

Investment Analysis: National Development Bank PLC (NDB)

Executive Summary

National Development Bank PLC (NDB) stands as a significant Licensed Commercial Bank within Sri Lanka's financial sector, tracing its origins to 1979 as a state-owned development bank and listed on the Colombo Stock Exchange since 1993.¹ The NDB Group operates a diversified business model, encompassing retail, Small and Medium Enterprises (SME), corporate banking, project and infrastructure financing, investment banking, leasing, housing finance, investment advisory, securities trading, and wealth management.¹ This broad portfolio allows NDB to serve a wide array of clients, from micro-enterprises to multinational corporations, through an extensive network of 78 branches across 22 districts, supplemented by robust digital channels including ATMs, Internet banking, and mobile commerce.¹

The Bank has demonstrated exceptional financial resilience and strategic agility, particularly in the challenging macroeconomic environment of Sri Lanka. Fiscal Year 2024 marked a period of record-breaking profitability for NDB, a momentum that has continued into the first quarter of 2025. This strong performance is underpinned by effective operational strategies and a recovering national economy.⁴

Key financial strengths include:

- **Robust Profitability:** NDB reported a post-tax profit of Rs. 9.0 Billion in FY2024, a 68% year-on-year (YoY) increase. The Group's profit before tax (PBT) reached an unprecedented Rs. 25.7 Billion, the highest in its 45-year history.⁴ This upward trend continued into 1Q2025, with pre-tax profits surging by 118% to Rs. 4.0 Billion and post-tax profits by 168% to Rs. 1.9 Billion.⁶
- **Enhanced Asset Quality:** The Impaired Loans (Stage 3) to Total Loans Ratio significantly improved by 340 basis points (bps) to 5.18% in FY2024, reflecting successful asset quality enhancement initiatives. While this ratio saw a slight increase to 5.53% in 1Q2025, the Bank achieved a substantial 40% reduction in total impairment charges over the corresponding period, indicating effective risk management.⁴
- **Sound Capital Adequacy and Liquidity:** NDB maintains strong capital buffers, with Tier I and Total Capital Adequacy ratios in FY2024 at 13.68% and 19.09% respectively, comfortably exceeding regulatory minimums. These ratios remained robust in 1Q2025 at 12.16% and 16.95%.⁵ Similarly, regulatory liquidity ratios, including the Liquidity Coverage Ratio and Net Stable Funding Ratio, are well above the required thresholds, demonstrating strong financial stability.⁵
- **Market Positioning:** As of 2013, NDB held a market share of approximately 3-4%

in key segments like loans, deposits, and total assets, ranking 9th among 33 financial institutions.¹ The recent robust growth in total assets (7% year-to-date in 1Q2025) suggests a renewed competitive drive within the recovering Sri Lankan banking sector.⁶

Considering NDB's strong financial performance, its strategic positioning within a recovering Sri Lankan economy, and its valuation relative to peers, a **Buy** recommendation is issued for the stock. The projected stock value for **May 2026 is estimated to be in the range of LKR 160 - LKR 200.**

1. Company Profile: National Development Bank PLC (NDB)

1.1 Business Operations and Group Structure in Sri Lanka

National Development Bank PLC, commonly known as NDB, has a rich history rooted in Sri Lanka's economic development. Established in 1979 under the National Development Bank of Sri Lanka Act, it initially served as a state-owned development finance institution. Over time, NDB evolved, obtaining a license as a Commercial Bank under the Banking Act in 1988 and subsequently listing on the Colombo Stock Exchange on April 26, 1993.¹ This transformation from a specialized development bank to a full-service commercial bank underscores its adaptive capacity and pivotal role in the nation's financial system.

The Bank's ownership structure is predominantly corporate, accounting for 81% of its shareholders, with individual shareholders comprising the remaining 19%. Notably, 30% of the total shareholding is held by non-resident entities, indicating substantial foreign investor confidence and interest in NDB.¹ The Bank's registered office and principal place of business are located in Colombo, Sri Lanka.¹

NDB operates as a diversified financial services conglomerate, offering a comprehensive suite of products and services through its core banking activities and a network of subsidiary and associate companies. The main activities of the NDB Group encompass:

- **Retail Banking:** Catering to individual clients with a range of personal financial products.
- **Small and Medium Enterprises (SME) Banking:** Providing tailored financial solutions to support the growth of SMEs, a critical segment for economic development.
- **Corporate Banking:** Serving large corporates, state-owned enterprises, and multinational companies.
- **Project & Infrastructure Financing:** Leveraging its development bank heritage

to fund significant national projects.

- **Investment Banking:** Delivered through NDB Capital Holdings PLC (99.6% direct holding) and NDB Investment Bank Ltd. (99.6% indirect holding), offering full-service investment banking solutions.
- **Leasing and Housing Finance:** Providing asset financing and home loan facilities.
- **Investment Advisory and Securities Trading:** Offered via NDB Securities (Pvt) Ltd. (99.6% indirect holding).
- **Wealth Management:** Provided by NDB Wealth Management Ltd. (99.6% indirect holding).¹

The Group's structure also includes Development Holdings (Pvt) Ltd. for property management (58.7% direct holding) and international presence through NDB Capital Ltd. in Bangladesh (77.8% direct holding) and Maldives Finance Leasing Company (Pvt) Ltd. in Maldives (35% direct holding).¹ This diversified structure allows NDB to capitalize on synergies across different financial services segments and expand its geographical footprint, enhancing its revenue streams and risk diversification.

NDB serves a broad spectrum of clientele across 22 districts in Sri Lanka, operating through a network of 78 branches as of 2013, an increase from 69 branches in 2012.¹ Beyond its physical presence, the Bank has embraced automated distribution systems, including ATMs, Internet banking, telemarketing, a call center, and a mobile commerce application (MPOS), ensuring widespread accessibility and convenience for its customers.¹

Historically, as of December 31, 2013, the NDB Group reported a total operating income of LKR 11,549 million and a Profit Attributable to Shareholders of LKR 2,642 million. The Group's total assets had grown by 19% to LKR 206,817 million, primarily driven by an 18% growth in Loans and Receivables and a 47% increase in the Investment Portfolio. At that time, NDB's market capitalization stood at LKR 26,433 million, ranking 20th among 289 listed companies on the Colombo Stock Exchange. Within the Sri Lankan banking industry, which comprised 24 Licensed Commercial Banks and 9 Licensed Specialized Banks, NDB held a 3.8% share in Loans and Receivables, a 2.9% share in Customer Deposits, and a 3.2% share in Total Assets, ranking 9th in each of these three segments.¹ This historical data provides a valuable baseline for appreciating the Bank's subsequent growth and market position shifts.

1.2 Strategic Pillars and Key Initiatives

NDB's recent strategic direction, particularly articulated by its Director/Chief Executive Officer Mr. Kelum Edirisinghe, has been instrumental in its strong financial

performance. The Bank has centered its efforts on three key pillars: driving transactions, enhancing portfolio quality, and increasing net interest margins.⁴ This focused strategy has translated into healthy growth across these areas, leading to enhanced profitability.⁴

A significant aspect of NDB's strategy involves prudent asset and liability management, alongside timely repricing of its deposit book. These actions have been crucial in preserving Net Interest Income (NII) and mitigating pressure on Net Interest Margin (NIM), especially in a fluctuating interest rate environment.⁶ The Bank's emphasis on digital banking transactions and alternative channels, beyond traditional credit and debit cards, has also contributed positively to its fee and commission income.⁴

NDB is also deeply committed to Environmental, Social, and Governance (ESG) principles, integrating them into its core operations to create sustainable value. The Bank aims to foster a thriving, resilient economy while delivering lasting benefits to its customers, shareholders, and communities.⁴ This commitment is reflected in its approach to nurturing an environment that embodies balance and drives impactful growth, as highlighted in its annual reports.⁷

Furthermore, NDB has actively pursued digital transformation initiatives to enhance customer experience and operational efficiency. Examples include the award-winning NDB WriZtPay, a wearable banking solution, and the adoption of AI-based video KYC (Know Your Customer) processes.⁸ These technological advancements are part of NDB's broader vision to provide simpler, smarter, and more agile banking solutions, blending expert product advisory with digital convenience.⁶ The Bank's culture emphasizes continuous improvement and an unwavering focus on achieving excellence, enabling it to evolve with the times and elevate the stakeholder experience.⁷ This proactive approach to innovation and customer-centric solutions positions NDB to capture growth opportunities in a dynamic market.

2. Financial Performance Review

NDB has demonstrated remarkable financial performance in recent periods, particularly in Fiscal Year 2024 and the first quarter of 2025, showcasing its resilience and strategic effectiveness amidst a recovering economic landscape.

2.1 Analysis of Fiscal Year 2024 Results

The financial year ended December 31, 2024, was a landmark period for NDB, with the Bank and Group achieving their highest-ever profitability figures in over 45 years of

operation.⁴

- **Profitability:** NDB recorded a post-tax profit of Rs. 9.0 Billion, representing a substantial 68% increase over the prior year (2023). The Group's profit attributable to shareholders also saw an impressive 70% YoY growth, reaching Rs. 9.8 Billion.⁴ Profit before tax (PBT) at the Bank level surged by 141% over 2023 to Rs. 24.3 Billion, while the Group PBT reached Rs. 25.7 Billion.⁴
 - It is crucial to note that the significant PBT growth included a one-off gain of Rs. 12.8 Billion stemming from the International Sovereign Bond (ISB) restructuring by the Government of Sri Lanka.⁴ This extraordinary item contributed significantly to the headline profit figure. However, even excluding this one-off gain, the underlying business pre-tax profit grew by a healthy 31% year-on-year, affirming the resilience of NDB's core business model and strategic initiatives.⁵ This distinction is important for assessing the sustainability of future earnings.
- **Income Streams:** Net Interest Income (NII), which constitutes approximately 75% of the Bank's total operating income, grew by 7% YoY to Rs. 34.2 Billion. This was a commendable performance in a low-interest-rate environment, attributed to NDB's prudent asset and liability management and timely pricing of its book. As a result, the Net Interest Margin (NIM) settled at 4.34%, the highest recorded thus far.⁴ Net fee and commission income, another integral component of total revenue, increased by 9% YoY to Rs. 7.8 Billion, driven by a gradual increase in loan volumes, trade financing operations, and digital banking transactions.⁴ Total other non-fund based income netted Rs. 3.5 Billion, contributing to a total operating income of Rs. 45.5 Billion.⁴
- **Asset Quality:** NDB made considerable advancements in loan portfolio quality during 2024. The impairment charge on the loan book was reduced by Rs. 2.7 Billion (17%) compared to 2023. The Bank also posted a net impairment reversal of Rs. 10.0 Billion, which included an impairment charge on the loan book and an impairment reversal on the investment portfolio.⁴ Consequently, the Impaired Loans (Stage 3) to Total Loans Ratio improved significantly by 340 basis points to 5.18%, continuing the positive trend observed since 3Q2023.⁴ The Impairment (Stage 3) to Stage 3 loans Ratio increased by 13.37 percentage points to 54.48% over the end 2023 position, indicating improved coverage for impaired assets.⁴
- **Operating Expenses:** Total operating costs for the year amounted to Rs. 16.8 Billion, a 23% YoY increase. However, the Bank maintained a healthy cost-to-income ratio of 36.9%, reflecting a continued focus on cost discipline and effective cost management.⁴
- **Balance Sheet Performance, Capital Adequacy, and Liquidity:** The balance

sheet performance moderated in 2024, a result of a conscious strategic approach in evolving economic dynamics. Total assets grew marginally by 2% to Rs. 796 Billion. Gross loans and deposits grew by 3%, reaching Rs. 510 Billion and Rs. 632 Billion respectively, despite a negative impact from exchange rate movements.⁵ Balance sheet funding remained healthy, allowing for further optimization of the cost of capital. The Current Account and Savings Account (CASA) ratio increased to 25.0% by 2 percentage points compared to 2023, indicating NDB's potential to further increase this cost-efficient funding source.⁵ Total equity enhanced by 11% to Rs. 77.7 Billion. Additionally, NDB successfully raised Rs. 10.0 Billion in Basel III compliant Tier II capital through two tranches during the year.⁵

- Capital enhancements were reflected in robust regulatory capital ratios: Tier I stood at 13.68% and Total Capital Adequacy at 19.09%, both comfortably exceeding the minimum regulatory requirements by 518 bps and 659 bps, respectively.⁵ Regulatory Liquidity Coverage Ratio (Rupee), Liquidity Coverage Ratio (All Currency), and Net Stable Funding Ratio also remained well above the 100% minimum requirement, at 358.12%, 308.26%, and 152.43% respectively, demonstrating strong liquidity management.⁵
- **Investor Key Performance Indicators (KPIs):** Investor KPIs reached record highs in 2024. Return on Average Equity (ROAE) was 12.22%, up from 8.03% in 2023. Earnings per Share (EPS) reached Rs. 21.73, a significant increase from Rs. 12.92 in 2023. The Bank's Pre-tax Return on Average Assets (ROAA) was 3.09%, an exceptional improvement from 1.25% in the prior year. Net Asset Value (NAV) per Share was Rs. 186.91, compared to a closing share price of Rs. 113.25.⁵

2.2 First Quarter 2025 Performance Update

NDB continued its strong financial momentum into the first quarter ended March 31, 2025 (1Q2025), building on the record-breaking performance of 2024.⁶

- **Profitability:** Pre-tax profits surged by 118% YoY to Rs. 4.0 Billion, marking a strong start to the year. Post-tax profitability increased by an even more significant 168% YoY to Rs. 1.9 Billion.⁶ The Return on Equity (ROE) for the quarter stood at 10.03%.⁶
- **Income Analysis:** Total operating income grew by 5% YoY to Rs. 10.6 Billion. Net Interest Income (NII) was Rs. 8.0 Billion, experiencing a marginal decline of 1% YoY. This decline was predominantly due to lower prevailing interest rates (approximately 270 bps less on a monthly AWPR basis) compared to the same period in 2024. However, NDB's timely repricing of its deposit book and strategic focus on optimizing its asset mix helped preserve NII and reduce pressure on the Net Interest Margin (NIM), which was 3.92% for 1Q2025.⁶ Net fee and commission

income was Rs. 1.8 Billion, a marginal decline of 2% YoY, primarily due to a slowdown in credit and debit card fee income. Nevertheless, income from alternative channels, such as electronic transactions and operational services, showed positive YoY growth.⁶ Other income categories contributed significantly, bolstering total operating income.⁶

- **Impairment and Expenses:** The Bank recorded a total impairment charge of Rs. 2.6 Billion, a significant 40% reduction over the corresponding period of the last year. This reduction was further aided by a reversal of Rs. 457.5 Million related to the unwinding of the Day One Loss of debt restructuring in 1Q2025. The impairment charge on loans and advances for 1Q2025 saw a 22% reduction YoY, indicating improved credit quality and effective asset quality enhancement initiatives.⁶ The Impaired Loans (Stage 3) to Total Loans Ratio closed at 5.53% (compared to 5.18% in 2024), while the Impairment (Stage 3) to Stage 3 loans ratio was 53.26% (compared to 54.48% in 2024).⁶ Total operating expenses for 1Q2025 amounted to Rs. 4.4 Billion, a 13% YoY increase, mainly attributed to higher premises, establishment, and other operating expenses. However, the Bank maintained strong cost discipline.⁶
- **Balance Sheet Performance:** The balance sheet posted robust growth during 1Q2025, increasing by 7% year-to-date from the end of 2024 to Rs. 852.4 Billion. This represents the highest balance sheet growth NDB has posted since consecutive quarters of growth had previously curtailed at 2% or below, signaling strong growth for the period ahead.⁶ Gross loans grew by 5% (Rs. 25.4 Billion YTD) to Rs. 535.2 Billion, reflecting broad-based momentum across all business segments, with the local currency loan book growing by Rs. 16.9 Billion.⁶ Total deposits grew by 2% (Rs. 10.6 Billion YTD) to Rs. 642.3 Billion, primarily driven by a Rs. 9.1 Billion growth in the local currency deposit book.⁶ The CASA ratio improved by 91 bps to 25.82% at the end of 1Q2025 from 24.91% at the end of 2024, with the CASA base increasing by Rs. 8.5 Billion (5% growth).⁶ The total equity base of the Bank was Rs. 76.8 Billion.⁶
- **Capital Adequacy and Liquidity:** NDB continues to demonstrate sound capital adequacy, with Tier I and Total Capital Adequacy ratios standing at 12.16% and 16.95% respectively, comfortably exceeding minimum regulatory requirements by 366 bps and 445 bps.⁶ Regulatory Liquidity Coverage Ratio (Rupee), Liquidity Coverage Ratio (All Currency), and Net Stable Funding Ratio were all well above the regulatory minimum of 100%, at 392.64%, 341.38%, and 133.22% respectively.⁶
- **Investor KPIs:** Return on Average Equity was 10.03% (compared to 12.22% in 2024), and Earnings per Share was Rs. 18.18 (compared to Rs. 21.73 in 2024). The Bank's pre-tax Return on Average Assets was 1.92% (compared to 3.09% in 2024). Net Asset Value per share was Rs. 180.29 (compared to Rs. 186.91 in 2024), with a

closing share price of Rs. 107.00.⁶

Table: NDB PLC Key Financial Highlights (FY2024 vs. 1Q2025)

Metric	FY2024 (Rs. Bn)	1Q2025 (Rs. Bn)	Change (YoY/YTD)
Profit Before Tax (Bank)	24.3	4.0	+118% (1Q25 vs 1Q24)
Profit After Tax (Bank)	9.0	1.9	+168% (1Q25 vs 1Q24)
Total Operating Income	45.5	10.6	+5% (1Q25 vs 1Q24)
Net Interest Income	34.2	8.0	-1% (1Q25 vs 1Q24)
Net Fee & Commission Income	7.8	1.8	-2% (1Q25 vs 1Q24)
Total Impairment Charge	10.0 (Net Reversal)	2.6 (Charge)	-40% (1Q25 vs 1Q24)
Total Operating Expenses	16.8	4.4	+13% (1Q25 vs 1Q24)
Total Assets	796.0	852.4	+7% (1Q25 YTD)
Gross Loans	510.0	535.2	+5% (1Q25 YTD)
Total Deposits	632.0	642.3	+2% (1Q25 YTD)
CASA Ratio	25.0%	25.82%	+91 bps (1Q25 YTD)
Total Equity	77.7	76.8	-1.2% (1Q25 YTD)
Impaired Loans (Stage 3) Ratio	5.18%	5.53%	+35 bps (1Q25 YTD)

Return on Average Equity (ROE)	12.22%	10.03%	-2.19% (1Q25 vs FY24)
Earnings Per Share (EPS)	21.73	18.18 (Q1)	-3.55 (1Q25 vs FY24)
Net Asset Value (NAV) Per Share	186.91	180.29	-6.62 (1Q25 vs FY24)

The analysis of NDB's financial performance reveals a strong operational foundation. The ability to achieve record profitability in FY2024, even with the significant contribution from the ISB restructuring, highlights the Bank's capacity to capitalize on unique economic events. The underlying business growth of 31% in PBT for FY2024 is a more accurate indicator of sustainable performance, demonstrating that the Bank's core operations are robust and improving. The continued strong start in 1Q2025, marked by substantial profit surges and healthy balance sheet growth, further validates the effectiveness of NDB's strategic pillars. While the slight increase in the Stage 3 loans ratio in 1Q2025 warrants close monitoring, the significant reduction in impairment charges suggests ongoing success in managing credit risk. The consistently high capital adequacy and liquidity ratios provide a solid buffer against potential economic volatilities, reinforcing investor confidence in the Bank's stability.

3. Sri Lankan Banking Sector and Economic Outlook

The performance and outlook for National Development Bank PLC are intrinsically linked to the broader macroeconomic environment and the dynamics of the Sri Lankan banking sector.

3.1 Macroeconomic Environment and Growth Projections (2025-2026)

Sri Lanka's economy has been on a path toward recovery following the severe economic crisis of 2022, which saw a public debt default and significant disruptions.⁹ The country has been implementing reforms under an IMF Extended Fund Facility (EFF) program, which has contributed to economic stabilization.¹⁰

The World Bank reported that Sri Lanka's economy staged a stronger-than-expected recovery in 2024, expanding by 5%, outpacing its earlier estimate of 4.4%.¹¹ This rebound was largely driven by robust performances in industry and services, particularly in construction and tourism-related sectors.¹¹ Inflation has decelerated significantly, remaining negative since September 2024 due to downward adjustments in energy prices, currency appreciation, and subdued household demand. This decline

in inflation has enabled the Central Bank to reduce policy rates, leading to a recovery in private credit, which grew by 10.7% in December 2024.¹⁰ Reserves have also continued to build up, bolstered by strong tourism revenues and remittances.¹⁰

Looking ahead, the World Bank forecasts moderate economic growth for Sri Lanka, projecting 3.6% in 2025 and 3.1% in 2026.¹¹ The Asian Development Bank (ADB) provides a slightly more optimistic outlook, forecasting growth of 3.9% in 2025 and 3.4% in 2026.¹³ Both institutions acknowledge that while the economy is recovering, growth is expected to moderate, reflecting the "scarring effects of the crisis" and structural impediments, amidst global headwinds and trade policy uncertainty.¹⁰

Despite the positive trajectory, significant challenges persist. Household incomes, employment, and overall welfare remain below pre-crisis levels, and the poverty rate was alarmingly high at 24.5% in 2024. The labor market continues to struggle, leading to increased emigration of skilled workers.¹⁰ Sustaining and broadening the recovery will depend on maintaining macroeconomic stability and accelerating structural reforms, including enhancing trade and investment, increasing competitiveness, improving female labor force participation, and strengthening public sector efficiency.¹⁰ The public debt-to-gross domestic product ratio is projected to fall below 95% only by 2032, indicating that debt vulnerability remains high and will require sustained efforts.¹³

The recovery in private sector credit, driven by declining inflation and policy rate cuts, presents a significant opportunity for banks like NDB. As the economy stabilizes and investor confidence improves with the fading of uncertainties from elections and debt restructuring, private investment is expected to be supported, although consumer demand may remain sluggish amid expected rising inflation.¹⁰

3.2 Regulatory Landscape and Stability

The Central Bank of Sri Lanka (CBSL) plays a pivotal role in ensuring the stability and soundness of the financial system through its functions of regulation and supervision.¹⁴ The CBSL sets prudential standards and policies, including minimum capital ratios, liquid asset requirements, limits on single borrower lending, and provisions for bad and doubtful debts.¹⁴ Supervision involves both off-site surveillance, through periodic examination of financial data, and on-site examinations, where examiners visit institutions to verify compliance and assess risks.¹⁴ This robust regulatory framework aims to mitigate risks inherent in banking and finance businesses and ensure overall financial system stability.¹⁴

In addition to firm-level supervision, the CBSL employs a macroprudential policy

framework to address systemic risks that could threaten the entire financial system. This involves identifying, monitoring, and assessing risks across the broader financial and monetary system and utilizing specific tools to limit disruptions.¹⁴ The CBSL regularly publishes reports, including the Annual Economic Review and Financial Statements, which provide comprehensive assessments of the financial sector's performance and stability.¹⁶

The banking sector dominates Sri Lanka's financial system, accounting for 61.9% of total assets at the end of 2022.¹⁸ Despite the economic headwinds and the tight monetary policy stance adopted by the CBSL, the banking sector has largely maintained its growth momentum and compliance with prudential requirements.¹⁸ Deposits have remained the primary source of funding, representing 78.8% of total liabilities at the end of 2022.¹⁸ This regulatory oversight and the sector's demonstrated resilience provide a stable operating environment for banks like NDB.

3.3 Competitive Analysis and NDB's Market Positioning

The Sri Lankan banking industry is competitive, comprising 24 Licensed Commercial Banks and 9 Licensed Specialized Banks.¹ NDB operates within this landscape alongside several prominent players. Key competitors include state-owned giants like Bank of Ceylon and People's Bank, as well as large private sector banks such as Commercial Bank of Ceylon, Hatton National Bank (HNB), Sampath Bank, DFCC Bank, and Nations Trust Bank.⁸

Commercial Bank of Ceylon, for instance, holds a leading position among private sector banks, boasting the highest market shares in deposits, loans, and total assets, and the highest market capitalization in the banking sector on the Colombo Stock Exchange.²¹ As of December 31, 2024, Commercial Bank's total assets grew to Rs. 2.790 Trillion, and it holds market shares of 13.16% in assets, 13.22% in advances, and 12.90% in deposits.²² People's Bank also reported consolidated assets of LKR 3.5 trillion at end 2024.²⁴

In comparison, NDB's market share in 2013 stood at 3.8% in Loans and Receivables, 2.9% in Customer Deposits, and 3.2% in Total Assets, ranking 9th in these segments.¹ While these figures are older, NDB's recent robust growth in total assets (7% YTD in 1Q2025 to Rs. 852.4 Billion)⁶ suggests it is actively gaining ground and competing effectively.

NDB's strategic positioning leverages its legacy in development financing, which allows it to focus on supporting businesses and projects that contribute to economic growth.³ Its diversified portfolio, extending beyond traditional banking into capital

markets, investment banking, and wealth management, provides a competitive edge by offering a comprehensive suite of financial services.¹ Furthermore, NDB's strong emphasis on digital banking solutions and customer-centric approaches, as well as its commitment to ESG principles, helps it differentiate itself in the market and attract a broad clientele.⁴ While NDB may not be the largest player by asset size, its strategic focus on innovation, asset quality, and diversified income streams positions it as a strong and agile competitor within the recovering Sri Lankan banking sector.

4. Stock Performance and Valuation Analysis

Understanding NDB's stock performance and valuation requires a comprehensive look at its historical trends, current multiples, and comparison against industry peers.

4.1 Historical Stock Price Trends

NATIONAL DEVELOPMENT BANK PLC (NDB.N0000) is listed on the Colombo Stock Exchange.² The current closing price of NDB.N0000, as of the latest available financial report (1Q2025), was Rs. 107.00.⁶

Over the past year, NDB.N0000 has shown a significant increase of 34.95%.²⁵ This upward trend reflects the Bank's strong financial performance and the broader economic recovery in Sri Lanka. The 52-week trading range for NDB.N0000 has been between Rs. 62.00 and Rs. 84.00, though it is important to note that the current price of Rs. 107.00 (as of 1Q2025 report) indicates it has surpassed this range, suggesting a recent upward re-rating.³ The stock reached its all-time high on July 19, 2015, with a price of 201.50 LKR.²⁵

The stock's volatility is measured at 1.69%, with a beta coefficient of 1.53.²⁵ A beta greater than 1.0 suggests that NDB's stock price tends to be more volatile than the overall market. Despite this, NDB.N0000 has not experienced significant price volatility in the past three months compared to the overall Sri Lankan market, and its weekly volatility has remained stable over the past year.²⁶ Technical analysis indicators from TradingView suggest a "Strong Buy" signal based on moving averages and technical indicators, with a "Buy" signal for the 1-month rating.²⁵ This technical outlook complements the positive fundamental developments.

(The user provided daily trade chart for the last year would be inserted here to visually represent these trends.)

4.2 Valuation Multiples (NDB vs. Industry Peers)

To assess NDB's valuation, it is essential to compare its key multiples against its peers

in the Sri Lankan banking sector and broader market averages.

NDB's Valuation Multiples:

- **Current Price:** Rs. 107.00 ⁶
- **Earnings Per Share (EPS):** For Fiscal Year 2024, NDB reported an EPS of Rs. 21.73. ⁵
- **Price-to-Earnings (P/E) Ratio:** Based on the FY2024 EPS and current price, NDB's P/E ratio is approximately 4.92x (107.00 / 21.73). Other sources provide slightly varied P/E figures, such as 4.07x ³, 4.00x ²⁵, 2.24x (normalized) ²⁸, and 4.5x. ²⁹ The calculated 4.92x based on the latest full-year audited EPS and current price is used for consistency.
- **Price-to-Book (P/B) Value:** NDB's Net Asset Value (NAV) per share for FY2024 was Rs. 186.91. ⁵ With a current price of Rs. 107.00, the P/B ratio is approximately 0.57x (107.00 / 186.91). This is consistent with other sources reporting 0.535x ³, 0.54x ²⁸, and 0.5x. ²⁶
- **Dividend Yield (Trailing Twelve Months - TTM):** NDB's TTM dividend yield is 4.69%, with the last dividend per share being Rs. 5.00. The payout ratio in 2024 was 21.21%. ³

Comparative Valuation Multiples (NDB vs. Selected Sri Lankan Banking Peers):

Bank Name	Ticker	Current Price (LKR)	P/E Ratio (x)	P/B Ratio (x)	Dividend Yield (%)
National Development Bank	NDB.N0000	107.00	4.92	0.57	4.69
Commercial Bank of Ceylon	COMB.N0000	N/A	3.6	0.81	3.81
Hatton National Bank	HNB.N0000	N/A	3.71	0.66	4.91
Sampath Bank	SAMP.N0000	N/A	3.85	0.75	8.54
DFCC Bank	DFCC.N0000	103.50	5.21	0.51	3.85

	0				
Nations Trust Bank	NTB.N0000	129.00	3.79	0.79	1.71
Seylan Bank	SEYB.N0000	49.80	4.3	0.45*	4.98
Peer Average (excl. NDB)			4.11	0.67	4.65
Sri Lanka All Shares Avg.			8.30 (Mar 2025)	1.31 (2017)	3.19 (2017)

*P/B for Seylan Bank calculated using current price³⁰ and NAV per share.³¹ Current prices for peers not consistently available across snippets, thus N/A for some. P/E and P/B values for peers are based on the latest available data in snippets.²⁹

The table above indicates that NDB's P/E ratio of 4.92x is competitive within its peer group, which ranges from 3.6x to 5.21x. Compared to the broader Sri Lanka All Shares average P/E of 8.30x (as of March 2025)⁴⁴, NDB appears undervalued. Its P/B ratio of 0.57x is at the lower end of the peer group (ranging from 0.45x to 0.81x), and significantly below the older Sri Lanka All Shares average P/B of 1.31x (2017).⁴⁵ This suggests that NDB's assets are trading at a discount relative to their book value, which could imply an attractive entry point for investors. NDB's dividend yield of 4.69% is also competitive, aligning closely with the calculated peer average and exceeding the older All Shares average.⁴⁶

4.3 Analyst Sentiment and Fair Value Assessment

Analyst sentiment regarding NDB presents a mixed picture, primarily due to varying methodologies and data points. Morningstar suggests that NDB.N0000 is "trading within a range we consider fairly valued" and notes that it has "Economic Moat None".²⁸ This assessment implies that the current price is broadly in line with its intrinsic value based on their quantitative models.

However, Simplywall.st, another analytical platform, offers a contrasting view, indicating that NDB.N0000 is "125.9% overvalued".²⁶ This assessment implies a fair value significantly below the current market price. This apparent contradiction between "fairly valued" and "overvalued" can arise from differences in valuation

models, growth assumptions, or the specific financial data used in their calculations. For instance, Simplywall.st's P/E of 4.0x and P/B of 0.5x for NDB²⁶ are at the lower end of the peer group and significantly below the broader market average, which would typically suggest undervaluation rather than overvaluation. This discrepancy highlights the importance of conducting a thorough independent analysis rather than relying solely on a single platform's fair value assessment.

In contrast to fundamental valuation models, technical analysis from TradingView provides a more immediate positive outlook. Their summary indicates a "Strong Buy" signal for NDB based on moving averages and technical indicators, with a "Buy" signal for the 1-month rating.²⁵ This suggests that short-to-medium-term price momentum is positive, driven by recent trading patterns.

The absence of explicit analyst price targets from major investment banks in the provided material necessitates reliance on internal calculations and comparative analysis. The differing fair value assessments underscore the complexity of valuing a stock in a recovering emerging market economy. While some models point to overvaluation, NDB's P/B ratio, in particular, suggests that its assets are trading at a discount compared to its book value and most of its peers, which could indicate a compelling investment opportunity. The strong underlying business performance and positive technical signals further support a favorable view, despite the conflicting fair value claims.

5. Key Risks and Opportunities

Investing in NDB, like any financial institution in an emerging market, involves a balance of potential risks and significant opportunities.

5.1 Identified Risks

- **Macroeconomic Uncertainty:** Despite the ongoing recovery, Sri Lanka's economy faces lingering effects of the recent crisis, including structural impediments, global headwinds, and unprecedented trade policy uncertainty.¹⁰ Political uncertainty, particularly with upcoming national elections in 2024-2025, could also impact policy consistency and investor confidence.⁹ These factors can influence credit demand, asset quality, and overall banking sector stability.
- **Credit Risk and Non-Performing Loans (NPLs):** While NDB has made commendable progress in improving its Impaired Loans (Stage 3) to Total Loans Ratio in FY2024 (down to 5.18%), this ratio slightly increased in 1Q2025 to 5.53%.⁵ Although the Bank recorded a significant reduction in impairment charges, a sustained increase in NPLs could impact future profitability. The overall banking

sector's NPLs were around 4% in 2018 ⁴⁷, indicating that asset quality remains a key area for continuous monitoring in a recovering economy.

- **Interest Rate Environment:** The declining interest rate environment, as observed in 1Q2025 with a marginal 1% YoY decline in Net Interest Income (NII) despite strategic repricing, can pressure Net Interest Margins (NIM).⁶ While NDB has demonstrated effective asset-liability management, prolonged low-interest rates could constrain core interest-based earnings.
- **Intense Competition:** The Sri Lankan banking sector is highly competitive, with numerous Licensed Commercial Banks and Specialized Banks vying for market share.¹ Larger players, such as Commercial Bank, hold significant market shares in assets, deposits, and loans.²¹ This intense competition could limit NDB's ability to expand aggressively or maintain high margins.
- **Reliance on One-off Gains:** NDB's record-breaking profit in FY2024 was significantly boosted by a one-off gain of Rs. 12.8 Billion from the ISB restructuring.⁵ While the underlying business profit growth was still strong, future headline profit growth may not be as dramatic without similar extraordinary events, requiring investors to focus on sustainable operational improvements.
- **Poverty and Labor Market Challenges:** A significant portion of Sri Lanka's population remains in poverty or at risk, and the labor market continues to struggle, leading to increased emigration of skilled workers.¹⁰ These socio-economic factors could impact consumer demand, loan repayment capacity, and the overall economic environment for banking operations.

5.2 Growth Opportunities

- **Continued Economic Recovery:** The World Bank and ADB project moderate economic growth for Sri Lanka in 2025-2026, driven by industry, services, construction, and tourism.¹¹ This recovery is expected to stimulate overall economic activity, translating into increased demand for banking services, including loans and deposits.
- **Renewed Private Sector Credit Demand:** As inflation decelerates and policy rates are cut, private sector credit has begun to recover.¹⁰ NDB is well-positioned to capitalize on this renewed demand for credit as customers regain financial momentum in an improving economic environment.⁶
- **Digital Banking Expansion:** NDB's proactive investment in digital solutions, such as its mobile commerce application (MPOS) and initiatives like NDB WritPay and AI-based video KYC, positions it to enhance operational efficiency, expand its customer reach, and drive non-fund-based income through electronic transactions.¹ This digital focus aligns with evolving customer preferences and can reduce operational costs.

- **Strategic Alignment with National Growth:** NDB's historical mandate as a development bank and its current strategic alignment with national growth ambitions, including a focus on ESG principles, enable it to participate in and benefit from large-scale infrastructure and sustainable development projects.⁴ International support, such as the World Bank Group's \$1 Billion package to boost jobs and private sector growth in Sri Lanka across energy, agriculture, tourism, and regional development, presents significant opportunities for NDB's project financing and corporate banking segments.⁴⁹
- **Further Asset Quality Improvement:** NDB's consistent focus on improving its loan portfolio quality and implementing strong recovery initiatives has already led to a reduction in impairment charges.⁴ Continued efforts in this area can further reduce future provisions and enhance profitability.
- **CASA Ratio Upside Potential:** The Bank's CASA ratio increased to 25.0% in FY2024 and further to 25.82% in 1Q2025.⁵ There is still upside potential to increase this ratio towards the industry average, which would provide NDB with a more cost-efficient and stable funding base, positively impacting its Net Interest Margin.

6. Investment Recommendation and Price Target

6.1 Rationale for Investment Recommendation

The analysis of National Development Bank PLC reveals a compelling investment case, leading to a **Buy** recommendation. This assessment is based on a synthesis of NDB's robust financial performance, its strategic positioning within a recovering macroeconomic environment, and its attractive valuation relative to its peers.

NDB has demonstrated exceptional financial strength, achieving record-breaking profitability in FY2024 and maintaining strong momentum into 1Q2025. While the FY2024 headline profit benefited from a one-off gain related to debt restructuring, the underlying business demonstrated a healthy 31% PBT growth, indicating sustainable operational improvements.⁵ The Bank's proactive management of its asset portfolio has led to significant reductions in impairment charges and improvements in asset quality ratios.⁴ Furthermore, NDB consistently maintains strong capital adequacy and liquidity buffers, well above regulatory minimums, providing a solid foundation for future growth and resilience against economic shocks.⁵

The broader macroeconomic environment in Sri Lanka is supportive, with the economy continuing its moderate recovery as projected by the World Bank and ADB for 2025-2026.¹¹ The revival of private sector credit demand, driven by declining inflation and policy rate cuts, presents a significant tailwind for the banking sector,

including NDB.⁶ NDB's strategic focus on digital transformation, enhancing customer engagement, and its historical role in development finance position it to capitalize on these opportunities, including potential participation in large-scale national development projects.¹

From a valuation perspective, NDB's current Price-to-Earnings (P/E) ratio of approximately 4.92x and Price-to-Book (P/B) ratio of 0.57x appear attractive when compared to the broader Sri Lankan market averages and, in the case of P/B, at the lower end of its peer group. This suggests that the stock may be undervalued relative to its intrinsic worth and growth potential. While some external fair value assessments may conflict, the fundamental strength and positive market trends for NDB are compelling. The positive technical signals further reinforce a favorable short-to-medium-term outlook.²⁵

The key risks, such as lingering macroeconomic uncertainties, potential fluctuations in NPLs, and competitive pressures, are acknowledged. However, NDB's demonstrated ability to navigate challenging environments, its robust risk management practices, and its strategic initiatives to drive sustainable growth mitigate these concerns. The Bank's consistent dividend payments and healthy payout ratio also add to its appeal for income-focused investors.²⁵

6.2 Stock Value Projection for May 2026

To project NDB's stock value by May 2026, a combination of fundamental valuation approaches, primarily focusing on Price-to-Earnings (P/E) and Price-to-Book (P/B) multiples, is employed, considering the projected economic environment and NDB's anticipated performance.

Assumptions for Projection:

- Economic Growth:** The Sri Lankan economy is expected to continue its moderate recovery, with World Bank and ADB forecasts indicating growth rates of 3.1% to 3.9% in 2025 and 3.1% to 3.4% in 2026.¹¹ This stable, albeit moderate, growth is anticipated to support private credit expansion and overall business activity, benefiting the banking sector.
- NDB's Performance:** NDB is assumed to maintain its strategic focus on operational efficiency, asset quality improvement, and digital banking expansion. The Bank's ability to drive underlying business growth, as demonstrated in FY2024 and 1Q2025, is expected to continue.
- Earnings Per Share (EPS) Growth:** NDB's underlying business PBT grew by 31% in FY2024 (excluding the one-off gain).⁵ The 1Q2025 pre-tax profit surged by

118% over 1Q2024, indicating strong quarterly momentum.⁶ Given this strong performance and the recovering economic backdrop, a conservative annual EPS growth rate of 15% to 20% for both FY2025 and FY2026 is projected.

- FY2024 EPS: LKR 21.73⁵
- Projected EPS for FY2025: LKR 21.73 * (1.15 to 1.20) = LKR 25.00 to LKR 26.08
- Projected EPS for FY2026: LKR 25.00 * (1.15 to 1.20) = LKR 28.75 (low end) to LKR 31.30 (high end)

4. **Target P/E Multiple:** NDB's current P/E is approximately 4.92x. The peer average P/E ranges from 3.6x to 5.21x, while the Sri Lanka All Shares P/E is 8.30x.⁴⁴ As the economy stabilizes and NDB continues to perform, a slight re-rating of its multiple is anticipated. A target P/E multiple of 5.5x to 6.5x for May 2026 is considered reasonable, reflecting improved market sentiment and NDB's consistent performance.

Price Target Calculation (using P/E):

- **Low-End Target:** LKR 28.75 (Projected FY2026 EPS) * 5.5 (Target P/E) = **LKR 158.13**
- **High-End Target:** LKR 31.30 (Projected FY2026 EPS) * 6.5 (Target P/E) = **LKR 203.45**

Cross-Verification using Price-to-Book (P/B) Value:

1. **Projected Net Asset Value (NAV) per Share:** NDB's NAV per share for FY2024 was LKR 186.91.⁵ With total equity growing by 11% in FY2024⁵, assuming a conservative annual equity growth rate of 10% to 15% for 2025 and 2026:
 - Projected NAV per Share for FY2026: LKR 186.91 * (1.10)² = LKR 226.16 (low end) to LKR 186.91 * (1.15)² = LKR 246.99 (high end).
2. **Target P/B Multiple:** NDB's current P/B is 0.57x, which is at the lower end of its peer group (0.45x to 0.81x). The broader market P/B (2017) was 1.31x.⁴⁵ As NDB's strong performance and asset quality continue to be recognized, a re-rating to a P/B multiple of 0.7x to 0.8x, closer to its stronger peers, is plausible.

Price Target Calculation (using P/B):

- **Low-End Target:** LKR 226.16 (Projected FY2026 NAV) * 0.7 (Target P/B) = **LKR 158.31**
- **High-End Target:** LKR 246.99 (Projected FY2026 NAV) * 0.8 (Target P/B) = **LKR 197.59**

Both the P/E and P/B valuation methodologies yield a consistent price range.

6.3 Final Buy/Hold/Sell Recommendation

Considering the comprehensive analysis of NDB's robust financial performance, its strategic initiatives, the favorable macroeconomic outlook for Sri Lanka, and its attractive valuation multiples relative to peers and the broader market, a **Buy** recommendation is issued for National Development Bank PLC stock.

The Bank's ability to deliver strong underlying profit growth, enhance asset quality, and maintain solid capital and liquidity positions in a recovering yet challenging economic environment demonstrates its operational strength and effective management. The projected economic recovery in Sri Lanka, coupled with increasing private sector credit demand and NDB's digital transformation efforts, provides significant avenues for sustained growth.

The current valuation, particularly the Price-to-Book ratio, suggests that NDB is trading at a discount, offering a compelling entry point for investors. While the one-off gain in FY2024 should be noted, the consistent improvement in core business metrics indicates a healthy trajectory.

Projected Stock Value for May 2026: LKR 160 - LKR 200.

This price target reflects the expectation of continued earnings growth, a potential re-rating of NDB's valuation multiples as the Sri Lankan economy stabilizes, and the Bank's successful execution of its strategic priorities. Investors should monitor macroeconomic developments in Sri Lanka, particularly inflation and interest rate trends, as well as NDB's asset quality and competitive positioning, to ensure the investment thesis remains valid.

Appendix

(The user-provided daily trade chart for NATIONAL DEVELOPMENT BANK PLC (Last Year) would be inserted here.)

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