Financial Performance 1Q 2019
## Net Operating Income - Group

<table>
<thead>
<tr>
<th></th>
<th>2019 (Rs Bn)</th>
<th>2018 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>31.6</td>
<td>26.9</td>
<td>17%</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>17.0</td>
<td>14.9</td>
<td>14%</td>
</tr>
<tr>
<td>NII</td>
<td>14.6</td>
<td>12.1</td>
<td>21%</td>
</tr>
<tr>
<td>Net Fee Income</td>
<td>2.5</td>
<td>2.4</td>
<td>5%</td>
</tr>
<tr>
<td>Net Insurance Premium</td>
<td>2.0</td>
<td>1.8</td>
<td>13%</td>
</tr>
<tr>
<td>Other Income</td>
<td>(0.3)</td>
<td>0.8</td>
<td>137%</td>
</tr>
<tr>
<td>Impairment</td>
<td>4.6</td>
<td>1.5</td>
<td>200%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>14.2</td>
<td>15.5</td>
<td>9%</td>
</tr>
</tbody>
</table>
## Expenses & Profits - Group

<table>
<thead>
<tr>
<th>Headline</th>
<th>2019 (Rs Bn)</th>
<th>2018 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>9.0</td>
<td>7.1</td>
<td>27%</td>
</tr>
<tr>
<td>VAT, NBT &amp; DRL</td>
<td>1.8</td>
<td>1.5</td>
<td>18%</td>
</tr>
<tr>
<td>PBT</td>
<td>3.4</td>
<td>7.0</td>
<td>51%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>1.3</td>
<td>2.2</td>
<td>39%</td>
</tr>
<tr>
<td>PAT</td>
<td>2.0</td>
<td>4.7</td>
<td>57%</td>
</tr>
<tr>
<td>Profit Attributable to Shareholders</td>
<td>1.9</td>
<td>4.3</td>
<td>55%</td>
</tr>
<tr>
<td>Category</td>
<td>2019 (Rs Bn)</td>
<td>2018 (Rs Bn)</td>
<td>Growth %</td>
</tr>
<tr>
<td>---------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>----------</td>
</tr>
<tr>
<td>Interest Income</td>
<td>29.4</td>
<td>24.9</td>
<td>18%</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>16.4</td>
<td>14.3</td>
<td>15%</td>
</tr>
<tr>
<td>NII</td>
<td>13.0</td>
<td>10.6</td>
<td>22%</td>
</tr>
<tr>
<td>Net Fee Income</td>
<td>2.2</td>
<td>2.2</td>
<td>1%</td>
</tr>
<tr>
<td>Other Income</td>
<td>(0.3)</td>
<td>0.9</td>
<td>127%</td>
</tr>
<tr>
<td>Impairment</td>
<td>4.1</td>
<td>1.3</td>
<td>206%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>10.8</td>
<td>12.4</td>
<td>13%</td>
</tr>
</tbody>
</table>
## Expenses & Profits - Bank

<table>
<thead>
<tr>
<th>Category</th>
<th>2019 (Rs Bn)</th>
<th>2018 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>5.9</td>
<td>5.0</td>
<td>18%</td>
</tr>
<tr>
<td>VAT, NBT &amp; DRL</td>
<td>1.7</td>
<td>1.4</td>
<td>19%</td>
</tr>
<tr>
<td>PBT</td>
<td>3.3</td>
<td>6.0</td>
<td>46%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>1.2</td>
<td>1.8</td>
<td>33%</td>
</tr>
<tr>
<td>PAT</td>
<td>2.0</td>
<td>4.2</td>
<td>51%</td>
</tr>
</tbody>
</table>
Movement in Group Profit Attributable to Shareholders

1Q 2018 PAS

- NII: 2,533 (35%)
- Fee Income: 115 (+5%)
- Other Income: 921 (+200%)
- Operating Expenses: 3,079 (+27%)
- Provision: 601 (16%)
- Operating Income: 1,937 (+27%)
- Operating Income - Other Income: 1,947 (55%)
- Taxes: 312 (77%)
- Minority: (1,000)

1Q 2019 PAS

- NII: 1,947
Movement in Bank PAT

Rs Mn

<table>
<thead>
<tr>
<th></th>
<th>1Q 2018 PAT</th>
<th>NII</th>
<th>Fee Income</th>
<th>Other Income</th>
<th>Provisions</th>
<th>Operating Expenses</th>
<th>Taxes</th>
<th>1Q 2019 PAT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,177</td>
<td>2,346</td>
<td>(127%)</td>
<td>15</td>
<td>1,181</td>
<td>+206%</td>
<td>350</td>
<td>(51%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,031</td>
</tr>
</tbody>
</table>

% change:
- Fee Income: +22%
- Other Income: +1%
- Provisions: +206%
- Operating Expenses: +18%
- Taxes: -11%
- 1Q 2019 PAT: -127%
DuPont Analysis – Group

**1Q 2019**

- **ROE**
  - 5.87% (14.09%)
- **ROA**
  - 0.71% (1.84%)
- **Minority Interest**
  - 0.03% (0.16%)
- **Leverage Multiplier**
  - 8.67x (8.36x)

**1Q 2018**

- **Net Income (NII)**
  - 5.09% (4.71%)
- **Other income**
  - 1.46% (1.95%)
- **Impairment**
  - 1.61% (0.60%)
- **Operating Costs**
  - 3.15% (2.77%)
- **Taxation**
  - 1.09% (1.45%)

**Minority Interest**

- 0.03% (0.16%)
DuPont Analysis – Bank

1Q 2019
1Q 2018

ROE 7.93% (15.34%)

ROA 0.75% (1.72%)

Leverage Multiplier 9.39x (8.93x)

NII 4.78% (4.37%)

Other income 0.73% (1.29%)

Impairment 1.52% (0.55%)

Operating Costs 2.18% (2.06%)

Taxation 1.06% (1.33%)
Performance of Group Companies

- **HNB Assurance**
  - 60% Insurance
  - PAT - Rs 119 Mn
  - ROE – 8.4%

- **HNB Grameen Finance Limited**
  - 51% (voting) Microfinance
  - PAT - Rs 71 Mn
  - ROE – 6.4%

- **Acuity**
  - 50% Investment Banking
  - PAT - Rs 67 Mn
  - ROE – 6.3%

- **Real Estate**
  - 100% Sithma Development
  - PAT - Rs 68 Mn
  - ROE – 3.9%

**Key Performance Indicators**

- PAT - Profit After Tax
- ROE - Return on Equity
Strong Core Banking Amid Challenges

CASA base of Rs 280 Bn

Balanced portfolio with 52% in higher yielding segments

Prudent ALM Management

NIM prioritized over growth at lower margins

9% of Group NII from HNB Finance

NIM (YoY growth)

- Bank: 4.87% Q1 2018, 5.32% Q2 2018, 5.70% Q3 2018, 5.27% Q4 2018, 5.32% Q1 2019
- Group: 5.27% Q1 2018, 5.27% Q2 2018, 5.27% Q3 2018, 5.27% Q4 2018, 5.27% Q1 2019

NII Growth (Rs Bn)

- Bank: 13.0 Q1 2018, 14.6 Q2 2018, 15.2 Q3 2018, 15.9 Q4 2018, 16.6 Q1 2019
- Group: 14.6 Q1 2018, 14.6 Q2 2018, 14.6 Q3 2018, 14.6 Q4 2018, 14.6 Q1 2019

Segment-wise loan book

- Corporate: 44%
- SME&Micro: 30%
- Retail: 22%
- Mid Market: 4%

YoY growth

- Bank: 22%
- Group: 21%
Non Fund Income

- Net fee income amounts to 15% of Bank TOI
- Fees and insurance income collectively contribute 24% of Group TOI
- Cards, ATM & E Banking collectively account for 33% of fee income
Operational Excellence

Group and Bank Cost to Income ratios improve by nearly 10% between 2015-2018.

Staff expenses rise on account of revision to collective agreements in April 2018.

Cost increase is expected to normalize from 2Q onwards.

Process Reengineering, Automation, Seamless Integration, etc. continues to be pursued.
Stressed market conditions affect repayment capacity, particularly within SME segment.

Easter Day may add further pressure on the Economy.

CBSL issued circular giving relief measures to companies in Tourism sector.

Concentration risk remains low at HNB with well diversified loan book.

Exposure to Tourism <6%.

Construction & Infrastructure collectively at 15%.
Sound Capitalization

- Capital Adequacy maintained above requirements despite higher credit costs and taxes affecting internal capital generation.
- Impending Debenture Issue of Rs 7 Bn to strengthen Total Capital

**Total Tier I**

- Total Tier I continues to be best among peer Banks

**Total Capital**

- DSIB – Banks with assets above Rs 500 Bn
Profitability & Impact of Taxes

Bank Operating Profit & PBT (Rs Bn)

Operating Profit

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>1Q 2018</th>
<th>1Q 2019</th>
</tr>
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<tbody>
<tr>
<td>PBT</td>
<td></td>
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Group Operating Profit & PBT (Rs Bn)

Operating Profit

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
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</tr>
</tbody>
</table>

Breakup of Total Effective Tax Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Corp Tax</th>
<th>DRL</th>
<th>VAT&amp;NBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>41.5%</td>
<td>9.6%</td>
<td>15.8%</td>
</tr>
<tr>
<td>2016</td>
<td>42.3%</td>
<td>0.0%</td>
<td>17.8%</td>
</tr>
<tr>
<td>2017</td>
<td>39.2%</td>
<td>0.0%</td>
<td>18.5%</td>
</tr>
<tr>
<td>2018</td>
<td>47.1%</td>
<td>2.4%</td>
<td>19.3%</td>
</tr>
<tr>
<td>1Q 2018</td>
<td>43.6%</td>
<td>0.0%</td>
<td>18.7%</td>
</tr>
<tr>
<td>1Q 2019</td>
<td>58.6%</td>
<td>11.2%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>
Quarterly Private Credit Growth flat owing to difficult market conditions. – Trend mirrored in HNB quarterly growth

QoQ growth flat for Deposits, Loans up by 0.11%

However YoY growth in loan book and deposits amount to 11.4% and 11% respectively for HNB.
Shareholder Return

12 Month Share Movement-Rs (May 17)

- Annualized EPS (Rs): 15.56
- BVPS (Rs): 264.71
- PBV (X): 0.53
- PE (X): 9.10
- Total Dividends (Rs): 8.50
- Dividend Yield (%): 6.0 (N) & 6.6 (X)
Thank you

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