

Core Earnings Hold Up, but Capital is Now the Constraint...

National Development Bank PLC (NDB.N0000)

Results Review – 3Q2026 (July - September 2026)

Company Summary

National Development Bank PLC (NDB) is a licensed commercial bank and the parent of a group with capital-markets subsidiaries in investment banking, stockbroking and wealth management. In September 2026 the group had LKR 983.9 Bn in total assets, LKR 599.9 Bn in net loans and LKR 716.8 Bn in deposits LKR 90.1 Bn in equity.

In 3Q2026 (July-September 2026), group PAT was LKR 2.8 Bn (3Q2025: LKR 3.5 Bn), broadly flat on 2Q2026 (LKR 3.2 Bn). 9M2026 group PAT rose 33.33% YoY to LKR 7.6 Bn (restated 9M2025: LKR 5.7 Bn) after absorbing a LKR 2.6 Bn fraud charge, excluding fraud it was LKR 9.0 Bn. Group profit before all taxes was LKR 15.3 Bn and annualized Group EPS was LKR 23.90.

Valuation Outlook

NDB trades at a significant discount to its book value, with a P/BV ratio of 0.5x and a P/E ratio of 3.9x, suggesting an attractive valuation relative to its reported earnings and net assets. However, the Group ROE of 11.8%, together with Tier 1 capital adequacy of 10.2% and a total capital adequacy ratio (CAR) of 14.8%, indicates that profitability and capital strength should be assessed alongside the apparent valuation discount. The dividend yield of 8.2% may appeal to income-oriented investors, although dividend sustainability and payment restrictions should also be considered.

Financial Summary

NDB recorded a 33.3% YoY increase in PAT to LKR 7.6 Bn in 9M2026, supported by a 39.1% rise in operating profit before tax to LKR 15.3 Bn, lower impairment charges (-49.2%) and reduced operating expenses (-4.1%). Net fee and commission income grew 6.7% to LKR 8.0 Bn, partially offsetting the 1.9% decline in net interest income to LKR 25.6 Bn. Fraud-related expenses declined 42.2% to LKR 2.6 Bn, while PAT excluding fraud increased 11.1% to LKR 9.0 Bn.

Net interest income is the weak spot: down 1.9% to LKR 25.6 Bn for 9M (Period ended) and 11.5% to LKR 8.0 Bn in 3Q, with NIM down to 3.6% (FY25: 4.1%) as deposits reprice faster than loans and CASA slipped to 20.7%. Cost-to-income was 50.65%, or 43.46% excluding fraud. Net loans grew 1.0% YTD, tilting toward pawning (+36%), consumer (+21%) and FC term loans (+37%) while domestic short-term corporate lending fell 27%.

Book Value

Group NAV per share was LKR 204.98 at September 2026, up 1.82% from a restated LKR 201.31 at December 2025 (LKR 215.45 as first reported), even after the LKR 6.46 cash dividend was charged to equity. Bank NAV per share was LKR 191.48, so the subsidiaries add about LKR 13.50 per share. At 0.53x Group book (0.70x at Dec-25), the market has marked the stock down far more than 6.6% the fraud took from book value.

Banks : Sector
LKR 44.33 Bn : Market Cap
LKR 154.58 : 1-Year High
LKR 159.00 – 103.00 :52 Weeks High- Low
54.60% : Free float
0.51x : P/BV
LKR 103.75 : Current Market Price
22 October 2026 : Date

Source: CSE, Company Interim Financials, SenFin Research

Figure 01: Key Financial Highlights (Group)

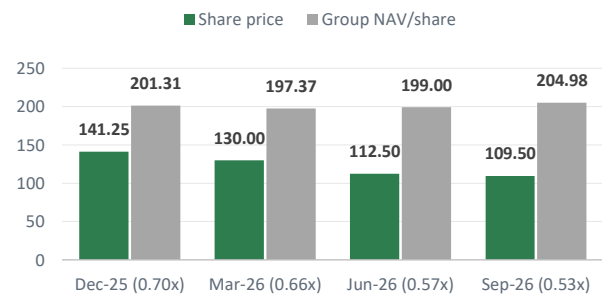
(LKR Bn)	9M2025R	9M2026	YoY
Net interest income	26.1	25.6	-1.9%
Net fee & commission	7.5	8.0	+6.7%
Impairment charges	5.9	3.0	-49.2%
Operating expenses	19.6	18.8	-4.1%
of which fraud	4.5	2.6	-42.2%
Operating profit before tax	11.0	15.3	+39.1%
Profit after tax	5.7	7.6	+33.3%
PAT excl. fraud	8.1	9.0	+11.1%

Source: Company Interim Financials (unaudited; 9M2025 restated)

Valuation (Quarter)	NDB	Balance Sheet (AS at 30/09/2025)	NDB
P/E	3.9x	NAV/share	LKR 204.98
P/BV	0.5x	Equity	LKR 90.1 Bn
Div. yield	8.2%	Tier 1	10.2%
Group ROE (ann.)	11.8%	Total CAR	14.8%

Source: CSE, Company Interim Financials, SenFin Research

Figure 02: Share Price vs Group NAV per Share (LKR)



Quarter-end prices. P/BV in brackets. NAV as reported each quarter (Dec-25 restated)

Business Risk

NDB's main risks remain capital adequacy and pressure on interest margins. The limited Tier 1 capital buffer could restrict future loan growth and dividend payments. In 3Q2026, Group NII declined by approximately 11.2% YoY, reflecting pressure on interest margins and higher funding costs. The declining CASA ratio further increases funding costs, while uncertainty over fraud recovery and potential regulatory actions remains a concern. However, successful fraud recoveries, CBSL approval to resume cash dividends, lower impairment charges and stronger capital levels could improve investor confidence and support a future share price re-rating.

Tier 1 Capital Ratio – What it Means for NDB

The Tier 1 ratio measures a bank's going-concern capital: CET1 (stated capital, retained earnings and reserves, less regulatory deductions) plus any Additional Tier 1 as a percentage of its risk-weighted assets. NDB has no Additional Tier 1 instruments, so its CET1 and Tier 1 ratios are the same. The regulatory minimum is 8.5% for Tier 1 and 12.5% for total capital.

Bank Tier 1 fell from a restated 11.25% at December 2025 to 9.48% at September 2026, a drop of about 177 bp. The fall reflects the LKR 2.56 Bn fraud charge booked in 1Q2026 and growth in risk-weighted assets. Total CAR held at 14.77% thanks to the LKR 16 Bn Tier 2 GSS+ bond issued in March, which does not count as Tier 1.

Why it matters: headroom over the 8.5% minimum is now just 98 bp. On Group risk-weighted assets of roughly LKR 600 Bn (derived from 1Q2026 filings), that is about LKR 6 Bn of capital, or two quarters of profit. Each quarter of fully retained PAT (~LKR 2.9 Bn) adds about 45-50 bp, so loan growth, cash dividends and any further losses all compete for the same thin buffer.

Fraud Case – Impact on the Bank

The final Deloitte forensic report confirmed total fraud of LKR 13.64 Bn, slightly above the interim estimate of LKR 13.58 Bn. Of this, LKR 11.08 Bn relates to FY2025 and earlier periods, while LKR 2.56 Bn was charged to 1Q2026. As a result, FY2025 Bank PAT declined from LKR 11.0 Bn to LKR 5.9 Bn, while Group EPS fell by 43.3% to LKR 15.77. The fraud also weakened the bank's capital position, contributed to Fitch downgrading its rating to A-(/ka) with a Negative Outlook, and led to the suspension of cash dividends by CBSL. Although the losses have been recognized, recovery of stolen funds, rebuilding capital and restoring investor confidence remain key challenges for the bank.

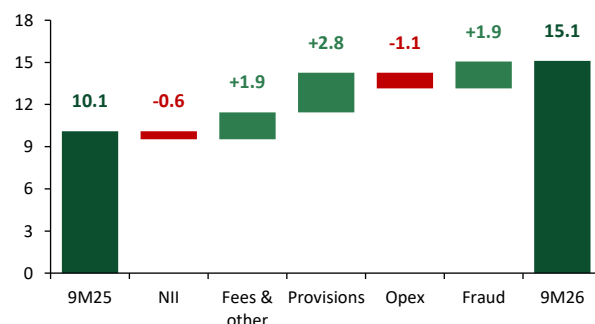
Dividend

For FY2025, NDB Bank declared a final dividend of LKR 8.50 per share on 18 March 2026, comprising LKR 6.46 in cash and LKR 2.04 in scrip dividends. The scrip dividend was completed through the issuance of 5.3 million new shares listed on 10 April 2026. However, following the fraud incident, the Central Bank of Sri Lanka (CBSL) directed the bank to suspend its cash dividend payment. The unpaid cash dividend remains recognized as a dividend payable.

Based on Group earnings, the FY2025 dividend represented a payout ratio of 30.5% of originally reported EPS of LKR 27.83. However, following the restatement of earnings, the payout ratio increased significantly to 53.9% of restated EPS of LKR 15.77, while the cash component alone represented 41.0% of restated earnings. In comparison, FY2024's dividend of LKR 8.00 per share represented a 33.9% payout ratio based on originally reported Group EPS of LKR 23.57.

At an assumed market price of LKR 109.50, the FY2025 dividend represents an indicated yield of 7.8%, including a 5.9% cash dividend yield. However, the cash portion remains unpaid due to the CBSL restriction.

Figure 03: 9M Bank PBT Bridge – 9M2025R to 9M2026 (LKR Bn)



Profit before all taxes; Fraud = lower fraud charge (2.6 vs 4.5). May not add due to rounding

Figure 04: Capital Adequacy – Bank and Group (%)

Ratio	Bank Dec-25R	Bank Sep-26	Group Jun-26	Minimum
CET1 / Tier 1	11.25	9.48	10.35	8.50
Total CAR	14.80	14.77	15.86	12.50
Leverage ratio	6.36	5.34	6.05	3.00
Tier 1 headroom (pp)	2.75	0.98	1.85	–

Source: Company Interim Financials

Figure 05: Fraud Loss by Period (LKR Bn)

Period	Initial (6 Apr)	Interim (26 Jun)	Final (29 Sep)
Before 1 Jan 2025	0.91	1.42	1.46
FY2025	9.62	9.62	9.62
1Q2026	2.67	2.55	2.56
Total	13.20	13.58	13.64

Pre-2026 amounts restated into prior periods. Source: CSE disclosures, Company Interim Financials

Figure 06: Dividend Record (Group Basis)

(LKR per share)	FY2024	FY2025
Total DPS	8.00	8.50
Cash	5.00	6.46 (suspended)
Scrip	3.00	2.04
Group EPS – as reported	23.57	27.83
Group EPS – restated	–	15.77
Payout – reported EPS	33.94%	30.54%
Payout – restated EPS	–	53.90%
Indicated dividend Yield at LKR 109.50	7.31%	7.76%

Source: CSE disclosures, Company Interim Financials, SenFin Research