

National Development Bank PLC

Full Rating Report

Ratings

National

Long-Term Rating	A+(lka)
Subordinated debt	A(lka)

Sovereign Risk

Long-Term Foreign-Currency IDR	B+
Long-Term Local-Currency IDR	B+

Outlooks

National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

National Development Bank PLC

	30 Jun 17 (unaudited) 6 months	31 Dec 16 (audited) 12 months
Total assets (USDbn)	2.41	2.27
Total assets (LKRbn)	370.6	340.7
Total equity (LKRbn)	32.8	31.0
Operating profit (LKRbn)	3.2	5.1
Net income (LKRbn)	1.5	2.8
ROA (%)	0.86 ^a	0.86
Fitch Core Capital ratio (%)	12.05	12.15
Loans/customer deposits (%)	107.82	114.84
Gross NPL ratio(%)	2.22	2.63

^a Annualised

Key Rating Drivers

Moderate Credit Profile: The National Long-Term Rating of National Development Bank PLC (NDB) reflects its satisfactory asset quality, weaker franchise and lower capitalisation relative to better-rated peers.

Declining Capitalisation: Fitch Ratings believes that NDB's capitalisation could remain under pressure in the absence of a capital injection. The Fitch Core Capital (FCC) ratio of 12.04% and Tier 1 capital adequacy ratio (CAR) of 11.23% at end-1H17 are similar to most domestic licensed commercial bank peers, but have fallen due to rapid loan expansion. Management has recognised the need for a capital injection to support expansion and to meet Basel III standards that require a minimum Tier 1 ratio of 8.5% and total capital ratio of 12.5% from 2019.

SME and Retail Segments Expanding: SME and retail customers accounted for 39% of the bank's loan book at end-1H17 than the 36% at end-2014, due to management's focus on higher-margin segments. There has been a decrease in the exposure to corporates (1H17: 36%; end -2014: 42%).

Asset-Quality Risks: NDB's loans rose by an above-sector pace of 10.3% yoy in 1H17 (2016: 8.7%), and Fitch expects this trend to continue. The bank's reported gross NPL ratio had decreased to 2.2% by end-1H17 (end-2016: 2.6%). Fitch believes that NPLs are likely to increase as the bank's loan book seasons. Reserves for impaired loans had decreased to 2.0% of loans at end-1H17 from 2.6% at end-2016.

Developing Funding Base: The share of deposit funding had increased to 73% by end-1H17 from 68% at end-2016, and Fitch expects deposits to remain the main source of funding for NDB. The bank is likely find it difficult to increase the share of current and savings accounts (CASA) in its deposit mix (end-1H17: 22%) due to stiff competition and higher interest rates. NDB's loans/deposits ratio of 107.8% at end-1H17 was higher than peers, and reflects its origins as a development bank.

Potential Pressure on ROA: Fitch believes that possible increases in funding and credit costs could put pressure on ROA. NDB's profitability remains below that of similarly rated peers because of thinner net interest margins (NIMs) and high operating costs. ROA remained flat in 1H17 at 0.86% due to the impact of higher taxes although operating ROAA improved to 1.8%.

Challenging Operating Environment: Fitch believes that bank credit metrics in Sri Lanka are likely to remain under pressure in 2017 due to difficult operating conditions. The operating environment is a key rating driver for the Sri Lankan banking sector as it can affect the banks' financial profiles.

Rating Sensitivities

Capital Profile: NDB's National Long-Term Rating may be downgraded if the bank cannot sustain its capitalisation at a level commensurate with its risk profile. An upgrade could result if NDB is able to sustain a capital buffer that is sufficient to counterbalance weaknesses in its credit profile.

Disclaimer

NDB owns 1.78% of the shares in Fitch Ratings Lanka Limited. No shareholder, other than Fitch Ratings Limited of the UK, is involved in the day-to-day operations of, or credit rating reviews undertaken by, Fitch.

Related Research

[Fitch Affirms Nine Sri Lankan Banks \(January 2017\)](#)

[Sri Lankan Banks FY17 Report Card](#)

Analysts

Rukshana Thalgodapitiya.CFA
+94 112 541900
rukshana.thalgodapitiya@fitchratings.com

Jeewanthi Malagala, CFA
+94 112 541900
jeewanthi.malagala@fitchratings.com

Operating Environment

Fitch's outlook on Sri Lankan banks for 2017 remains negative as we believe that the slowdown in economic growth, expected deterioration in asset quality and weak internal capital generation could put further pressure on banks' capitalisations.

Sri Lanka's Macro-Prudential Indicator score was revised to 2 from 1 in January 2017 as real credit growth surpassed 15% on average for 2015 and 2016.

Company Profile

NDB was established in 1979 as a state-held licensed specialised bank. NDB entered commercial banking through its acquisition of ABN Amro Bank's Colombo branch in 2001 and received a commercial banking licence in 2005.

Entities related to the government of Sri Lanka (Bank of Ceylon, Sri Lanka Insurance Corporation, Employees Provident Fund and Employees Trust Fund) together held 33.5% of the bank's voting shares at end-1H17. Other shareholders of NDB include those connected to local corporates.

NDB has evolved from being a project lender to a commercial bank with more diverse product offerings, and now competes with much-larger and more established peers. The bank has been gaining market share, but accounted for just 3.7% of assets, 4.3% of loans and 3.5% of deposits at end-1H17. NDB had 106 branches at end-1H17 up from 93 at end-2015 and 83 at end-2014.

NDB has several subsidiaries engaged in financial services, although banking operations dominate group assets. The bank has investment banking and private equity operations in Bangladesh and Mauritius.

Management and Strategy

NDB has a nine-member board of directors, including eight non-executive directors and six who are independent directors. The CEO is an executive on the board.

Management has focused on expansion, which has resulted in the rapid pace of loan growth and attempts to merge with other banks.

Risk Appetite

Project finance accounted for 22% of NDB's loan book at end-1H17, increasing from 18% at end-2014, and Fitch expects this to remain an integral component of lending. Project lending tends to carry higher risk due to its longer tenure, but NDB has been engaged in this business for some time and has a track record in managing these exposures.

The increase in NDB's loan-book exposure to retail and SME segments reflects management's focus on these high-margin areas. Fitch believes this exposure increases the risk of asset-quality deterioration as these segments are more susceptible during challenging operating conditions.

NDB's loan book has expanded at a faster pace (1H17: 9%; 2016: 17.5%; 2015: 21.0%) than the sector and its peers. Management guidance suggests that this trend is likely to be sustained.

Related Criteria

[Global Bank Rating Criteria \(November 2016\)](#)

[National Scale Ratings Criteria \(March 2017\)](#)

Financial Profile

Asset Quality

Key Asset-Quality Indicators

(%)	1H17	2016	2015	2014
Growth of gross loans	10.24	8.67	19.32	27.77
Reported gross non-performing advance ratio	2.22	2.63	2.43	2.51
Reserves for impaired loans/gross loans	2.03	2.58	2.52	2.78
Loan impairment charges/average gross loans	0.44	0.61	0.37	0.33

Source: Fitch, NDB

NDB's reported gross NPL has been better than the ratio for the sector. The NPL ratio has been supported through an increase in the loans as absolute NPLs have been rising up to end-2016. Fitch expects NPLs to increase as the bank's loan book seasons.

NDB's reserves for impaired loans/gross loans decreased in 1H17 as the bank wrote off individual impairment provisions of LKR1.3 billion that built up in previous periods.

Credit concentrations remain high – the 20 largest exposures (on- and off-balance sheet) accounted for 267% of equity at 1H17. Sector concentrations continued to be in manufacturing and financial and business services in 1H17.

Earnings and Profitability

Key Profitability Ratios

(%)	1H17	2016	2015	2014
Net interest income/average earning assets	2.99	2.94	2.95	3.52
Non-interest expense/gross revenues	50.23	52.39	52.08	45.66
Loans and securities impairment charges/ pre-impairment operating profit	14.43	21.90	11.87	7.52
Operating profit/average total assets	1.80	1.56	1.96	2.74
Net income/average total assets	0.86	0.86	1.30	1.79

Source: Fitch, NDB

Contracting NIMs and higher operating costs contributed to a decrease in NDB's ROA in 1H17. NIM has been thinner than that of peers due to higher funding costs relative to peers that have a larger CASA base. This is despite NDB's focus on high-margin customer segments.

Its cost/income ratio remained higher than those of peers and reflects the expansion in operations. Impairment charges reduced from 2016 in the absence of substantial one-off charges that depressed ROA in 2016. The bank has yet to quantify the impact of Sri Lanka Accounting Standard 9 Financial Instruments (SLFRS 9), which will come into effect in 2018.

Fitch believes that potential increases in funding and credit costs, in addition to the bank's high operating costs, could keep ROA under pressure.

Capitalisation and Leverage

Key Capital Ratios

(%)	1H17	2016	2015	2014
Fitch core capital/weighted risk	12.04	12.15	11.87	13.66
Tier 1 regulatory capital ratio	11.23	11.55	11.07	12.92
Total regulatory capital ratio	14.65	15.27	15.25	17.55
Equity/assets	8.84	9.10	9.32	10.70
Internal capital generation	9.30	8.01	6.32	8.45

Source: Fitch, NDB

NDB's FCC ratio and Tier 1 CAR are similar to those of comparable peers, but have been declining due to strong loan expansion. The Tier 1 CAR on a bank-only basis was 9.42% at end-1H17 (end-2016: 9.31%). The difference in the Tier 1 CARs at the bank and group level result from retained earnings at NDB Capital Holdings.

The bank has not yet made an announcement regarding an issue of shares, and Fitch expects NDB's capitalisation to remain under pressure in the absence of a capital injection. Management has indicated that a capital injection is required to support expansion and to meet Basel III standards in force. NDB needs to maintain a minimum Tier 1 ratio of 8.5% and total capital ratio of 12.5% by 2019 under Basel III standards.

NDB's FCC ratio is higher than the Tier 1 CAR due to the inclusion of revaluation reserves and securities revaluation reserves in the FCC and not in regulatory Tier 1 capital. Total CAR includes subordinated debt in the form of debentures and a funding line from FMO (the Netherlands Development Finance Company).

Funding and Liquidity

Key Funding Ratios

(%)	1H17	2016	2015	2014
Loans/customer deposits	107.82	114.84	116.79	118.99
Customer deposits/total funding	72.84	67.99	66.76	65.41
CASA/ total deposits	21.94	22.75	25.71	23.97

Source: Fitch, NDB

NDB recorded a 17% and 11% increase in its deposit base in 1H17 and 2016, respectively, which resulted in an increase in the share of deposit funding. Its deposit franchise is still developing compared with larger and more established domestic licensed commercial banks. The share of CASA in NDB's deposit mix decreased in 1H17 and 2016, a trend seen across the sector, due to increasing interest rates and a shift to time deposits.

NDB has relied on medium- and long-term funding under credit lines, which accounted for 10.6% of total funding in 1H17, to support its project finance lending. NDB also accesses local capital markets and issues Sri Lankan rupee-denominated debentures.

NDB's loans/deposits ratio has decreased due to an increase in deposits, but has usually been higher than that of most of its peers. Fitch expects this to continue due to the reliance of non-deposit funding to support project finance lending. The bank's holdings of liquid assets have been above the minimum requirement.

Support

Sovereign Support

Fitch believes that there is limited probability of support from the sovereign to NDB. Fitch views the sovereign's willingness to extend support as being moderate, given the bank's lower systemic importance. The sovereign's ability to provide support is also limited, which is reflected in Sri Lanka's 'B+' rating.

Debt Ratings

NDB's Basel II compliant Sri Lanka rupee-denominated subordinated debt is rated one notch below the bank's National Long-Term Rating to reflect the subordination to senior unsecured debt.

National Development Bank PLC
Income Statement

	30 Jun 2017			31 Dec 2016			31 Dec 2015			31 Dec 2014		
	6 Months - Interim USDm Unaudited	6 Months - Interim LKRbn Unaudited	As % of Earning Assets	Year End LKRbn Audited - Unqualified	As % of Earning Assets	Year End LKRbn Audited - Unqualified	As % of Earning Assets	Year End LKRbn Audited - Unqualified	As % of Earning Assets	Year End LKRbn Audited - Unqualified	As % of Earning Assets	
1. Interest Income on Loans	n.a.	n.a.	-	23.2	7.27	17.2	5.88	16.7	6.57			
2. Other Interest Income	116.3	17.9	10.40	5.8	1.81	4.3	1.47	4.4	1.73			
3. Dividend Income	n.a.	n.a.	-	0.0	0.00	0.0	0.00	0.0	0.01			
4. Gross Interest and Dividend Income	116.3	17.9	10.40	29.0	9.09	21.4	7.35	21.2	8.31			
5. Interest Expense on Customer Deposits	n.a.	n.a.	-	12.3	3.87	8.1	2.79	8.7	3.43			
6. Other Interest Expense	84.3	12.9	7.54	7.8	2.44	5.5	1.88	4.5	1.77			
7. Total Interest Expense	84.3	12.9	7.54	20.1	6.31	13.6	4.67	13.2	5.20			
8. Net Interest Income	32.0	4.9	2.86	8.9	2.78	7.8	2.68	7.9	3.11			
9. Net Gains (Losses) on Trading and Derivatives	3.5	0.5	0.31	1.4	0.44	1.4	0.49	1.7	0.65			
10. Net Gains (Losses) on Other Securities	1.8	0.3	0.16	0.0	0.01	0.2	0.07	0.6	0.23			
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			
13. Net Fees and Commissions	9.9	1.5	0.88	3.0	0.96	3.2	1.08	2.6	1.01			
14. Other Operating Income	1.3	0.2	0.11	0.3	0.10	0.5	0.18	0.2	0.08			
15. Total Non-Interest Operating Income	16.4	2.5	1.47	4.8	1.50	5.3	1.82	5.0	1.97			
16. Personnel Expenses	12.3	1.9	1.10	3.8	1.20	3.6	1.25	3.2	1.25			
17. Other Operating Expenses	12.0	1.8	1.07	3.3	1.05	3.2	1.10	2.7	1.08			
18. Total Non-Interest Expenses	24.3	3.7	2.18	7.2	2.25	6.8	2.34	5.9	2.32			
19. Equity-accounted Profit/Loss - Operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			
20. Pre-impairment Operating Profit	24.1	3.7	2.16	6.5	2.04	6.3	2.15	7.0	2.76			
21. Loan Impairment Charge	3.5	0.5	0.31	1.4	0.43	0.7	0.24	0.5	0.21			
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	0.0	0.01	0.0	0.01	n.a.	-			
23. Operating Profit	20.6	3.2	1.84	5.1	1.59	5.5	1.90	6.5	2.56			
24. Equity-accounted Profit/Loss - Non-operating	0.0	0.0	0.00	0.0	0.00	0.1	0.03	0.1	0.04			
25. Non-recurring Income	n.a.	n.a.	-	0.0	0.00	0.2	0.06	0.0	0.01			
26. Non-recurring Expense	0.1	0.0	0.01	0.0	0.00	0.0	0.00	0.0	0.00			
27. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			
28. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			
29. Pre-tax Profit	20.5	3.1	1.83	5.1	1.60	5.8	1.99	6.6	2.60			
30. Tax expense	10.7	1.6	0.95	2.3	0.72	2.1	0.73	2.4	0.93			
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			
32. Net Income	9.8	1.5	0.88	2.8	0.88	3.7	1.26	4.2	1.67			
33. Change in Value of AFS Investments	2.8	0.4	0.25	(0.4)	(0.13)	(0.3)	(0.10)	0.0	0.00			
34. Revaluation of Fixed Assets	n.a.	n.a.	-	0.0	0.01	0.1	0.03	0.9	0.33			
35. Currency Translation Differences	0.0	0.0	0.00	0.0	0.00	0.0	0.01	0.0	0.00			
36. Remaining OCI Gains/(losses)	1.4	0.2	0.13	(0.1)	(0.04)	(0.2)	(0.07)	0.3	0.11			
37. Fitch Comprehensive Income	14.1	2.2	1.26	2.3	0.73	3.3	1.13	5.4	2.12			
38. Memo: Profit Allocation to Non-controlling Interests	0.2	0.0	0.01	0.1	0.04	0.1	0.04	0.1	0.04			
39. Memo: Net Income after Allocation to Non-controlling Interests	9.7	1.5	0.87	2.7	0.84	3.5	1.21	4.1	1.62			
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	0.3	0.10	1.8	0.62	1.8	0.71			
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-			

Exchange rate

USD1 = LKR153.51

USD1 = LKR149.8

USD1 = LKR144.062

USD1 = LKR131.049

National Development Bank PLC

Balance Sheet

	30 Jun 2017		31 Dec 2016		31 Dec 2015		31 Dec 2014		
	6 Months - Interim USDm	6 Months - Interim LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets
Assets									
A. Loans									
1. Residential Mortgage Loans	-	-	-	-	-	-	-	-	-
2. Other Mortgage Loans	-	-	-	-	-	-	-	-	-
3. Other Consumer/ Retail Loans	-	-	-	-	-	-	-	-	-
4. Corporate & Commercial Loans	-	-	-	-	-	-	-	-	-
5. Other Loans	1,678.5	257.7	69.53	233.7	68.59	215.1	68.20	180.3	66.98
6. Less: Reserves for Impaired Loans	34.0	5.2	1.41	6.0	1.77	5.4	1.72	5.0	1.86
7. Net Loans	1,644.4	252.4	68.12	227.7	66.82	209.7	66.49	175.2	65.11
8. Gross Loans	1,678.5	257.7	69.53	233.7	68.59	215.1	68.20	180.3	66.98
9. Memo: Impaired Loans included above	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10. Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets									
1. Loans and Advances to Banks	9.2	1.4	0.38	0.0	0.01	0.1	0.03	0.3	0.12
2. Reverse Repos and Cash Collateral	73.4	11.3	3.04	19.8	5.81	14.5	4.61	24.6	9.13
3. Trading Securities and at FV through Income	64.4	9.9	2.67	3.7	1.07	5.2	1.66	6.0	2.24
4. Derivatives	13.1	2.0	0.54	1.5	0.45	1.9	0.60	1.9	0.71
5. Available for Sale Securities	258.3	39.7	10.70	31.9	9.36	29.0	9.18	18.1	6.71
6. Held to Maturity Securities	30.1	4.6	1.25	4.9	1.45	5.7	1.80	10.2	3.78
7. Equity Investments in Associates	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. Other Securities	149.8	23.0	6.21	27.4	8.04	24.0	7.61	16.8	6.26
9. Total Securities	589.2	90.4	24.41	89.2	26.19	80.3	25.46	77.6	28.82
10. Memo: Government Securities included Above	n.a.	n.a.	-	31.7	9.31	49.8	15.80	38.2	14.20
11. Memo: Total Securities Pledged	n.a.	n.a.	-	n.a.	-	0.0	0.01	0.0	0.01
12. Investments in Property	11.6	1.8	0.48	1.8	0.52	1.7	0.53	1.5	0.57
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Earning Assets	2,254.4	346.1	93.39	318.7	93.55	291.7	92.51	254.7	94.62
C. Non-Earning Assets									
1. Cash and Due From Banks	120.0	18.4	4.97	17.0	4.98	18.8	5.98	10.0	3.72
2. Memo: Mandatory Reserves included above	91.0	14.0	3.77	11.8	3.47	7.0	2.22	6.7	2.50
3. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	16.6	2.5	0.69	2.5	0.74	2.5	0.78	2.3	0.84
5. Goodwill	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Intangibles	2.5	0.4	0.10	0.4	0.11	0.3	0.09	0.3	0.11
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Deferred Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Discontinued Operations	0.2	0.0	0.01	0.0	0.01	0.0	0.01	0.0	0.01
10. Other Assets	20.4	3.1	0.85	2.1	0.61	2.0	0.64	1.9	0.70
11. Total Assets	2,414.1	370.6	100.00	340.7	100.00	315.4	100.00	269.1	100.00
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	128.2	19.7	5.31	15.8	4.65	16.4	5.19	12.3	4.55
2. Customer Deposits - Savings	213.4	32.8	8.84	30.5	8.94	31.0	9.82	24.1	8.94
3. Customer Deposits - Term	1,215.1	186.5	50.33	157.2	46.14	136.8	43.38	115.2	42.79
4. Total Customer Deposits	1,556.7	239.0	64.48	203.5	59.73	184.2	58.40	151.5	56.29
5. Deposits from Banks	53.1	8.2	2.20	17.1	5.03	11.6	3.68	7.0	2.61
6. Repos and Cash Collateral	128.9	19.8	5.34	24.5	7.18	26.7	8.46	24.6	9.15
7. Commercial Paper and Short-term Borrowings	n.a.	n.a.	-	21.5	6.31	3.7	1.16	16.4	6.09
8. Total Money Market and Short-term Funding	1,738.7	266.9	72.02	266.6	78.25	226.1	71.70	199.5	74.14
9. Senior Unsecured Debt (original maturity > 1 year)	n.a.	n.a.	-	13.2	3.89	30.2	9.56	20.9	7.77
10. Subordinated Borrowing	132.2	20.3	5.47	19.4	5.71	19.6	6.21	11.1	4.14
11. Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Other Long-term Funding	266.1	40.8	11.02	n.a.	-	n.a.	-	n.a.	-
13. Total LT Funding (original maturity > 1 year)	398.3	61.1	16.50	32.7	9.59	49.7	15.77	32.1	11.91
14. Derivatives	2.7	0.4	0.11	0.5	0.14	0.6	0.20	0.7	0.25
15. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
16. Total Funding	2,139.7	328.5	88.63	299.8	87.99	276.5	87.67	232.3	86.30
E. Non-Interest Bearing Liabilities									
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	n.a.	n.a.	-	0.5	0.13	0.3	0.09	0.3	0.11
4. Current Tax Liabilities	7.6	1.2	0.32	0.9	0.25	0.5	0.17	0.8	0.30
5. Deferred Tax Liabilities	6.7	1.0	0.28	0.7	0.22	0.7	0.23	0.6	0.23
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	46.6	7.2	1.93	7.9	2.31	7.9	2.52	6.4	2.36
10. Total Liabilities	2,200.6	337.8	91.16	309.7	90.90	286.0	90.68	240.3	89.30
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
G. Equity									
1. Common Equity	199.1	30.6	8.25	29.5	8.64	27.5	8.71	27.9	10.35
2. Non-controlling Interest	6.9	1.1	0.29	1.1	0.32	1.0	0.32	0.9	0.34
3. Securities Revaluation Reserves	(1.9)	(0.3)	(0.08)	(0.5)	(0.16)	(0.1)	(0.04)	0.2	0.06
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	9.3	1.4	0.39	1.0	0.30	1.1	0.34	(0.1)	(0.05)
6. Total Equity	213.5	32.8	8.84	31.0	9.10	29.4	9.32	28.8	10.70
7. Total Liabilities and Equity	2,414.1	370.6	100.00	340.7	100.00	315.4	100.00	269.1	100.00
8. Memo: Fitch Core Capital	210.9	32.4	8.74	30.6	8.99	29.1	9.24	28.5	10.59

Exchange rate

USD1 = LKR153.51

USD1 = LKR149.8

USD1 = LKR144.062

USD1 = LKR131.049

National Development Bank PLC

Summary Analytics

	30 Jun 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
	6 Months - Interim	Year End	Year End	Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	n.a.	10.31	8.94	10.49
2. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	6.37	4.86	6.19
3. Interest Income/ Average Earning Assets	10.86	9.60	8.09	9.40
4. Interest Expense/ Average Interest-bearing Liabilities	8.32	6.99	5.55	6.47
5. Net Interest Income/ Average Earning Assets	2.99	2.94	2.95	3.52
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.66	2.48	2.68	3.29
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	2.99	2.94	2.95	3.52
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	33.94	35.05	40.38	38.73
2. Non-Interest Expense/ Gross Revenues	50.23	52.39	52.08	45.66
3. Non-Interest Expense/ Average Assets	2.12	2.20	2.41	2.49
4. Pre-impairment Op. Profit/ Average Equity	23.52	21.68	21.39	26.01
5. Pre-impairment Op. Profit/ Average Total Assets	2.10	2.00	2.22	2.96
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	14.43	21.90	11.87	7.52
7. Operating Profit/ Average Equity	20.12	16.93	18.85	24.06
8. Operating Profit/ Average Total Assets	1.80	1.56	1.96	2.74
9. Operating Profit / Risk Weighted Assets	2.37	2.02	2.26	3.12
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	9.60	9.38	12.49	15.70
2. Net Income/ Average Total Assets	0.86	0.86	1.30	1.79
3. Fitch Comprehensive Income/ Average Total Equity	13.79	7.72	11.18	19.91
4. Fitch Comprehensive Income/ Average Total Assets	1.23	0.71	1.16	2.26
5. Taxes/ Pre-tax Profit	52.00	44.74	36.65	35.91
6. Net Income/ Risk Weighted Assets	1.13	1.12	1.50	2.03
D. Capitalization				
1. FCC/FCC-Adjusted Risk Weighted Assets	12.05	12.15	11.87	13.66
2. Tangible Common Equity/ Tangible Assets	8.75	9.00	9.24	10.60
3. Tier 1 Regulatory Capital Ratio	11.23	11.55	11.07	12.92
4. Total Regulatory Capital Ratio	14.65	15.27	15.25	17.55
5. Equity/ Total Assets	8.84	9.10	9.32	10.70
6. Cash Dividends Paid & Declared/ Net Income	n.a.	11.72	49.35	42.66
7. Internal Capital Generation	9.30	8.01	6.32	8.45
E. Loan Quality				
1. Growth of Total Assets	8.76	8.05	17.18	30.13
2. Growth of Gross Loans	10.24	8.67	19.32	27.77
3. Reported Gross NPL ratio	2.22	2.63	2.43	2.51
4. Reserves for Impaired Loans/ Gross Loans	2.03	2.58	2.52	2.78
5. Loan Impairment Charges/ Average Gross Loans	0.44	0.61	0.37	0.33
6. Net Charge-offs/ Average Gross Loans	1.11	0.34	0.46	0.01
F. Funding and Liquidity				
1. Loans/ Customer Deposits	107.82	114.84	116.79	118.99
2. Interbank Assets/ Interbank Liabilities	17.36	0.22	0.88	4.42
3. Customer Deposits/ Total Funding (excluding derivatives)	72.84	67.99	66.76	65.41

National Development Bank PLC

Reference Data

	30 Jun 2017		31 Dec 2016		31 Dec 2015		31 Dec 2014		
	6 Months - Interim USDm	6 Months - Interim LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets
A. Off-Balance Sheet Items									
1. Managed Securitised Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	29.7	8.72	26.1	8.26	22.1	8.21
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	-	15.7	4.62	15.8	5.00	14.7	5.45
5. Committed Credit Lines	n.a.	n.a.	-	111.7	32.80	112.3	35.62	93.9	34.91
7. Other Off-Balance Sheet items	1,595.7	245.0	66.10	163.4	47.97	179.1	56.80	208.2	77.37
8. Total Assets under Management	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Average Balance Sheet									
Average Loans	1,603.3	246.1	66.41	224.8	65.97	192.0	60.88	159.6	59.29
Average Earning Assets	2,160.1	331.6	89.48	301.7	88.55	265.1	84.06	225.3	83.72
Average Assets	2,312.7	355.0	95.80	326.0	95.68	283.2	89.81	237.8	88.36
Average Managed Securitised Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	2,042.9	313.6	84.62	287.7	84.44	245.6	77.89	204.7	76.08
Average Common equity	195.1	29.9	8.08	28.2	8.27	27.7	8.78	26.0	9.68
Average Equity	206.7	31.7	8.56	30.0	8.81	29.4	9.32	27.0	10.05
Average Customer Deposits	1,454.7	223.3	60.26	193.6	56.82	167.4	53.07	141.1	52.42
C. Maturities									
Asset Maturities:									
Loans & Advances < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans and Advances 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances > 5 years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Liability Maturities:									
Retail Deposits < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Senior Debt on Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Fair Value Portion of Senior Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Subordinated Debt on Balance Sheet	132.2	20.3	5.47	19.4	5.71	19.6	6.21	11.1	4.14
Fair Value Portion of Subordinated Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
D. Risk Weighted Assets									
1. Risk Weighted Assets	1,751.2	268.8	72.54	252.1	73.98	245.4	77.80	208.6	77.51
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Fitch Core Capital Adjusted Risk Weighted Assets	1,751.2	268.8	72.54	252.1	73.98	245.4	77.80	208.6	77.51
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fitch Adjusted Risk Weighted Assets	1,751.2	268.8	72.54	252.1	73.98	245.4	77.80	208.6	77.51
E. Equity Reconciliation									
1. Equity	213.5	32.8	8.84	31.0	9.10	29.4	9.32	28.8	10.70
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Add: Other Adjustments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Published Equity	213.5	32.8	8.84	31.0	9.10	29.4	9.32	28.8	10.70
F. Fitch Core Capital Reconciliation									
1. Total Equity as reported (including non-controlling interests)	213.5	32.8	8.84	31.0	9.10	29.4	9.32	28.8	10.70
2. Fair value effect incl in ow n debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Goodwill	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
5. Other intangibles	2.5	0.4	0.10	0.4	0.11	0.3	0.09	0.3	0.11
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
9. Fitch Core Capital	210.9	32.4	8.74	30.6	8.99	29.1	9.24	28.5	10.59

Exchange Rate

USD1 = LKR153.51

USD1 = LKR149.8

USD1 = LKR144.062

USD1 = LKR131.049

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.