

Hatton National Bank PLC

Update

Ratings

National

Long-Term Rating	AA-(lka)
Senior unsecured debt	AA-(lka)
Subordinated debt	A+(lka)

Sovereign Risk

Long-Term Foreign-Currency IDR	BB-
Long-Term Local-Currency IDR	BB-

Outlooks

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

Financial Data

Hatton National Bank PLC

	30 June 15 unaudited (6 Months)	31 Dec 14 audited (12 Months)
Total assets (USDm)	4,946.1	4,580.7
Total assets (LKRbn)	661.3	600.3
Total equity (LKRbn)	71.4	69.6
Operating profit (LKRbn)	7.8 ^a	15.5
Net income (LKRbn)	4.6 ^a	10.1
Operating ROAA (%)	2.5 ^b	2.8
Operating ROAE (%)	22.4 ^b	25.1
Internal capital generation (%)	12.9 ^b	13.6
Fitch Core Capital/weighted risks (%)	15.6	16.7
Tier 1 ratio (%)	10.9	12.7

^a 6 months results

^b Annualised

Disclaimer

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Key Rating Drivers

Strong Credit Profile: Hatton National Bank PLC's (HNB) rating reflects its strong franchise, satisfactory capitalisation and established track record, which is partly offset by the bank's higher risk appetite compared with that of better-rated peers.

Strong Domestic Franchise: HNB is Sri Lanka's second-largest private-sector bank and the fifth-largest bank, accounting for over 10% of sector assets and loans and 9.5% of sector deposits at end-June 2015. The bank acquired HNB Grameen Finance Limited (HNBGF) in November 2014 as part of a financial-sector consolidation plan, but the purchase is not likely to have a major impact on the bank's credit profile as HNBGF accounts for less than 2% of HNB's total assets.

Concentrated on SME/Retail: HNB remains focused on the SME/mid-sized corporates and retail segments (41% and 29% of the loan book in 1H15, respectively). The bank's loan book expanded by 8.2% in 1H15 and 13.9% in 2014, marginally above the industry (1H15: 8.0%, 2014: 13.7%), driven by an increase in retail lending, which offset a contraction in gold-backed loans to 4.1% of the loan book in 1H15 (2014: 5.6%, 2013: 12.8%).

Improving NPL Ratio: HNB's reported gross NPL ratio had improved to 3.2% by end-June 2015 (2014: 3.2%, 2013: 3.6%), supported by recoveries from tourism-related exposures in the Maldives and high loan growth. However, the increase in NPLs continued to outpace that of loan recoveries. HNB's provision coverage for NPLs improved to 70%, but remained lower than the 84% of its higher-rated peers. Fitch Ratings expects asset-quality risks to remain, stemming largely from segments that are more susceptible to deteriorating economic conditions.

Sound Capitalisation: The bank's capitalisation remains strong compared with similarly rated peers despite a decline in the Fitch Core Capital ratio to 15.6% by end-1H15 from 16.7% at end-2013. Fitch believes that the bank's relatively high internal capital generation will help support HNB's capital base despite loan-book expansion in the medium term.

Income Diversification Drives Profit: HNB's profit after tax increased by 29% in 2014 as increased fee and commission income, equity capital gains and lower impairment charges offset moderating NIMs due to lower interest rates. Fitch expects non-interest income (1H15: 28% of gross revenues, 2013: 16%) to be a significant contributor to profit in the medium term.

Strong Deposit Franchise: HNB's low-cost deposit ratio improved to 44% of deposits in 1H15 from 38% at end-2013. Deposits are the main source of funding, although the share of deposits in total funding had fallen slightly to 83% by end-1H15 from 87% by end-2014. HNB's loans/deposit ratio remained high at 96% at 1H15.

Challenging Operating Environment: The operating environment is a key rating driver for Sri Lankan banks, given its potential volatility. Fitch sees uncertainty in the interest-rate environment and a possible resurgence of inflation as key challenges facing Sri Lankan banks.

Rating Sensitivities

Changes in Risk Profile: Upside potential for HNB's ratings could stem from a lower risk appetite and sustained improvements in its financial profile, in particular asset quality and funding. A significant increase in risk taking, unless sufficiently mitigated through capital and financial performance, could result in a rating downgrade.

Hatton National Bank PLC
Income Statement

	30 Jun 2015		31 Dec 2014		31 Dec 2013		31 Dec 2012		As % of Earning Assets
	6 Months - Interim	6 Months - Interim	Year End	Year End	Year End	Year End	Year End	Year End	
	USDm	LKRbn	LKRbn	LKRbn	LKRbn	LKRbn	LKRbn	LKRbn	
	Unaudited	Unaudited	As % of Earning Assets	Unqualified	As % of Earning Assets	Unqualified	As % of Earning Assets	Unqualified	Assets
1. Interest Income on Loans	n.a.	n.a.	-	43.7	8.11	47.4	10.22	39.7	9.94
2. Other Interest Income	201.1	26.9	9.07	9.4	1.74	9.9	2.14	8.2	2.05
3. Dividend Income	n.a.	n.a.	-	0.3	0.05	0.3	0.06	n.a.	-
4. Gross Interest and Dividend Income	201.1	26.9	9.07	53.3	9.90	57.6	12.42	47.9	12.00
5. Interest Expense on Customer Deposits	n.a.	n.a.	-	23.2	4.31	27.7	5.96	22.3	5.58
6. Other Interest Expense	93.5	12.5	4.22	3.9	0.72	3.7	0.81	3.2	0.80
7. Total Interest Expense	93.5	12.5	4.22	27.1	5.03	31.4	6.76	25.5	6.38
8. Net Interest Income	107.6	14.4	4.85	26.3	4.87	26.2	5.65	22.4	5.61
9. Net Gains (Losses) on Trading and Derivatives	(3.9)	(0.5)	(0.17)	(0.5)	(0.09)	(1.8)	(0.39)	(1.6)	(0.41)
10. Net Gains (Losses) on Other Securities	1.7	0.2	0.08	1.3	0.23	0.0	0.01	0.1	0.03
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.	-	1.8	0.33	1.3	0.28	1.5	0.37
13. Net Fees and Commissions	19.1	2.6	0.86	4.6	0.85	3.9	0.84	3.5	0.87
14. Other Operating Income	25.3	3.4	1.14	1.8	0.34	1.6	0.35	2.1	0.53
15. Total Non-Interest Operating Income	42.2	5.6	1.90	9.0	1.67	5.0	1.09	5.6	1.40
16. Personnel Expenses	35.0	4.7	1.58	8.2	1.52	6.0	1.30	7.4	1.84
17. Other Operating Expenses	46.0	6.1	2.07	9.0	1.68	8.6	1.85	7.9	1.97
18. Total Non-Interest Expenses	80.9	10.8	3.65	17.2	3.19	14.6	3.15	15.3	3.82
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. Pre-Impairment Operating Profit	68.9	9.2	3.11	18.0	3.35	16.7	3.59	12.8	3.19
21. Loan Impairment Charge	10.8	1.4	0.49	2.5	0.47	4.3	0.93	1.0	0.26
22. Securities and Other Credit Impairment Charges	0.1	0.0	0.00	0.0	0.00	0.0	0.00	0.1	0.03
23. Operating Profit	58.0	7.8	2.62	15.5	2.88	12.3	2.66	11.6	2.91
24. Equity-accounted Profit/ Loss - Non-operating	0.3	0.0	0.01	0.1	0.03	0.1	0.02	0.0	0.00
25. Non-recurring Income	n.a.	n.a.	-	0.0	0.01	0.1	0.02	0.1	0.04
26. Non-recurring Expense	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
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	58.3	7.8	2.63	15.7	2.91	12.5	2.69	11.8	2.95
30. Tax expense	24.2	3.2	1.09	5.6	1.05	4.7	1.02	3.7	0.92
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
32. Net Income	34.1	4.6	1.54	10.1	1.87	7.8	1.68	8.1	2.03
33. Change in Value of AFS Investments	(1.5)	(0.2)	(0.07)	2.3	0.44	1.3	0.28	0.5	0.13
34. Revaluation of Fixed Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
35. Currency Translation Differences	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
36. Remaining OCI Gains/(losses)	(0.2)	(0.0)	(0.01)	1.2	0.21	(0.8)	(0.18)	3.2	0.79
37. Fitch Comprehensive Income	32.4	4.3	1.46	13.6	2.52	8.2	1.77	11.8	2.95
38. Memo: Profit Allocation to Non-controlling Interests	1.9	0.3	0.09	0.2	0.05	0.1	0.03	0.2	0.04
39. Memo: Net Income after Allocation to Non-controlling Interests	32.2	4.3	1.45	9.8	1.82	7.7	1.65	7.9	1.99
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	0.6	0.11	3.4	0.73	2.8	0.70
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Hatton National Bank PLC Balance Sheet

	30 Jun 2015			31 Dec 2014		31 Dec 2013		31 Dec 2012	
	6 Months - Interim	Interim	As % of	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	LKRbn	Assets	LKRbn	Assets	LKRbn	Assets	LKRbn	Assets
Assets									
A. Loans									
1. Residential Mortgage Loans	213.6	28.6	4.32	27.6	4.60	25.1	4.80	23.0	5.00
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	30.5	4.1	0.62	3.9	0.65	3.4	0.66	2.8	0.60
4. Corporate & Commercial Loans	1.1	0.2	0.02	0.2	0.03	0.1	0.01	214.6	46.71
5. Other Loans	3,093.8	413.6	62.55	380.9	63.46	333.8	63.84	68.9	14.99
6. Less: Reserves for Impaired Loans	91.6	12.2	1.85	11.4	1.89	10.6	2.03	7.6	1.66
7. Net Loans	3,247.5	434.2	65.66	401.3	66.85	351.8	67.28	301.7	65.66
8. Gross Loans	3,339.1	446.4	67.51	412.6	68.74	362.4	69.31	309.3	67.31
9. Memo: Impaired Loans included above	n.a.	n.a.	-	13.0	2.17	13.2	2.52	11.3	2.46
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Other Earning Assets									
1. Loans and Advances to Banks	22.8	3.1	0.46	5.1	0.85	3.0	0.57	11.7	2.54
2. Reverse Repos and Cash Collateral	23.5	3.1	0.47	19.6	3.26	7.0	1.33	2.2	0.49
3. Trading Securities and at FV through Income	9.4	1.3	0.19	1.1	0.18	1.0	0.19	1.1	0.23
4. Derivatives	0.7	0.1	0.01	0.2	0.03	0.2	0.03	0.3	0.08
5. Available for Sale Securities	650.2	86.9	13.14	69.4	11.57	64.0	12.25	59.4	12.92
6. Held to Maturity Securities	5.8	0.8	0.12	1.0	0.16	0.9	0.18	1.6	0.36
7. Equity Investments in Associates	9.2	1.2	0.19	1.2	0.20	1.1	0.21	0.4	0.08
8. Other Securities	495.3	66.2	10.01	38.8	6.47	35.1	6.71	20.9	4.55
9. Total Securities	1,194.1	159.6	24.14	131.2	21.86	109.3	20.90	86.0	18.71
10. Memo: Government Securities included Above	n.a.	n.a.	-	61.7	10.27	59.5	11.39	56.2	12.23
11. Memo: Total Securities Pledged	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Investments in Property	7.8	1.0	0.16	1.0	0.17	0.2	0.03	0.2	0.04
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	0.0	0.00	n.a.	-	0.0	0.00
15. Total Earning Assets	4,472.2	597.9	90.42	538.7	89.74	464.2	88.78	399.5	86.94
C. Non-Earning Assets									
1. Cash and Due From Banks	241.2	32.2	4.88	30.3	5.05	28.0	5.35	28.8	6.27
2. Memo: Mandatory Reserves included above	136.4	18.2	2.76	16.9	2.82	16.4	3.13	20.0	4.34
3. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	135.5	18.1	2.74	18.3	3.05	17.8	3.40	17.8	3.88
5. Goodwill	n.a.	n.a.	-	0.1	0.02	n.a.	-	0.1	0.02
6. Other Intangibles	7.4	1.0	0.15	1.0	0.16	1.0	0.20	0.6	0.13
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Deferred Tax Assets	0.8	0.1	0.02	0.2	0.03	0.7	0.13	n.a.	-
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	89.1	11.9	1.80	11.7	1.94	11.2	2.14	12.7	2.76
11. Total Assets	4,946.1	661.3	100.00	600.3	100.00	522.9	100.00	459.5	100.00
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	231.3	30.9	4.68	32.2	5.37	23.7	4.53	23.1	5.02
2. Customer Deposits - Savings	1,295.0	173.1	26.18	158.8	26.46	124.5	23.81	109.2	23.76
3. Customer Deposits - Term	1,980.3	264.8	40.04	234.6	39.08	238.7	45.65	208.6	45.40
4. Total Customer Deposits	3,506.6	468.8	70.90	425.6	70.90	386.9	73.99	340.8	74.19
5. Deposits from Banks	426.3	57.0	8.62	43.5	7.25	34.9	6.68	23.0	5.00
6. Repos and Cash Collateral	127.1	17.0	2.57	17.0	2.83	4.1	0.79	6.3	1.37
7. Commercial Paper and Short-term Borrowings	34.2	4.6	0.69	4.3	0.71	0.5	0.09	4.7	1.03
8. Total Money Market and Short-term Funding	4,094.2	547.4	82.78	490.4	81.70	426.4	81.55	374.8	81.58
9. Senior Unsecured Debt (original maturity > 1 year)	36.5	4.9	0.74	4.9	0.82	5.5	1.05	0.2	0.03
10. Subordinated Borrowing	85.3	11.4	1.73	11.7	1.95	11.8	2.25	7.7	1.68
11. Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Other Long-term Funding	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Total LT Funding (original maturity > 1 year)	121.9	16.3	2.46	16.6	2.76	17.3	3.30	7.9	1.71
14. Derivatives	2.2	0.3	0.04	0.6	0.11	0.7	0.14	1.4	0.31
15. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
16. Total Funding	4,218.3	564.0	85.28	507.6	84.56	444.4	84.99	384.1	83.61
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	17.4	2.3	0.35	2.7	0.45	3.5	0.67	4.9	1.08
4. Current Tax Liabilities	30.6	4.1	0.62	3.4	0.57	3.1	0.59	1.8	0.40
5. Deferred Tax Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	1.2	0.26
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	58.0	7.8	1.17	6.8	1.14	5.4	1.03	4.6	1.00
9. Other Liabilities	88.1	11.8	1.78	10.1	1.69	8.2	1.56	9.7	2.12
10. Total Liabilities	4,412.5	589.9	89.21	530.6	88.40	464.5	88.84	406.4	88.46
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	470.1	62.9	9.50	61.1	10.18	53.1	10.16	48.9	10.64
2. Non-controlling Interest	14.3	1.9	0.29	1.7	0.29	0.8	0.15	1.0	0.21
3. Securities Revaluation Reserves	49.3	6.6	1.00	6.8	1.13	4.5	0.85	3.2	0.69
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Total Equity	533.7	71.4	10.79	69.6	11.60	58.4	11.16	53.0	11.54
7. Total Liabilities and Equity	4,946.1	661.3	100.00	600.3	100.00	522.9	100.00	459.5	100.00
8. Memo: Fitch Core Capital	525.5	70.3	10.63	68.5	11.41	56.6	10.82	52.3	11.39
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Hatton National Bank PLC Summary Analytics

	30 Jun 2015 6 Months - Interim	31 Dec 2014 Year End	31 Dec 2013 Year End	31 Dec 2012 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	n.a.	11.56	14.38	13.92
2. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	5.75	7.73	7.06
3. Interest Income/ Average Earning Assets	9.56	10.75	13.44	13.00
4. Interest Expense/ Average Interest-bearing Liabilities	4.73	5.76	7.64	7.19
5. Net Interest Income/ Average Earning Assets	5.12	5.29	6.12	6.08
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	4.61	4.78	5.11	5.81
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Asset	5.12	5.29	6.12	6.08
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	28.19	25.51	16.11	19.92
2. Non-Interest Expense/ Gross Revenues	54.02	48.81	46.72	54.47
3. Non-Interest Expense/ Average Assets	3.47	3.10	2.99	3.59
4. Pre-impairment Op. Profit/ Average Equity	26.63	29.18	30.29	26.74
5. Pre-impairment Op. Profit/ Average Total Assets	2.95	3.25	3.41	3.00
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	15.78	14.04	25.97	8.96
7. Operating Profit/ Average Equity	22.43	25.08	22.42	24.34
8. Operating Profit/ Average Total Assets	2.49	2.79	2.52	2.73
9. Operating Profit / Risk Weighted Assets	3.46	3.77	3.64	4.27
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	13.17	16.28	14.14	16.99
2. Net Income/ Average Total Assets	1.46	1.81	1.59	1.90
3. Fitch Comprehensive Income/ Average Total Equity	12.52	21.94	14.95	24.74
4. Fitch Comprehensive Income/ Average Total Assets	1.39	2.44	1.68	2.77
5. Taxes/ Pre-tax Profit	41.54	35.87	37.82	31.17
6. Net Income/ Risk Weighted Assets	2.03	2.45	2.30	2.98
D. Capitalization				
1. Fitch Core Capital/ Risk Weighted Assets	15.55	16.66	16.71	19.24
3. Tangible Common Equity/ Tangible Assets	10.64	11.41	10.87	11.41
4. Tier 1 Regulatory Capital Ratio	10.88	12.70	13.33	13.90
5. Total Regulatory Capital Ratio	13.38	15.34	16.86	16.60
7. Equity/ Total Assets	10.79	11.60	11.16	11.54
8. Cash Dividends Paid & Declared/ Net Income	n.a.	5.99	43.71	34.35
9. Internal Capital Generation	12.88	13.59	7.50	10.03
E. Loan Quality				
1. Growth of Total Assets	10.17	14.80	13.80	17.42
2. Growth of Gross Loans	8.19	13.87	17.17	18.39
3. Impaired Loans/ Gross Loans	n.a.	n.a.	n.a.	n.a.
4. Reserves for Impaired Loans/ Gross Loans	2.74	2.75	2.93	2.46
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	n.a.	n.a.	n.a.
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
7. Impaired Loans less Reserves for Impaired Loans/ Equity	n.a.	n.a.	n.a.	n.a.
8. Loan Impairment Charges/ Average Gross Loans	0.68	0.67	1.31	0.36
9. Net Charge-offs/ Average Gross Loans	0.26	0.60	0.38	0.04
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Ass	n.a.	3.16	3.64	3.66
F. Funding and Liquidity				
1. Loans/ Customer Deposits	95.22	96.95	93.67	90.74
2. Interbank Assets/ Interbank Liabilities	5.36	11.71	8.56	50.82
3. Customer Deposits/ Total Funding (excluding derivatives)	83.17	83.95	87.20	89.06

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