

Hatton National Bank PLC

Full Rating Report

Ratings

National	
Long-Term Rating	AA-(Ika)
Senior debt	AA-(Ika)
Subordinated debt	A+(Ika)

Sovereign Risk

Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B

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 Sep 18 (unaudited) 9 months	31 Dec 17 (audited) 12 months
Total assets (USDbn)	6.4	6.6
Total assets (LKRbn)	1,090.3	1,007.6
Total equity (LKRbn)	135.3	125.7
Net income (LKRbn)	14.5	16.7
Operating profit/RWA (%)	4.4 ^a	3.9
ROAA (%)	1.9 ^a	1.7
Published NPL ratio (%)	3.1	2.3
Fitch Core Capital ratio (%)	16.7	17.1
Loans/customer deposits (%)	94.9	92.8

^a Annualised

Source: Fitch Ratings, Fitch Solutions

Related Research

[Fitch Ratings 2019 Outlook: Asia-Pacific Emerging Market Banks \(December 2018\)](#)

[Fitch Affirms Ratings on 9 Sri Lankan Banks; Outlooks Stable \(September 2018\)](#)

[Sri Lankan Banks Report Card 1Q18 \(August 2018\)](#)

Analysts

Jeewanthi Malagala, CFA
+94 11 2541900
jeewanthi.malagala@fitchratings.com

RukshanaThalgodapitiya, CFA
+94 11 2541900
rukshana.thalgodapitiya@fitchratings.com

Key Rating Drivers

Sound Domestic Credit Profile: Hatton National Bank PLC's (HNB) rating reflects its strong domestic franchise as the fourth-largest commercial bank in Sri Lanka, its improved capitalisation following an equity infusion and its better-than-average financial profile despite the deterioration in asset quality. This is, however, counterbalanced by a high risk appetite relative to better rated private banks.

Healthy Capitalisation: Fitch Ratings expects HNB to sustain its healthy capital ratios in the medium term despite planned loan growth and substantial capital reduction stemming from the implementation SLFRS 9 accounting rules. HNB's regulatory Tier 1 and total capital ratios of 13.3% and 15.7%, respectively, are the highest among large-bank peers at end-September 2018. HNB's capital buffers improved following an equity infusion of LKR14.5 billion (USD95 million) in July 2017 via a rights issue.

High Risk Appetite: HNB's high risk appetite is evident in the balance-sheet expansion that continues to put pressure on the bank's liquidity buffers. The loans/deposits ratio remained high at 95% at end-September 2018. HNB's high risk appetite also reflects the dominance of higher-risk retail/SME customers in its exposure (1H18: 55% of gross loans).

Liquidity Stretched: HNB's loan book expanded 12.8% during 9M18 (industry growth of 13.0%) but deposit growth lagged behind, reversing the trend of improvement in the loans/deposits ratio in 2017. However, its strong domestic franchise enabled the bank to secure a healthy share of low-cost current and savings accounts in its deposit mix (3Q18: 34.2% of deposits, 2017: 37.2%), although the share slipped in 2018 due to high interest rates.

Environment Pressures Asset Quality: We expect pressure on asset quality to persist in the short to medium term due to a challenging operating environment. HNB's NPL ratio deteriorated to 3.1% in 3Q18 (end-2017: 2.3%, 2016: 1.8%), due to NPLs mainly from the SME and corporate segments, but remained below the sector's NPL ratio of 3.6%. Fitch maintains a negative outlook on the Sri Lankan banking sector, as current difficult operating conditions are likely to prevail.

Higher Credit Costs Pressure Earnings: Fitch expects increased credit costs from asset-quality pressures and the implementation of SLFRS 9 to depress HNB's return on assets (ROA) for 2018. However, HNB's ROA is still likely to remain one of the highest in the industry. Subsidiary HNB Finance Limited (A(Ika)/Stable), which provides mostly microfinancing, is also a key contributor to group profitability, accounting for around 6% of group profit in 2017.

Rating Sensitivities

Changes in Risk Profile: An upgrade of HNB's National Long-Term Rating is contingent on the bank sustaining improvement in its financial profile, particularly in its funding, and moderating its risk appetite. A rating downgrade could result from a significant increase in risk-taking and operating environment-related risks that could weaken capital buffers significantly.

Operating Environment

Fitch maintains a negative outlook on the Sri Lankan banking sector as we expect operating conditions to remain difficult amid a challenging economic environment, which will continue to put pressure on bank performance. Sri Lanka's sovereign rating was downgraded to 'B' from 'B+' in December 2018. The Outlook is Stable.

NPLs continued to rise in 1H18 following recent rapid credit growth. There has also been an increase in rescheduled loans across Fitch-rated Sri Lankan banks, indicating that pressure on asset quality is likely to extend into 2019.

Company Profile

HNB is the fifth-largest bank in the system, accounting for 9.2% of sector assets, 10.2% of sector loans and 9.3% of sector deposits at end-1H18. The bank is viewed to be of high systemic importance as one of the largest banks in Sri Lanka with an asset base of over LKR500 billion, as defined by the regulator. Entities related to the state held 25% of the bank's voting shares after the rights issue in 2017. Other major shareholders include companies related to the Stassen group (17.8%) and the Sohli Captain family (8.4%).

Entities in the HNB group include HNB Finance Limited, life and general insurance companies, a property development company and a joint venture with DFCC Bank (AA-(lka)/Stable) that provides financial services. The bank makes up 95% of the group's assets.

Management and Strategy

We view the depth and stability of HNB's executive and senior management as commensurate with the size and complexity of the bank. HNB's board comprises 12 members, including eight independent, non-executive directors and one executive director who is the CEO.

Risk Appetite

HNB's historically strong loan growth has stretched its liquidity buffers, which are thinner than those of better-rated private banks. The bank's loan growth slowed significantly in 2017 as it focused on strengthening its underwriting standards and risk controls. Fitch expects the bank to expand its loan book in line with the industry trend in the medium term.

HNB remains focused on SME/mid-sized corporates and retail customers. However, given the challenging operating environment, we believe that there could be a rise in the share of corporate lending as the bank shifts to segments with a lower risk profile. The bank also has exposure to overseas markets, such as Maldives and Cambodia, which accounted for 3% of the loan book at end-1H18.

Financial Profile

Asset Quality

Key Asset-Quality Ratios

(%)	3Q18	2017	2016	2015
Reported gross non-performing advance ratio – Bank level	3.1	2.3	1.8	2.4
Growth of gross loans	12.8	9.5	17.4	25.5
Loan loss allowances/gross loans	2.0	1.7	1.9	2.2
Loan-impairment charges/average gross loans	0.8	0.5	0.1	0.2

Source: Fitch Ratings, Fitch Solutions, HNB

Related Criteria

[Bank Rating Criteria \(October 2018\)](#)
[National Scale Ratings Criteria \(July 2018\)](#)

HNB's group absolute NPLs increased by 54% during 9M18, with NPLs rising across all customer segments. HNB's loan-loss allowance was a little over half of group NPLs at end-3Q18, remaining weaker than that of peers. This was after a sharp reduction in 2017 due to reversals following a revision in its collective impairment model and a write-off of 0.6% of gross

loans. The bank expects its 3Q18 impairment reserves to increase by LKR5.5 billion-6.5 billion under SLFRS 9, which would result in a 36% increase in 3Q18 total impairment reserves and a reduction in 3Q18 capital ratios by 70bp-80bp.

Earnings and Profitability

Key Profitability Ratios

(%)	3Q18	2017	2016	2015
Operating profit/risk-weighted assets	4.4	3.9	4.4	3.6
Net interest income/average earning assets	5.5	5.3	5.3	5.0
Non-interest expense/gross revenues	38.8	41.7	43.3	47.3
Loans and securities impairment charges/ pre-impairment operating profit	13.7	12.3	1.8	5.1
Net income/average total assets	1.9	1.7	1.9	1.7

Source: Fitch Ratings, Fitch Solutions, HNB

HNB enjoys the highest net interest margin (NIM) among large-bank peers, thanks to its significant exposure to high-yielding retail and SME customers. Its cost-to-income ratio is one of the lowest in the industry and has been consistently improving due to strong revenue growth alongside productivity improvement initiatives such as centralisation of some credit functions.

Capitalisation and Leverage

Key Capital Ratios

(%)	3Q18	2017	2016	2015
Fitch Core Capital/risk-weighted assets	16.7	17.1	15.0	14.5
Tier 1 regulatory capital ratio	13.3	13.7	11.5	11.0
Equity/assets	12.4	12.5	10.5	10.3
Risk-weighted assets/total assets	73.6	72.4	68.7	69.8

Source: Fitch Ratings, Fitch Solutions, HNB

HNB's Fitch Core Capital ratio is the highest among the large Sri Lankan commercial banks and is supported by a high share of revaluation reserves (from its real estate portfolio) and securities revaluation reserves, which together accounted for 18% of equity, relative to peers.

Funding and Liquidity

Key Funding Ratios

(%)	3Q18	2017	2016	2015
Loans/customer deposits	94.9	92.8	95.8	96.7
Customer deposits/total funding	87.0	85.2	81.8	81.9
Liquidity coverage ratio – rupee – bank level	163.8	182.4	176.5	n.a.
Liquidity coverage ratio – all currency – bank level	109.6	124.3	118.5	n.a.
CASA share of deposits	34.2	37.2	35.7	40.9

Source: Fitch Ratings, Fitch Solutions, HNB

HNB's liquidity position remained under pressure at end-3Q18 due to slower deposit growth relative to loan-book growth. HNB's statutory liquidity ratios and liquidity coverage ratios also declined in 9M18 but have remained above the required minimum levels.

Deposits remain the main source of funding for HNB, accounting for 87% of total funding. The bank has sourced wholesale foreign-currency long-term borrowings from international funding agencies, which account for 7.6% of total funding. The bank's debentures (senior and subordinate) account for 3% of total funding.

Debt Ratings

HNB's Sri Lanka rupee-denominated senior debt is rated at the same level as its National Long-Term Rating, as the debentures rank equally with other senior unsecured obligations.

The old-style Basel II Sri Lanka rupee-denominated subordinated debt of HNB is rated one notch below its National Long-Term Rating to reflect the subordination to senior unsecured creditors, and the lack of going-concern loss absorption.

Hatton National Bank PLC
Income Statement

	30 Sep 2018			31 Dec 2017		31 Dec 2016		31 Dec 2015	
	9 Months - 3rd Quarter		3rd Quarter	Year End		Year End		Year End	
	USDm	LKRbn	As % of Earning Assets	LKRbn	As % of Earning Assets	LKRbn	As % of Earning Assets	LKRbn	As % of Earning Assets
	Unaudited	Unaudited		Audited - Unqualified		Audited - Unqualified		Audited - Unqualified	
1. Interest Income on Loans	416.0	70.4	9.62	84.9	9.45	65.9	8.16	47.1	6.83
2. Other Interest Income	84.3	14.3	1.95	19.0	2.12	15.6	1.94	9.8	1.42
3. Dividend Income	1.3	0.2	0.03	0.2	0.03	0.1	0.02	0.3	0.04
4. Gross Interest and Dividend Income	501.6	84.9	11.60	104.1	11.60	81.7	10.12	57.2	8.29
5. Interest Expense on Customer Deposits	233.2	39.5	5.39	49.4	5.49	33.7	4.18	22.0	3.19
6. Other Interest Expense	38.7	6.5	0.89	9.1	1.01	8.7	1.08	5.2	0.75
7. Total Interest Expense	271.8	46.0	6.29	58.4	6.51	42.4	5.26	27.2	3.94
8. Net Interest Income	229.8	38.9	5.31	45.7	5.09	39.2	4.86	30.0	4.35
9. Net Fees and Commissions	43.2	7.3	1.00	9.0	1.00	7.7	0.96	6.2	0.91
10. Net Gains (Losses) on Trading and Derivatives	(7.4)	(1.3)	(0.17)	(3.7)	(0.41)	(1.9)	(0.23)	0.2	0.02
11. Net Gains (Losses) on Assets and Liabilities at FV	0.0	0.0	0.00	0.0	0.00	0.0	0.00	n.a.	-
12. Net Gains (Losses) on Other Securities	0.5	0.1	0.01	0.0	0.00	(0.0)	(0.00)	0.0	0.01
13. Net Insurance Income	5.7	1.0	0.13	0.6	0.07	0.8	0.10	0.3	0.05
14. Other Operating Income	21.0	3.6	0.49	3.7	0.42	2.8	0.34	1.5	0.22
15. Total Non-Interest Operating Income	63.0	10.7	1.46	9.7	1.08	9.4	1.17	8.3	1.20
16. Total Operating Income	292.8	49.5	6.77	55.4	6.17	48.7	6.03	38.3	5.55
17. Personnel Expenses	52.4	8.9	1.21	11.1	1.23	10.5	1.30	9.3	1.34
18. Other Operating Expenses	61.4	10.4	1.42	12.0	1.34	10.5	1.31	8.9	1.29
19. Total Non-Interest Expenses	113.7	19.2	2.63	23.1	2.57	21.1	2.61	18.1	2.63
20. Equity-accounted Profit/ Loss - Operating	0.9	0.1	0.02	0.2	0.02	n.a.	-	n.a.	-
21. Pre-impairment Operating Profit	179.9	30.4	4.16	32.5	3.61	27.6	3.42	20.2	2.92
22. Loan Impairment Charge	24.5	4.2	0.57	3.4	0.37	0.5	0.07	1.0	0.14
23. Securities and Other Credit Impairment Charges	0.1	0.0	0.00	0.6	0.07	(0.0)	(0.00)	0.1	0.01
24. Operating Profit	155.2	26.3	3.59	28.5	3.17	27.1	3.35	19.1	2.78
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	-	0.1	0.02	0.1	0.01
26. Goodwill Impairment	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
27. Non-recurring Income	n.a.	n.a.	-	0.1	0.01	0.0	0.00	0.0	0.00
28. Non-recurring Expense	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
29. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
30. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
31. Pre-tax Profit	155.2	26.3	3.59	28.5	3.18	27.2	3.37	19.2	2.79
32. Tax expense	69.7	11.8	1.61	11.8	1.31	11.6	1.43	8.1	1.18
33. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
34. Net Income	85.6	14.5	1.98	16.7	1.86	15.7	1.94	11.1	1.61
35. Change in Value of AFS Investments	(11.7)	(2.0)	(0.27)	2.5	0.28	(2.8)	(0.34)	(2.3)	(0.33)
36. Revaluation of Fixed Assets	n.a.	n.a.	-	4.1	0.46	5.7	0.71	5.6	0.81
37. Currency Translation Differences	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
38. Remaining OCI Gains/(losses)	0.3	0.0	0.01	(4.8)	(0.53)	0.2	0.02	(1.0)	(0.14)
39. Fitch Comprehensive Income	74.2	12.6	1.72	18.6	2.07	18.9	2.34	13.4	1.94
40. Memo: Profit Allocation to Non-controlling Interests	3.6	0.6	0.08	0.8	0.09	0.9	0.11	0.5	0.08
41. Memo: Net Income after Allocation to Non-controlling Interests	82.0	13.9	1.90	15.9	1.78	14.8	1.83	10.6	1.53
42. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	3.2	0.35	2.1	0.26	2.0	0.30
43. Memo: Preferred Dividends and Interest on Hybrid Capital Accounted for as Equity Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Exchange rate

USD1 = LKR169.2383

USD1 = LKR152.8548

USD1 = LKR149.8

USD1 = LKR144.062

Source: Fitch Ratings, Fitch Solutions, HNB

Hatton National Bank PLC
Balance Sheet

	30 Sep 2018		31 Dec 2017		31 Dec 2016		31 Dec 2015		As % of Assets
	9 Months - 3rd Quarter USDm	9 Months - 3rd Quarter LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	
Assets									
A. Loans									
1. Residential Mortgage Loans	210.5	35.6	3.27	34.5	3.42	34.0	3.77	30.8	4.07
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Other Loans	4,233.3	716.4	65.71	632.3	62.76	575.0	63.79	487.8	64.39
6. Less: Loan Loss Allowances	90.5	15.3	1.40	11.2	1.11	11.5	1.28	11.3	1.50
7. Net Loans	4,353.3	736.8	67.57	655.6	65.07	597.5	66.28	507.2	66.96
8. Gross Loans	4,443.8	752.1	68.98	666.8	66.18	609.0	67.55	518.6	68.45
9. Memo: Impaired Loans included above	n.a.	n.a.	-	15.2	1.51	11.0	1.22	12.6	1.66
10. Memo: Specific Loan Loss Allowances	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Other Earning Assets									
1. Loans and Advances to Banks	61.7	10.4	0.96	9.7	0.96	2.2	0.24	1.2	0.15
2. Reverse Repos and Securities Borrowing	4.8	0.8	0.07	0.8	0.08	5.8	0.64	7.8	1.03
3. Derivatives	13.9	2.3	0.22	0.6	0.06	0.3	0.03	1.3	0.17
4. Trading Securities and at FV through Income	1.2	0.2	0.02	0.3	0.03	0.7	0.08	1.9	0.26
5. Available for Sale Securities	440.6	74.6	6.84	101.7	10.10	95.8	10.63	79.7	10.52
6. Held to Maturity Securities	9.1	1.5	0.14	1.6	0.16	0.5	0.05	1.3	0.17
7. Other Securities	877.7	148.5	13.62	125.0	12.41	102.1	11.32	87.1	11.50
8. Total Securities	1,328.6	224.8	20.62	228.6	22.69	199.0	22.08	170.0	22.44
9. Memo: Government Securities included Above	n.a.	n.a.	-	97.6	9.69	90.5	10.04	146.4	19.32
10. Memo: Total Securities Pledged	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Equity Investments in Associates	11.0	1.9	0.17	1.7	0.17	1.5	0.16	1.3	0.17
12. Investments in Property	6.6	1.1	0.10	1.1	0.11	1.1	0.12	1.0	0.14
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	0.0	0.00	0.0	0.00
15. Total Earning Assets	5,779.9	978.2	89.72	898.1	89.14	807.3	89.55	689.8	91.06
C. Non-Earning Assets									
1. Cash and Due From Banks	368.0	62.3	5.71	60.5	6.01	52.4	5.82	35.5	4.69
2. Memo: Mandatory Reserves included above	242.2	41.0	3.76	38.6	3.83	33.8	3.75	20.1	2.65
3. Foreclosed Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	204.5	34.6	3.17	34.6	3.44	29.8	3.31	23.9	3.16
5. Goodwill	n.a.	n.a.	-	0.1	0.01	0.1	0.01	0.1	0.02
6. Other Intangibles	7.6	1.3	0.12	1.1	0.11	1.1	0.12	0.9	0.12
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Deferred Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	82.3	13.9	1.28	13.0	1.29	10.7	1.19	7.3	0.97
11. Total Assets	6,442.3	1,090.3	100.00	1,007.6	100.00	901.5	100.00	757.6	100.00
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Total Customer Deposits	4,683.3	792.6	72.70	718.8	71.34	635.4	70.48	536.1	70.77
2. Deposits from Banks	373.9	63.3	5.80	62.5	6.20	70.0	7.76	58.3	7.69
3. Repos and Securities Lending	25.0	4.2	0.39	5.1	0.50	13.5	1.49	16.6	2.20
4. Commercial Paper and Short-term Borrowings	0.0	0.0	0.00	6.9	0.68	3.2	0.36	0.3	0.04
5. Customer Deposits and Short-term Funding	5,082.3	860.1	78.89	793.2	78.72	722.0	80.09	611.4	80.70
6. Senior Unsecured Debt	170.5	28.9	2.65	25.4	2.52	29.0	3.22	31.4	4.15
7. Subordinated Borrowing	130.3	22.1	2.02	25.6	2.54	25.9	2.87	12.1	1.60
8. Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Long-term Funding	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Total LT Funding	300.8	50.9	4.67	51.0	5.06	54.9	6.09	43.5	5.74
11. Memo: o/w matures in less than 1 year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Total Funding	5,383.1	911.0	83.56	844.2	83.78	776.9	86.19	654.9	86.44
14. Derivatives	11.3	1.9	0.18	1.3	0.13	0.7	0.07	0.3	0.04
15. Total Funding and Derivatives	5,394.4	912.9	83.73	845.5	83.91	777.6	86.26	655.2	86.48
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	22.8	3.9	0.35	3.8	0.37	4.1	0.45	3.3	0.43
4. Current Tax Liabilities	44.4	7.5	0.69	4.1	0.40	6.4	0.71	4.8	0.63
5. Deferred Tax Liabilities	39.0	6.6	0.61	7.3	0.73	0.8	0.09	0.6	0.08
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	87.2	14.8	1.35	13.3	1.32	10.7	1.18	8.6	1.13
9. Other Liabilities	55.1	9.3	0.86	8.0	0.79	7.5	0.84	7.5	0.99
10. Total Liabilities	5,643.0	955.0	87.59	881.9	87.53	807.1	89.54	679.8	89.74
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	647.2	109.5	10.05	98.4	9.76	69.8	7.74	56.8	7.50
2. Non-controlling Interest	23.9	4.0	0.37	3.6	0.36	3.0	0.34	2.2	0.29
3. Securities Revaluation Reserves	13.4	2.3	0.21	4.2	0.42	1.7	0.19	4.5	0.60
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	114.8	19.4	1.78	19.4	1.93	19.8	2.19	14.3	1.88
6. Total Equity	799.3	135.3	12.41	125.7	12.47	94.3	10.46	77.7	10.26
7. Memo: Equity plus Pref. Shares and Hybrid Capital accounted for as E	799.3	135.3	12.41	125.7	12.47	94.3	10.46	77.7	10.26
8. Total Liabilities and Equity	6,442.3	1,090.3	100.00	1,007.6	100.00	901.5	100.00	757.6	100.00
9. Memo: Fitch Core Capital	791.7	134.0	12.29	124.4	12.35	93.1	10.33	76.9	10.15

Exchange rate

USD1 = LKR169.2383

USD1 = LKR152.8548

USD1 = LKR149.8

USD1 = LKR144.062

Source: Fitch Ratings, Fitch Solutions, HNB

Hatton National Bank PLC Summary Analytics

	30 Sep 2018 9 Months - 3rd Quarter	31 Dec 2017 Year End	31 Dec 2016 Year End	31 Dec 2015 Year End
A. Interest Ratios				
1. Interest Income/ Average Earning Assets	12.08	12.03	10.93	9.44
2. Interest Income on Loans/ Average Gross Loans	13.21	13.16	11.86	10.30
3. Interest Expense on Customer Deposits/ Average Customer Deposits	7.02	7.24	5.87	4.62
4. Interest Expense/ Average Interest-bearing Liabilities	6.99	7.09	5.92	4.75
5. Net Interest Income/ Average Earning Assets	5.53	5.28	5.25	4.95
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	4.94	4.89	5.18	4.79
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	5.53	5.28	5.25	4.95
B. Other Operating Profitability Ratios				
1. Operating Profit/ Risk Weighted Assets	4.38	3.90	4.37	3.62
2. Non-Interest Expense/ Gross Revenues	38.84	41.71	43.30	47.34
3. Loans and securities impairment charges/ Pre-impairment Op. Profit	13.71	12.31	1.84	5.07
4. Operating Profit/ Average Total Assets	3.35	2.95	3.27	2.86
5. Non-Interest Income/ Gross Revenues	21.52	17.48	19.37	21.69
6. Non-Interest Expense/ Average Total Assets	2.45	2.39	2.55	2.71
7. Pre-impairment Op. Profit/ Average Equity	31.33	30.08	33.31	28.04
8. Pre-impairment Op. Profit/ Average Total Assets	3.88	3.36	3.33	3.02
9. Operating Profit/ Average Equity	27.04	26.38	32.70	26.62
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	14.90	15.52	18.91	15.43
2. Net Income/ Average Total Assets	1.85	1.73	1.89	1.66
3. Fitch Comprehensive Income/ Average Total Equity	12.92	17.25	22.77	18.61
4. Fitch Comprehensive Income/ Average Total Assets	1.60	1.93	2.28	2.00
5. Taxes/ Pre-tax Profit	44.88	41.34	42.48	42.27
6. Net Income/ Risk Weighted Assets	2.41	2.29	2.53	2.10
D. Capitalization				
1. FCC/ FCC-Adjusted Risk Weighted Assets	16.70	17.05	15.04	14.53
2. Tangible Common Equity/ Tangible Assets	12.30	12.36	10.34	10.14
3. Equity/ Total Assets	12.41	12.47	10.46	10.26
5. Common Equity Tier 1 Capital Ratio	13.25	13.74	n.a.	n.a.
7. Tier 1 Capital Ratio	13.25	13.74	11.51	10.99
8. Total Capital Ratio	15.67	16.80	15.37	13.11
11. Cash Dividends Paid & Declared/ Net Income	n.a.	18.97	13.21	18.40
12. Risk Weighted Assets/ Total Assets	73.57	72.40	68.71	69.83
E. Loan Quality				
1. Regulatory NPL ratio - bank level	3.10	2.28	1.80	2.43
2. Growth of Gross Loans	12.79	9.49	17.43	25.50
4. Loan Impairment Charges/ Average Gross Loans	0.78	0.52	0.10	0.21
5. Growth of Total Assets	8.21	11.77	18.99	27.01
6. Loan Loss Allowances/ Gross Loans	2.04	1.67	1.89	2.19
7. Net Charge-offs/ Average Gross Loans	0.00	0.57	0.07	0.21
8. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	2.28	1.80	2.43
F. Funding and Liquidity				
1. Loans/ Customer Deposits	94.89	92.77	95.84	96.73
2. Liquidity Coverage Ratio	163.81	182.39	176.48	n.a.
3. Customer Deposits/ Total Funding (including Pref. Shares & Hybrids)	87.00	85.15	81.78	81.87
4. Interbank Assets/ Interbank Liabilities	16.50	15.48	3.14	2.01
6. Growth of Total Customer Deposits	10.27	13.13	18.51	25.97

Source: Fitch Ratings, Fitch Solutions, HNB

Hatton National Bank PLC
Reference Data

	30 Sep 2018		31 Dec 2017		31 Dec 2016		31 Dec 2015		
	9 Months - 3rd Quarter USDm	9 Months - 3rd Quarter LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets	Year End LKRbn	As % of Assets
A. Off-Balance Sheet Items									
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	124.4	12.35	108.9	12.08	79.2	10.46
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	-	46.2	4.59	40.5	4.49	32.6	4.30
5. Committed Credit Lines	n.a.	n.a.	-	308.8	30.65	215.1	23.87	143.8	18.98
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Other Off-Balance Sheet items	4,484.0	758.9	69.60	119.0	11.81	137.9	15.29	168.2	22.20
8. Total Assets under Management	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Average Balance Sheet									
1. Average Loans	4,210.1	712.5	65.35	645.0	64.01	555.5	61.63	457.1	60.34
2. Average Earning Assets	5,551.4	939.5	86.17	865.6	85.91	747.6	82.93	605.7	79.95
3. Average Total Assets	6,199.8	1,049.2	96.24	965.3	95.81	827.4	91.78	668.9	88.30
4. Average Managed Securitized Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Average Interest-Bearing Liabilities	5,196.2	879.4	80.66	824.3	81.81	717.3	79.57	572.7	75.60
6. Average Common equity	667.7	113.0	10.36	94.0	9.33	71.1	7.89	61.3	8.09
7. Average Equity	767.7	129.9	11.92	107.9	10.71	82.8	9.19	71.9	9.50
8. Average Customer Deposits	4,442.6	751.9	68.96	681.3	67.62	574.0	63.67	476.7	62.92
C. Maturities									
Asset Maturities:									
Loans & Advances < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans and Advances 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances > 5 years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Liability Maturities:									
Retail Deposits < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Senior Debt on Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Fair Value Portion of Senior Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Subordinated Debt on Balance Sheet	130.3	22.1	2.02	25.6	2.54	25.9	2.87	12.1	1.60
Fair Value Portion of Subordinated Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
D. Risk Weighted Assets									
1. Risk Weighted Assets	4,739.7	802.1	73.57	729.5	72.40	619.4	68.71	529.0	69.83
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Fitch Core Capital Adjusted Risk Weighted Assets	4,739.7	802.1	73.57	729.5	72.40	619.4	68.71	529.0	69.83
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fitch Adjusted Risk Weighted Assets	4,739.7	802.1	73.57	729.5	72.40	619.4	68.71	529.0	69.83
E. Fitch Core Capital Reconciliation									
1. Total Equity as reported (including non-controlling interests)	799.3	135.3	12.41	125.7	12.47	94.3	10.46	77.7	10.26
2. Fair-value adjustments relating to own credit risk on debt issued	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Goodwill	0.0	0.0	0.00	0.1	0.01	0.1	0.01	0.0	0.00
5. Other intangibles	7.6	1.3	0.12	1.1	0.11	1.1	0.12	0.9	0.12
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
9. Fund for general banking risks if not already included and readily convertible into equi	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
10. Fitch Core Capital	791.7	134.0	12.29	124.4	12.35	93.1	10.33	76.9	10.15

Exchange Rate USD1 = LKR169.2383 USD1 = LKR152.8548 USD1 = LKR149.8 USD1 = LKR144.062

Source: Fitch Ratings, Fitch Solutions, HNB

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and 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.