Hatton National Bank

Investor Forum
13th March 2018
## Financial Performance – Bank

<table>
<thead>
<tr>
<th>Income</th>
<th>2017 (Rs Bn)</th>
<th>2016 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>96.2</td>
<td>75.6</td>
<td>▲ 27%</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>56.5</td>
<td>41.2</td>
<td>▲ 37%</td>
</tr>
<tr>
<td>NII</td>
<td>39.6</td>
<td>34.4</td>
<td>▲ 15%</td>
</tr>
<tr>
<td>Net Fee Income</td>
<td>8.3</td>
<td>7.0</td>
<td>▲ 18%</td>
</tr>
<tr>
<td>Net gain/loss from trading</td>
<td>(3.7)</td>
<td>(1.8)</td>
<td>▲ 106%</td>
</tr>
<tr>
<td>Net gain from financial investments</td>
<td>0.2</td>
<td>0.1</td>
<td>▲ 90%</td>
</tr>
<tr>
<td>Other Operating Income</td>
<td>5.2</td>
<td>3.3</td>
<td>▲ 58%</td>
</tr>
</tbody>
</table>
## Financial Performance – Bank

### Charges & Profits

<table>
<thead>
<tr>
<th>Item</th>
<th>2017 (Rs Bn)</th>
<th>2016 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment</td>
<td>3.0</td>
<td>0.2</td>
<td>▲ 1180%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>46.6</td>
<td>42.8</td>
<td>▲ 9%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>19.6</td>
<td>18.3</td>
<td>▲ 7%</td>
</tr>
<tr>
<td>VAT &amp; NBT</td>
<td>5.0</td>
<td>4.4</td>
<td>▲ 15%</td>
</tr>
<tr>
<td>PBT</td>
<td>22.1</td>
<td>20.1</td>
<td>▲ 9%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>5.6</td>
<td>6.0</td>
<td>▼ 7%</td>
</tr>
<tr>
<td>PAT</td>
<td>16.5</td>
<td>14.1</td>
<td>▲ 16%</td>
</tr>
</tbody>
</table>
HNB Group

60% Insurance
PAT - Rs 935 Mn
ROE - 28%

51% (voting) Micro finance
PAT - Rs 1,088 Mn
ROE - 27%

50% Investment Banking
PAT - Rs 351 Mn
ROE - 10%

100% Real Estate
PAT - Rs 526 Mn
ROE - 6%

60% Insurance
51% (voting) Micro finance
50% Investment Banking
100% Real Estate
# Financial Performance – Group

## Net Operating Income

<table>
<thead>
<tr>
<th>Net gain/loss from trading</th>
<th>2017 (Rs Bn)</th>
<th>2016 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net insurance premium</td>
<td>6.3</td>
<td>5.5</td>
<td>15%</td>
</tr>
<tr>
<td>Other operating income</td>
<td>3.7</td>
<td>2.8</td>
<td>35%</td>
</tr>
<tr>
<td>Fee Income</td>
<td>9.0</td>
<td>7.7</td>
<td>17%</td>
</tr>
<tr>
<td>NII</td>
<td>45.5</td>
<td>39.1</td>
<td>16%</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>58.4</td>
<td>42.4</td>
<td>38%</td>
</tr>
<tr>
<td>Interest Income</td>
<td>103.9</td>
<td>81.5</td>
<td>27%</td>
</tr>
</tbody>
</table>

## Growth

- Interest Income: 27%
- Interest Expenses: 38%
- NII: 16%
- Fee Income: 17%
- Net gain/loss from trading: 102%
- Net gain from financial investments: 140%
- Net insurance premium: 15%
## Financial Performance – Group

### Expenses & Profits

<table>
<thead>
<tr>
<th></th>
<th>2017 (Rs Bn)</th>
<th>2016 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment</td>
<td>3.9</td>
<td>0.5</td>
<td>△ 673%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>57.2</td>
<td>52.9</td>
<td>▲ 8%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>28.8</td>
<td>25.8</td>
<td>△ 12%</td>
</tr>
<tr>
<td>VAT &amp; NBT</td>
<td>5.4</td>
<td>4.7</td>
<td>△ 15%</td>
</tr>
<tr>
<td>PBT</td>
<td>23.1</td>
<td>22.5</td>
<td>▲ 3%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>6.4</td>
<td>6.8</td>
<td>▴ 7%</td>
</tr>
<tr>
<td>PAT</td>
<td>16.7</td>
<td>15.7</td>
<td>▲ 7%</td>
</tr>
<tr>
<td>Profit Attributable to Shareholders</td>
<td>15.9</td>
<td>14.8</td>
<td>▲ 8%</td>
</tr>
</tbody>
</table>
Financial Performance – Group

PAT 2016 | NII | Net Fee Income | Other Income | Impairment charges | Operating Expenses | Taxes | Non controlling interest | PAT 2017
---|---|---|---|---|---|---|---|---
15.7 | 6.4 | 3.4 | 0.2 | 3.0 | 0.2 | 16.7 | +7%
Group Assets surpass Rs 1 Tn
Bank Deposits over Rs 700 Bn
10% Market share in advances
Assets
Bank 11% yoy
Group 12% yoy
Advances
- Rs 639 Bn
- 9% yoy
Deposits
- Rs 701 Bn
- 13% yoy
Exposure to higher yielding segments

- Bank - 4.87% from 4.8%
- Group – 5.39% from 5.29%

Industry Margins dropped marginally to 4.11% from 4.14%

CASA growth of Rs 23.4Bn, higher than the industry growth rate

CASA ratio remained flat
- Corporate – 47%
- SME & Micro – 32%
- Retail – 21%
- Digital Payment Channels including cards account for 30% of fee income
- 25% growth in Fee income from Cards
- 20% growth in Fee income from Trade
- Fees contribute 17% of total operating income
Operational Excellence

- Centre of Excellence (COE) – 100% of retail applications processed centrally
- Regionalization of SME credit
- Centre of Aspiration (COA), the Centralized Collections Unit
- Centralized Disbursements
- Centralized Security Repository Unit
- Green Initiatives – Solar energy at branches
Centralized credit underwriting leading to specialization
- Centralized collection system set up to achieve higher efficiency
- Diversity in exposure to economic sectors
- New Operational Risk Management Framework
- Appointment of Chief Information Security Officer
- Cyber & Information Security
- Data Loss Prevention / Data classification

Risk & Compliance

![NPA Ratio Chart]

- 2013: 3.64%
- 2014: 3.16%
- 2015: 2.43%
- 2016: 1.80%
- 2017: 2.28%

![Diversified Portfolio Chart]

2017:
- Traders: 7%
- Infrastructure/ Construction including condominiums: 9%
- Manufacturing: 11%
- Financial & Business Services: 13%
- Retail: 18%
- Other Services: 10%
- Agriculture & Fishing: 7%
- Tourism: 2%

Diversified Portfolio
- Rs 16.5 Bn PAT (Bank)
- PAT Rs 16.7 Bn (Group)
- Rs 11.8 Bn taxes
- ROA remained flat
- Right Issue suppresses year end ROE
  17.8% (Bank)
  15% (Group)
Dupont Analysis - Bank

- **ROE**
  - 17.79% (19.91%)

- **Leverage Multiplier**
  - 9.8x (11.15x)

- **ROA**
  - 1.82% (1.79%)

- **NII**
  - 4.4% (4.3%)

- **Other income**
  - 1.1% (1.1%)

- **Impairment**
  - 0.33% (0.03%)

- **Operating Costs**
  - 2.16% (2.31%)

- **Taxation**
  - 1.17% (1.31%)

- **2016**
Dupont Analysis - Group

- ROE: 14.95% (17.69%)
- LEverage Multiplier: 8.95x (9.94x)
- ROA: 1.75% (1.89%)
- NII: 4.76% (4.71%)
- Other income: 1.66% (1.74%)
- Impairment: 0.41% (0.06%)
- Operating Costs: 3.02% (3.11%)
- Taxation: 1.24% (1.39%)

- 2017
- 2016
Shareholder Return

<table>
<thead>
<tr>
<th></th>
<th>Voting</th>
<th>Non Voting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth : Voting share</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>800 bps above ASPI growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth : Non Voting share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3% - on par with ASPI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPS (Rs)</td>
<td>Rs 8.50</td>
<td></td>
</tr>
<tr>
<td>Cash DPS</td>
<td>Rs 6.50</td>
<td></td>
</tr>
<tr>
<td>EPS (Rs)</td>
<td>Rs 35.50</td>
<td></td>
</tr>
<tr>
<td>BVPS (Rs)</td>
<td>Rs 249.74</td>
<td></td>
</tr>
<tr>
<td>PBV (X)</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>PE (X)</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>Total Shareholder Return</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Voting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Shareholder Return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR Non Voting</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>
Awards & Accolades

- ‘Bank of the Year’ by The Banker
- ‘Top 1000 Banks in the World’ by The Banker
- Highest ranked bank in Sri Lanka by LMD and Business Today
- 5th Most valued Brand in Sri Lanka by Interbrand
- ‘Best Retail Bank in Sri Lanka’ by The Asian Banker
- ‘Best SME Bank’ in Sri Lanka by Asiamoney
- ‘The most innovative Microfinance Product in Sri Lanka’ by International Finance Magazine
- ‘Best Cash Management Bank’ in Sri Lanka by Asiamoney
- ‘Best CSR Bank’ in Sri Lanka by Asiamoney
- Silver Award – Islamic Financing Entity, Silver Award – Islamic Window, Bronze Award – Islamic Finance Deal of the year by Islamic Finance Forum South Asia (IIFSA)
- Emerging Technologies Led Innovation award – HNB FIT account (mid-size bank category) by Infosys India
Thank you