915	-6,671	-8,013	-10,316
Net Operating Income	**15,171**	**25,987**	**44,099**	**43,595**	**45,985**	**50,467**	**55,100**
Less : Operating expenses							
Personnel Expenses	-6,277	-7,379	-9,605	-10,505	-10,880	-11,428	-12,540
Depreciation and Amortization	-926	-1,054	-1,168	-1,282	-1,419	-1,545	-1,681
Other Operating Expenses	-5,296	-6,649	-7,635	-9,039	-8,677	-8,851	-9,108
Operating profit before value added tax	**2,672**	**10,904**	**25,691**	**22,769**	**25,009**	**28,643**	**31,771**
VAT on financial services	-1,203	-2,750	-5,524	-5,048	-5,445	-6,079	-6,722
Debt Repayment Levy	0	0	0	0	0	0	0
Operating profit after value added tax	**1,469**	**8,154**	**20,167**	**17,721**	**19,564**	**22,564**	**25,048**
Share of associate companies' profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Profit Before Tax	**1,469**	**8,154**	**20,167**	**17,721**	**19,564**	**22,564**	**25,048**
Income Tax Expense	1,607	-2,296	-10,275	-5,770	-6,370	-7,347	-8,156
Profit for the Year	**3,076**	**5,858**	**9,892**	**11,951**	**13,194**	**15,217**	**16,892**
Minority Interest	67	99	98	86	132	152	169
Recurring Profit attributable to Equity Holders	**3,009**	**5,759**	**-1,295**	**11,865**	**13,062**	**15,065**	**16,723**
Adjusted EPS	**7.0**	**13.3**	**-3.1**	**27.5**	**30.2**	**34.4**	**37.7**

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) As at 31st December	2022	2023	2024	2025	2026E	2027E	2028E
ASSETS							
Cash and cash equivalents	35,728	28,581	18,682	18,020	23,881	28,838	37,202
Balances with Central Bank	18,188	7,040	8,053	8,226	9,140	9,897	10,864
Placements with banks	4,109	33,744	22,099	24,693	24,944	27,314	30,045
Derivative financial instruments	7,909	3,084	1,146	1,476	3,024	3,311	3,642
Financial assets recognised through profit or loss	20,789	26,040	9,905	3,415	26,456	26,072	28,680
Loans and advances to customers	545,920	452,740	460,781	593,705	633,625	686,477	742,166
Financial assets at amortised costs	135,048	125,672	166,356	181,822	181,413	198,647	218,512
Financial assets measured at Fair value through OCI	45,454	84,645	94,659	79,111	83,148	91,047	100,151
Other assets	7,038	5,564	6,603	7,331	7,559	8,277	9,105
Intangible assets	1,813	1,898	1,815	1,682	2,784	2,637	2,475
Deferred tax	9,049	9,718	4,217	5,489	6,312	7,259	8,348
Property, plant & equipment	3,908	3,817	4,071	5,163	6,190	7,271	8,411
Investment properties	2,879	3,112	3,108	3,347	3,414	3,482	3,552
Total assets	**839,198**	**786,959**	**802,866**	**934,998**	**1,013,442**	**1,102,117**	**1,204,774**
LIABILITIES							
Due to Banks	20,299	7,679	4,841	12,448	7,978	8,581	9,286
Derivative financial instruments	96	93	345	251	634	686	742
Due to customers	671,713	615,232	631,081	706,438	755,888	827,698	910,467
Debt securities issued and other borrowed funds	32,503	40,269	30,027	89,627	105,251	109,862	115,147
Tax liabilities	6,635	7,431	5,205	1,326	7,326	6,245	6,117
Other liabilities	9,183	8,608	11,477	10,839	12,039	13,043	14,101
Subordinated term debts	27,980	29,389	33,565	23,331	23,187	23,043	22,900
Deferred Tax	873	921	976	1,022	1,022	1,022	1,022
Retirement benefit obligations	1,019	1,439	1,557	1,742	1,916	2,107	2,318
Total liabilities	**770,302**	**711,063**	**719,156**	**847,146**	**915,239**	**992,287**	**1,082,100**
EQUITY ATTRIBUTABLE TO PARENT							
Stated capital	19,871	20,738	21,757	23,043	23,761	24,638	25,703
Statutory reserve fund	2,746	3,046	3,521	4,074	4,074	4,074	4,074
Investment Fund	3,772	5,608	9,188	8,923	8,031	7,228	6,143
Retained Earnings	41,116	45,079	47,784	50,299	60,691	72,092	84,786
Equity attributable to parent	**67,505**	**74,471**	**82,250**	**86,338**	**96,556**	**108,031**	**120,706**
Non-controlling interests	1,391	1,425	1,460	1,515	1,647	1,799	1,968
Total Equity	68,896	75,896	83,710	87,853	98,203	109,830	122,674
Total liabilities and total equity	**839,198**	**786,959**	**802,866**	**934,998**	**1,013,442**	**1,102,117**	**1,204,774**
Adjusted NAVPS	**156.2**	**172.3**	**190.3**	**199.8**	**223.4**	**246.9**	**272.4**

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