FitchRatings

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)

Contacts:
Primary Rating Analyst
Rukshana Thalgodapitiya,
Director
+94 11 2541 900
Fitch Ratings Lanka Ltd.
15-04 East Tower World Trade Center
Colombo 00100

Secondary Rating Analyst
Jeewanthi Malagala,
Analyst
+9411 2541 900
Fitch Ratings Lanka Ltd.
15-04 East Tower World Trade Center
Colombo 00100

Committee Chairperson
Grace Wu,
Senior Director
+852 2263 9919

Media Relations: Bindu Menon, Mumbai, Tel: +91 22 4000 1727, Email: bindu.menon@fitchratings.com
Leslie Tan, Singapore, Tel: +65 6796 7234, Email: leslie.tan@thefitchgroup.com

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
Solicitation Status
Endorsement Policy

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