



Fitch Rates National Development Bank's Basel III Sub Debt Final 'A(lka)'

Fitch Ratings-Colombo-28 February 2019: Fitch Ratings has assigned National Development Bank PLC's (A+(lka)/Negative) proposed Basel III-compliant subordinated debentures a final National Long-Term Rating of 'A(lka)'.

The notes, which total up to LKR6.5 billion with maturities of five years, include a non-viability clause and qualify as regulatory Tier II capital for the bank. The bank plans to use the proceeds to strengthen its Tier II capital base and support loan-book expansion. The debentures are to be listed on the Colombo Stock Exchange.

The final rating is the same as the expected rating assigned on 15 February 2019, and follows the receipt of documents conforming to information already received.

Key Rating Drivers

Fitch rates the proposed Tier II instrument one notch below the bank's National Long-Term Rating to reflect the notes' subordinated status and higher loss-severity risks relative to senior unsecured instruments. The notes would convert to equity upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

NDB's National Long-Term Rating is used as the anchor rating for these instruments, as it reflects its standalone financial strength and best indicates the risk of the bank becoming non-viable.

Fitch has not applied additional notching to the proposed notes for non-performance risk, as they have no going-concern loss-absorption features, in line with the agency's criteria.

NDB's National Long-Term Rating reflects its developing franchise and satisfactory asset quality relative to peers, which are balanced against declining capitalisation and above-sector loan growth.

The Negative Outlook reflects our expectation of continued pressure on NDB's capitalisation from its rising risk appetite in terms of high loan growth and increasing exposure to riskier retail and SME customer segments. Fitch believes the bank could continue to face challenges in the medium term in maintaining capital buffers that are commensurate with its risk appetite, even with capital raising, due to its above-sector growth aspirations - loan growth has averaged at 18% annually since 2014 - and probable higher regulatory requirements as a domestic systemically important bank (D-SIBs). Capitalisation has been weakening, with the group's Tier 1 capital ratio declining to 10.4% by end-2018 (end-2014: 12.9%), while the bank's ratio stood at 9.2% (2014: 10.0%).

Rating Sensitivities

The rating of the notes would move in tandem with NDB's National Long-Term Rating.

NDB's National Long-Term Rating could be downgraded if the bank cannot sustain its capitalisation at a level that is commensurate with its rising risk appetite. Fitch would revise the Outlook to Stable if the bank maintains sufficient capital buffers that are commensurate with its risk profile and similarly rated peers.

Date of Relevant Committee

11-Feb-2019

National Development Bank PLC

---subordinated; National Long Term Rating; New Rating; A(lka)

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
National Scale Ratings Criteria (pub. 18 Jul 2018)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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