

## RATING ACTION COMMENTARY

### Fitch Downgrades National Development Bank's National Rating to 'A-(lka)'; Outlook Negative

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Fitch Ratings - Colombo/Singapore - 10 Apr 2026: Fitch Ratings has downgraded National Development Bank PLC's (NDB) National Long-Term Rating to 'A-(lka)' from 'A(lka)'. The Outlook is Negative. Fitch has also downgraded the rating assigned to NDB's Basel III-compliant subordinated debentures to 'BBB(lka)' from 'BBB+(lka)'.

#### KEY RATING DRIVERS

**Fraud Elevates Credit Profile Risks:** The downgrade reflects NDB's weakened credit profile relative to that of similarly rated peers, following a fraud incident announced by the bank. We believe the incident has put pressure on the bank's capitalisation and profitability relative to that of similarly rated peers. The downgrade also reflects deficiencies in the bank's internal risk controls relative to peers.

The Negative Outlook reflects uncertainty over the investigation into the fraud and its potential impact on the bank's operations, including possible changes to its business and risk profiles.

**Fraud Disclosure:** NDB said on 2 April 2026 the fraud involved some bank employees and one or more external parties. NDB's follow-up announcement on 6 April 2026 said the estimated size of the fraud was approximately LKR13.2 billion. This is equivalent to around 1.3% of the bank's end-March 2026 total assets.

**Weakened Financial Profile:** Fitch estimates gross losses related to the fraud at around 2.3% of NDB's risk-weighted assets at end-2025. This would reduce the core profitability metric of operating profit/risk-weighted assets to less than 2% in 2025, below that of

similarly rated peers. We expect profitability to recover over the medium term, but the incident is likely to hamper the bank's achievement of projected profitability objectives.

Lower retained earnings due to the case, net of tax implications, are likely to reduce NDB's common equity Tier 1 ratio by about 1.1pp, from the reported 12.9% at end-2025. This continues to meet regulatory capital requirements, but buffers will be thin relative to that of peers and could constrain the bank's financial flexibility and ability to absorb losses. We expect the suspension of cash dividends imposed by the Central Bank of Sri Lanka to persist until the bank enhances its capital buffers.

**Funding and Liquidity Pressures:** NDB's loan-to-deposit ratio (LDR) stood at 91% at end-2025, broadly in line with peers', and its all-currency liquidity coverage ratio was 209%. However, any sustained significant increase in the LDR, primarily on account of deposit mobilisation challenges, could reduce liquidity headroom relative to peers.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

NDB's National Rating is sensitive to a change in its creditworthiness relative to other Sri Lankan issuers.

Fitch may downgrade NDB's National Rating if capital buffers weaken further or if there is liquidity stress. Negative rating action could also arise if regulatory sanctions or corrective measures materially impair the bank's earnings, franchise or financial flexibility, or if remediation of the operational weaknesses highlighted by the incident is not implemented in a timely and effective manner.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

Fitch may revise the Outlook to Stable if the bank restores and maintains capital buffers to levels that are more commensurate with that of peers and supportive of its risk profile. A Stable Outlook could also be supported by effective and durable remediation of the control weaknesses exposed by the incident, reducing the risk of any damage to the bank's franchise and business profile.

## **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

NDB's Basel III-compliant Sri Lankan rupee-denominated subordinated debt is rated two notches below the bank's National Rating. This reflects Fitch's baseline notching for loss

severity for this type of debt and our expectations of poor recoveries upon non-performance. There is no additional notching for non-performance risks, as the notes do not incorporate going-concern loss-absorption features.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

The debt rating will move in tandem with the bank's national rating.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **RATING ACTIONS**

| <b>ENTITY / DEBT</b> ⚡        | <b>RATING</b> ⚡   | <b>PRIOR</b> ⚡               |
|-------------------------------|---|------------------------------|
| National Development Bank PLC | Natl LT    A-(Ika) Rating Outlook Negative<br>Downgrade | A(Ika) Rating Outlook Stable |
| subordinated                  | Natl LT    BBB(Ika)    Downgrade                        | BBB+(Ika)                    |

**VIEW ADDITIONAL RATING DETAILS**

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## **APPLICABLE CRITERIA**

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 22 Mar 2025) (including rating assumption sensitivity)

## **ADDITIONAL DISCLOSURES**

Solicitation Status

Endorsement Policy

## **ENDORSEMENT STATUS**

National Development Bank PLC

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