

# Stock

## Briefing Note



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### Company Name & Ticker

**HATTON NATIONAL BANK PLC | HNB.N/X**

### Industry

**CSE | BANKS**

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**AMBEON**  
SECURITIES

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## Executive Summary

### Company Overview

Hatton National Bank PLC (HNB) is a commercial bank listed on the Colombo Stock Exchange, offering both voting and non-voting shares. The bank's total market capitalization stands at LKR 118,369 million, representing 2.6% of the overall market. HNB is the second largest among the private listed commercial banks on the CSE based on the assets base.

Since the completion of Domestic Debt Optimization (DDO) in June 2023, HNB.N gained 40.7% and HNB.X gained 60.9% as of Dec 2023. Post the completion of External Debt Restructuring (EDR) in Sep 2024, HNB.N has gained 30.6% and HNB.X has gained 27.9% to date. For the year 2023, the company distributed a total dividend of LKR 8.00 per share, comprising a cash dividend of LKR 4.00 and a scrip dividend of LKR 4.00. This total dividend represents a payout ratio of 19.67%.

In a latest development, HNB has approved the initiation of discussions with Bank Alfalah to acquire its operations in Bangladesh. Bank Alfalah is a multinational bank having presence in Pakistan, Bahrain, and UAE. Further, HNB is in the process of acquiring 50% stake of its joint venture – Acuity Partners from DFCC for LKR 7 billion, strengthening its stock brokering, primary dealing and investment banking services offerings.

HNB provides a diverse range of services, including Corporate Banking, Retail Banking, SME and Microfinance, Treasury operations, Real Estate, Insurance, and services for Non-Banking Financial Institutions (NBFIs). The bank operates with 5,521 employees across 255 branches nationwide.

Rated 'A (Ika)' by Fitch Ratings, HNB has garnered numerous accolades, including being named the "Best Retail Bank in Sri Lanka" by The Asian Banker magazine for the 14th time. In 2024, HNB was also recognized by Euromoney Magazine as the "Best Bank in Sri Lanka" and the "Best SME Bank."

### Valuation Summary

We have estimated the weighted average fair values of **HNB.N at LKR 279.21** and **HNB.X at LKR 228.18**. Based on the current market prices, HNB.N offers an upside potential of **30.2%**, while HNB.X presents an upside of **28.6%**. The weighted average intrinsic value of HNB shares has been calculated using different valuation methods: the PE-based valuation is LKR 221.89, the PBV-based valuation is LKR 217.81, and the Net Asset Value (NAV) as of 30th June 2024 stands at LKR 397.92 per share. The potential reversal of provisions made in relation to debt restructuring could further enhance the bank's valuation.

### Key Financials

In Q2 2024, HNB delivered a strong performance with operating profit surging 286.6% YoY to LKR 19.88 billion, driven primarily by a sharp reduction in impairment charges. Impairments dropped by 95.4% YoY to LKR 814.97 million. Although net interest income decreased by 13.3% YoY to LKR 27.25 billion, it grew by 7.6% QoQ due to lower interest expenses. Income tax expenses rose significantly by 436.7% YoY to LKR 6.94 billion. Net profit attributable to shareholders reached LKR 8.57 billion, a 261.7% YoY increase and 18.9% QoQ growth. Key performance metrics also improved, with net income per branch at LKR 33.6 million and per employee at LKR 1.6 million. As of end June 2024 Return on Assets was 2.65% and Return on Equity was 16.02%.

LKR Millions	2021	2022	2023	6M 2024
Gross income	135,710	270,509	336,638	142,037
Net interest income	56,462	111,567	118,075	52,586
Profit attributable to share holders	19,025	15,329	22,771	15,778
Net loans and advances	911,253	1,014,519	988,601	992,354
Total assets	1,453,651	1,798,275	2,047,040	2,073,095
EPS (LKR)	36.18	28.62	40.68	50.88
NAVPS (LKR)	335.93	342.25	379.18	397.92
Net margin	14.0%	5.7%	6.8%	11.1%
ROE	11.50%	8.52%	11.51%	16.02%
ROA	1.42%	0.97%	1.23%	2.65%

## Dashboards

Company Name	Hatton National Bank PLC
Ticker – Voting	HNB.N
Ticker – Non-Voting	HNB.X
Market Price – Voting (LKR)	214.50
Market Price – Non-Voting (LKR)	177.50
Exchange Listed	Colombo Stock Exchange
GICS Sector	Banks
Board Listed	Main Board
Listed Date	01 <sup>st</sup> January 1971
No. of Shares (Mn) – Voting	456
No. of Shares (Mn) – Non-Voting	116
Total Shares	572
MCAP (LKR Mn) – Voting	97,805
MCAP (LKR Mn) – Non-Voting	20,564
Total MCAP (Mn)	118,369
Public Holding – Voting	69%
Public Holding – Non-Voting	99%
Financial year ends	31 <sup>st</sup> December

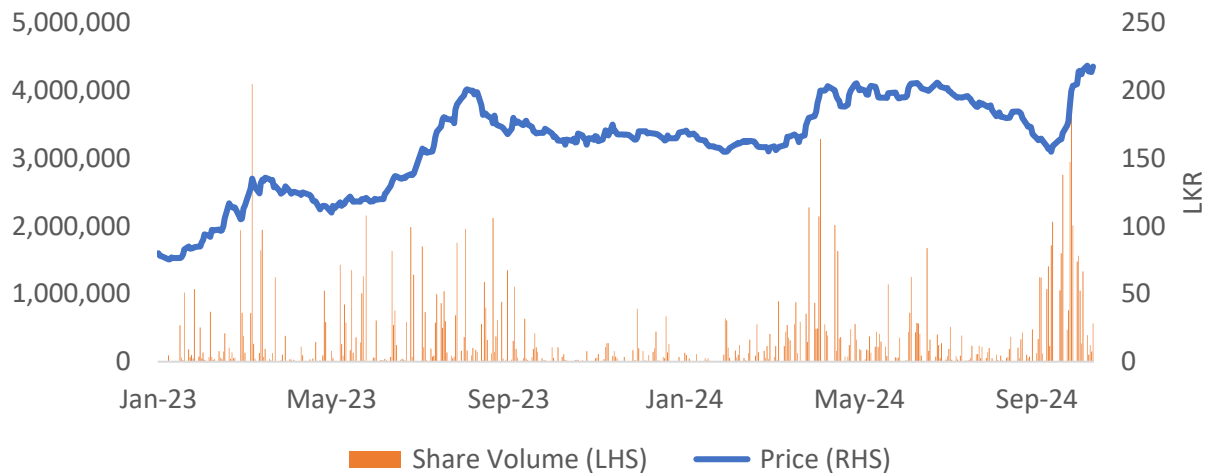
## Top 5 Shareholders

HNB.N	Percentage	HNB.X	Percentage
1. Browns Investments PLC	9.99%	1. Browns Investments PLC	45.87%
2. Employee's Provident Fund	9.75%	2. Acuity Partners (Pvt) Limited/ Mr. E. Thavagnanasooriyam / Mr. E. Thavagnanasundaram	4.66%
3. Sri Lanka Insurance Corporation Ltd-Life Fund	8.27%	3. Akbar Brothers Pvt Ltd A/C No 1	4.40%
4. Milford Exports (Ceylon) (Pvt) Limited	7.91%	4. Employees Trust Fund Board	1.30%
5. Stassen Exports (Pvt) Limited	6.85%	5. Mr. J.D. Bandaranayake	0.90%

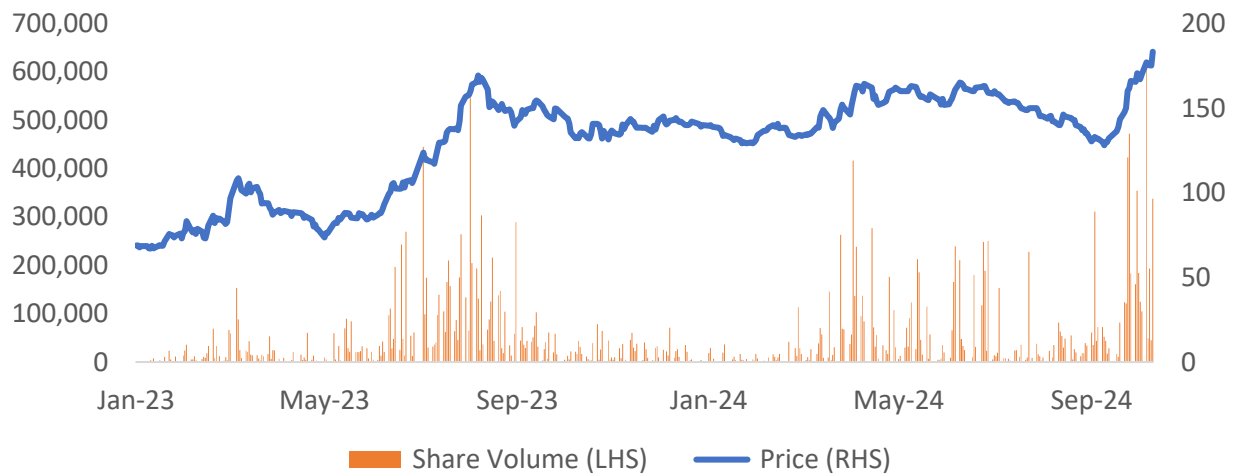
Approximately 69% of its voting shares and 99% of its non-voting shares are publicly held, contributing to a float-adjusted market capitalization of LKR 63.79 billion.

Key Data	HNB.N	HNB.X
<b>Historical Returns (Oct 2023 – Oct 2024)</b>		
1-year capital gain	32.6%	34.5%
1-year dividend yield	4.8%	5.9%
1-year total return	37.4%	40.3%
Beta	1.53	1.53
1-year high (LKR)	219.00	184.50
1-year low (LKR)	151.00	127.00
<b>Valuation Multiples</b>		
PE Ratio	4.22	3.49
PB Ratio	0.54	0.45
<b>Per Share Data (LKR)</b>		
EPS (TTM)	50.88	50.88
NAVPS (Jun 2024)	397.92	397.92
DPS (2023)	8.00	8.00
Dividend Payout	19.67%	19.67%

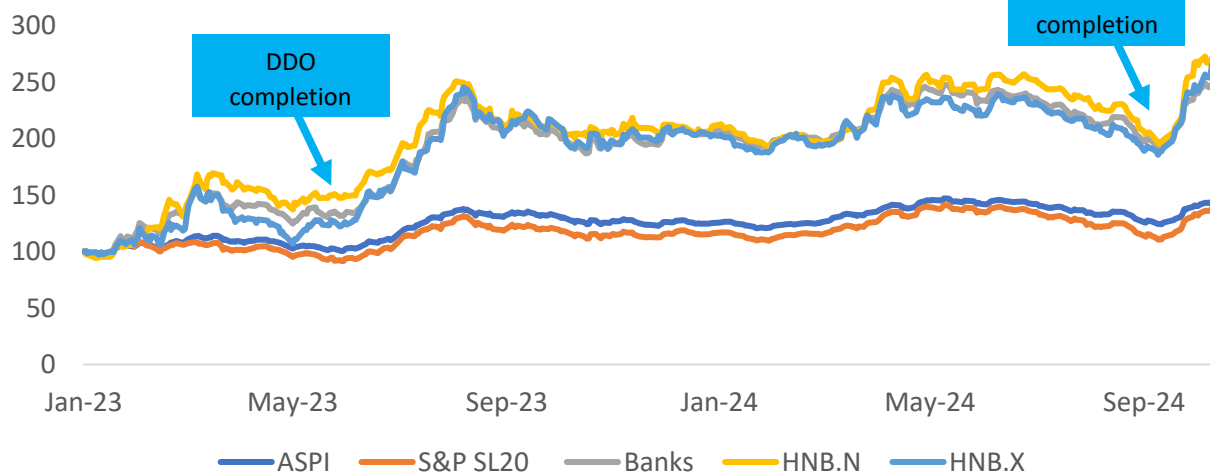
HNB.N Price Volume Movement



HNB.X Price Volume Movement



HNB.N/X vs. Other Indices



Note: The chart is indexed

## Valuation Summary

### Valuation upside

We have estimated the weighted average fair values of HNB.N at LKR 279.21 and HNB.X at LKR 228.18. Based on the current market prices, HNB.N offers an upside potential of 30.2%, while HNB.X presents an upside of 28.6%. The historical 1-year dividend yields were 4.8% for HNB.N and 5.9% for HNB.X.

Weighted average intrinsic value	LKR
PE based valuation	221.89
PBV based Valuation	217.81
NAV (30 <sup>th</sup> June 2024)	397.92
Weighted average Value per share – HNB.N	<b>279.21</b>
Weighted average Value per share – HNB.X	<b>228.18</b>

Historically, over the past two years, HNB.X has traded at an average discount of 18.28% relative to HNB.N.

### PE Based Valuation

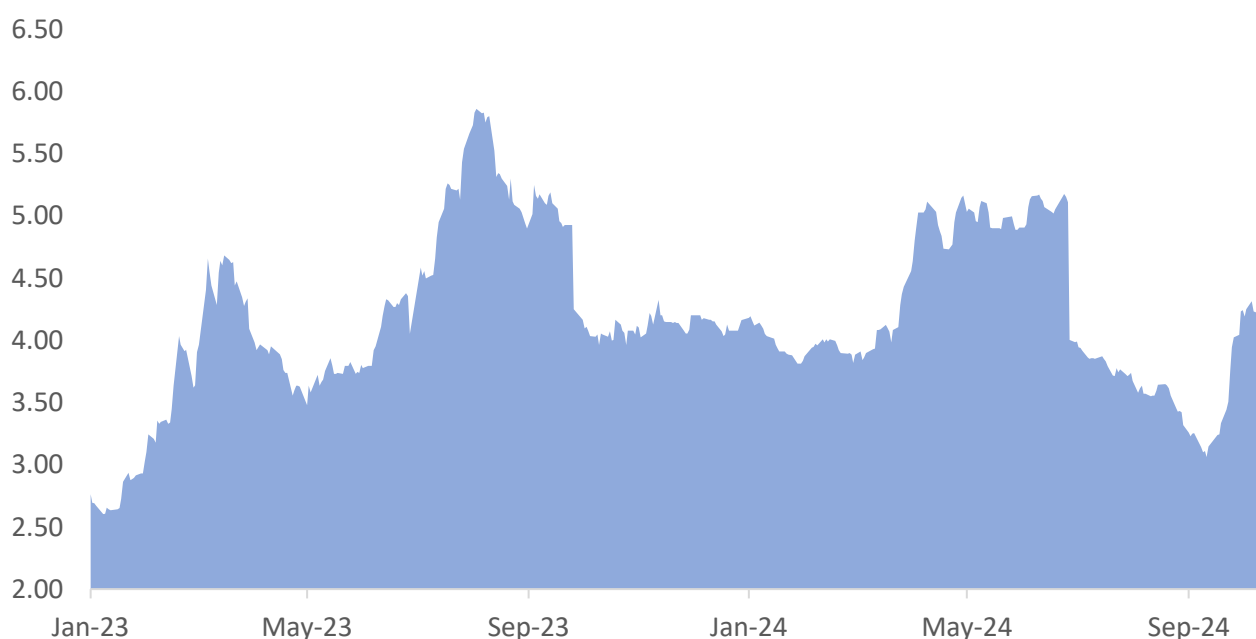
Company	MPS*	TTM EPS**	P/E
COMB.N	108.50	139.72	5.51
DFCC.N	79.50	175.87	3.34
NDB.N	77.70	181.54	4.74
NTB.N	131.75	211.65	3.21
PABC.N	22.30	53.13	5.05
SAMP.N	81.50	139.23	4.31

Average P/E ratio of peers	4.36
TTM EPS of HNB	50.88
<b>Value per share of HNB.N</b>	<b>221.89</b>
<b>Value per share of HNB.X</b>	<b>181.34</b>

\* Closing prices as of 18<sup>th</sup> October 2024, are considered the Market Price per Share

\*\* Earnings Per Share (Trailing Twelve Months) is up to the quarter ended 30<sup>th</sup> June 2024

### Historical Price Earnings Ratio (P/E) - HNB.N



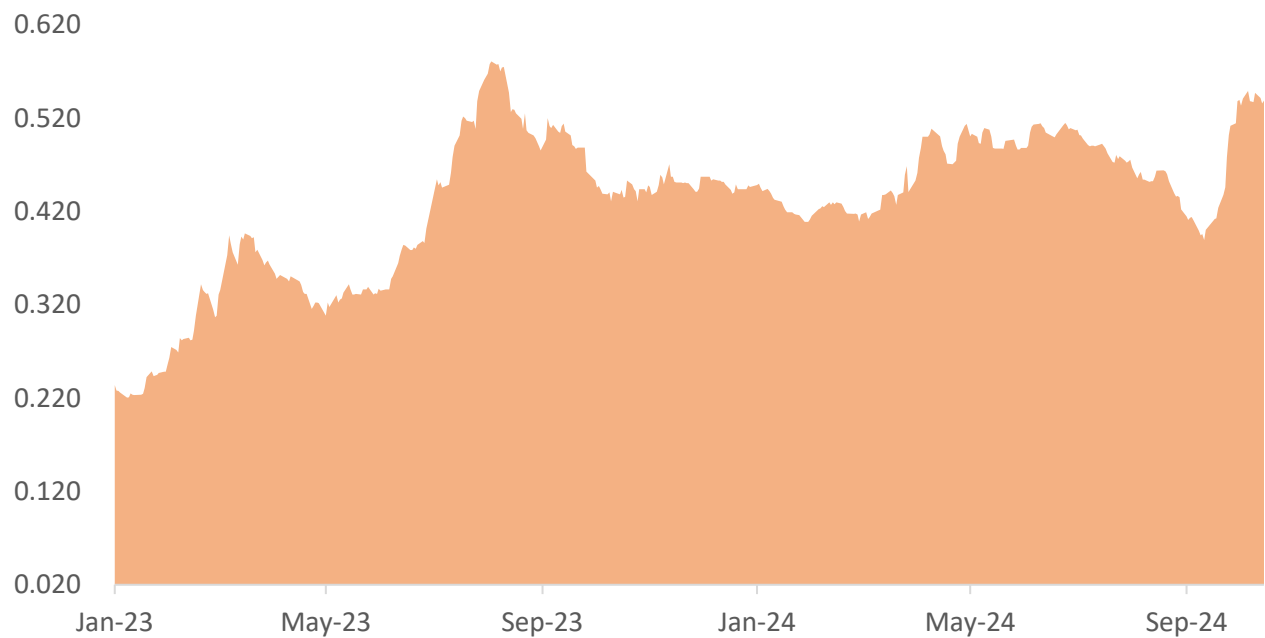
## PBV based Valuation

Company	MPS*	NAVPS**	PBV
COMB.N	108.50	139.72	0.78
DFCC.N	79.50	175.87	0.45
NDB.N	77.70	181.54	0.43
NTB.N	131.75	211.65	0.62
PABC.N	22.30	53.13	0.42
SAMP.N	81.50	139.23	0.59
Average PBV of peers			0.55
NAVPS of HNB			397.92
Value per share of HNB.N			<b>217.81</b>
Value per share of HNB.X			<b>178.00</b>

\* Closing prices as of 18<sup>th</sup> October 2024, are considered the Market Price per Share

\*\* Net Asset Value per Share is up to the quarter ended 30<sup>th</sup> June 2024

## Historical Price to Book Ratio - HNB.N





## Return Analysis

### Historical Returns

#### Historical Dividends

	2019	2020	2021	2022	2023
Dividend per share (LKR)	8.00	8.00	9.00	5.00	8.00
Dividend payout ratio	27.29%	31.28%	24.88%	17.47%	19.67%
Dividend yield*	4.65%	6.32%	6.67%	6.34%	4.73%

\* Dividend yield is based on the closing price of the year

Year	Type	Dividend per share (LKR)	Payment date
2023	Final cash dividend	4.00	16-Apr-24
	Final scrip dividend	4.00	
2022	Final scrip dividend	5.00	
2021	Final cash dividend	6.50	12-Apr-22
	Final scrip dividend	2.50	
2020	Final cash dividend	4.50	12-Apr-21
	Final scrip dividend	3.50	
2019	Final scrip dividend	3.50	
	Final cash dividend	3.50	10-Jun-20
	Interim cash dividend	1.00	8-Jan-20

#### Historical Price Movements (Jan-Dec)

Annual Price Movement	HNB.N	HNB.X
2024 (YTD)*	26.2%	27.2%
2023	111.3%	103.2%
2022	-41.6%	-43.0%
2021	4.8%	17.9%
2020	-26.6%	-26.1%
2019	-17.4%	-18.4%

\* Closing prices as of 18<sup>th</sup> October 2024, are considered for calculating YTD

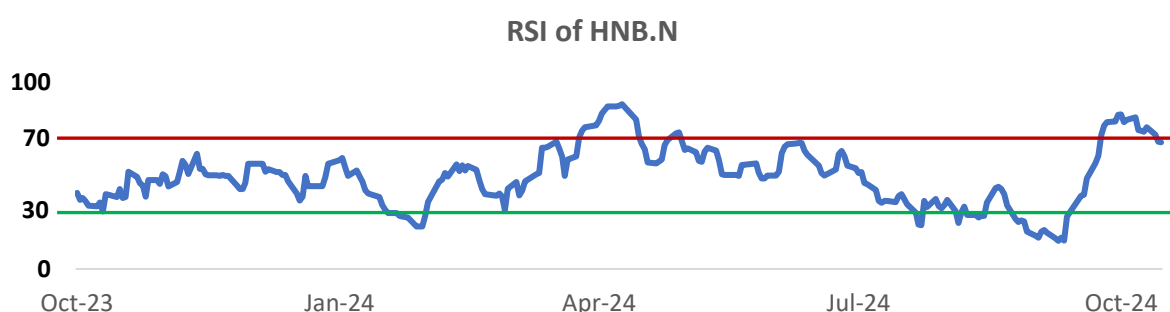
In 2023, HNB.N and HNB.X achieved their highest annual gains in price, rising by 111.3% and 103.2%, respectively driven by the positive investor sentiment post DDO completion. So far in 2024, HNB.N prices have increased by 26.2%, while HNB.X prices have risen by 27.2%. From the start of 2019 to date, HNB.N has posted a total price gain of 2.9%, and HNB.X has recorded a total price gain of 6.9%.

## Technical Indicators

### Mixed technical signals suggest potential trend reversal

The technical indicators for HNB.N present **mixed signals**. Short-term moving averages remain above long-term moving averages, indicating a **bullish sentiment**. However, the MACD line has crossed below the signal line, suggesting a **potential trend reversal**. The RSI, having recently fallen just **below the overbought zone**, implies that neither a sharp drop nor an immediate continuation of the upward trend is likely. Additionally, volume analysis reflects **increased trading activity and strong buying interest, though momentum appears to be weakening**. Immediate support is identified at **211.75**, with resistance at **216.50**, based on a thorough analysis of short-term technical indicators.

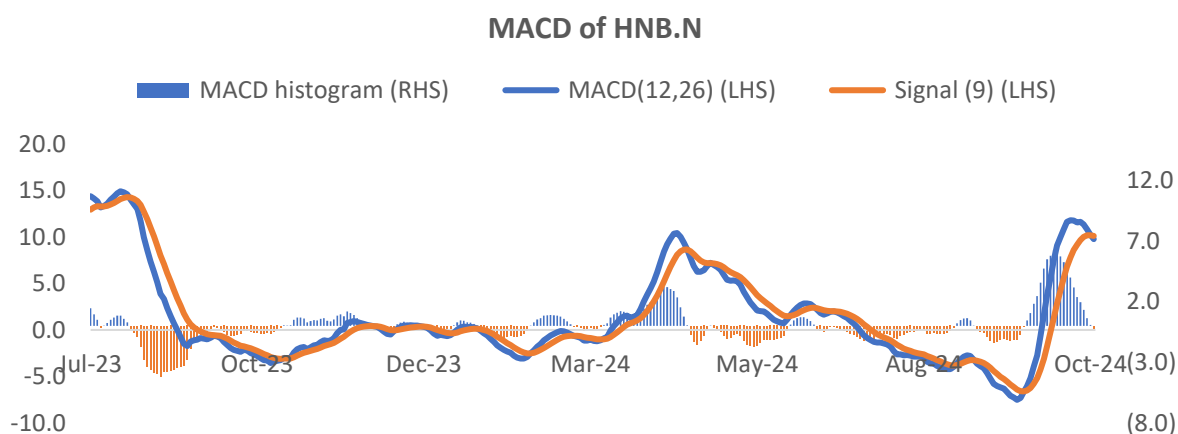
### Relative Strength Index is slightly below the overbought level



*Note: Based on CSE data*

The Relative Strength Index (RSI) of HNB has decreased to 69.20, moving out of the overbought zone, signaling a potential shift away from excessively bullish conditions. However, the 14-day Simple Moving Average (SMA) of the RSI remains elevated at 75.83, suggesting that overall momentum is still strong. This combination indicates that while the stock is no longer in the overbought zone, it remains close, and underlying momentum continues to signal bullishness. Although this setup hints at the possibility of a price correction, future price movement remains uncertain, largely depending on market conditions and investor sentiment.

### MACD Signals Possible Shift in Market Sentiment



*Note: Based on CSE data*

The MACD and signal lines had been trending upward, with the MACD line above the signal line, reflecting bullish momentum. However, more recently, both lines have started to decline, indicating a slowdown in upward momentum. Despite this, the MACD line consistently remained above the signal line, suggesting a weakening but still present bullish sentiment. Currently, however, the MACD line has fallen to 9.8, below the signal line at 10.1, signaling a potential shift in market sentiment. This

convergence may indicate a critical point where a change in trend could occur, possibly marking the end of the previous bullish phase or a period of consolidation before the next significant movement.

### **Moving averages indicates a bullish sentiment**

The 20-day exponential moving average (EMA) of HNB.N at 205.10 being above the 50-day EMA at 194.05 indicates strong short-term bullish momentum, as recent prices are rising faster than the mid-term trend. Additionally, the 50-day simple moving average (SMA) of 185.72 surpassing the 200-day SMA of 181.67 suggests a long-term uptrend is in place, with prices steadily improving over time. The gap between the 50-day EMA and the 50-day SMA further highlights that recent price gains are outpacing the longer-term average, reinforcing the positive sentiment around the stock's performance.

### **Higher volumes compared to normal trading days**

The volume analysis of HNB.N indicates a significant increase in trading activity, reflected by higher average daily volumes compared to previous days. However, on the recent trading day, the long-term moving average has crossed above the short-term moving average, signaling a bearish cross. The On-Balance Volume (OBV) had been trending upwards but is currently flat, indicating a pause in buying pressure. The Volume Weighted Moving Average (VWMA), on the other hand, continues to show an upward trend, reinforcing strong buying interest. However, the Money Flow Index (MFI) is elevated at 88.17, suggesting potential overbought conditions. The Accumulation/Distribution (A/D) line, which previously showed an uptrend, has now flattened, potentially indicating a consolidation phase. Additionally, the Klinger Oscillator shows both the Klinger line at 56.796k and the signal line at 100.404k trending downward, further supporting the possibility of weakening momentum.

*Note: Trading View is used to analyze volumes and moving averages of the prices*

## Segmental Analysis

HNB Bank operates across eight key business segments as Corporate, Retail, SME, Micro, Treasury, Real Estate, Insurance, and Non-Banking Financial Institutions (NBFI).

### The retail segment makes the largest contribution to overall operations

In 2023, the retail segment contributed the largest share to the company's net operating income, accounting for 53.1%. This represented a 47.8% growth in net operating income for the segment compared to the previous year. In the quarter ended June 2024, the retail segment maintained the highest composition at 31.9%, with its net operating income increasing by 0.7% QoQ but declining by 18.3% YoY.

For total operating income in 2023, the retail segment contributed 38.4%, reflecting a growth of 36.8% compared to the previous year. In Q2 2024, the retail segment accounted for 31.7% of the total operating income. However, total operating income from the retail segment declined by 19.3% YoY and 2.0% QoQ.

In terms of net interest income for 2023, the retail segment was also the largest contributor, accounting for 42.0%, a 37.8% increase compared to the prior year. In the most recent quarter, the retail segment contributed 34.4% to net interest income but saw a decline of 27.9% YoY and 3.9% QoQ.

In terms of net fee and commission income in 2023, the retail segment again led with a contribution of 43.5%, reflecting a 26.1% growth from the previous year. In Q2 2024, the retail segment contributed the highest share to net fee and commission income at 47.8%, marking a significant increase of 46.4% YoY and 10.5% QoQ.

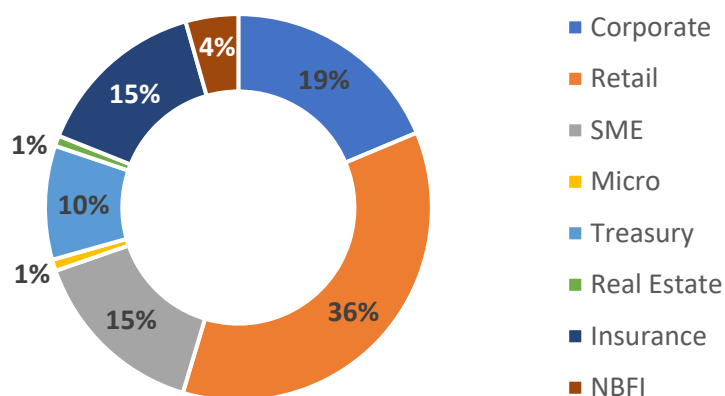
### The corporate segment achieved the highest growth in operating income for 2023

In 2023, the corporate segment demonstrated substantial improvements across key financial metrics, including net interest income, total operating income, and net operating income. Net interest income from the corporate segment surged by 138.5% YoY, contributing 18.7% to the total net interest income for the year. Additionally, total operating income and net operating income from this segment saw remarkable increases of 203.7% YoY and 353.1%YoY, respectively.

### Foreign exchange income for the SME sector showed significant improvement in 2023

The SME sector's foreign exchange income in 2023 reached LKR 837.59 million, a staggering increase of 12,960.3% compared to the LKR 6.51 million loss in 2022. This sector contributed 36.4% of the total foreign exchange income for 2023. However, in Q2 2024, the SME sector's foreign exchange income declined by 20.7% YoY and 12.5% QoQ, accounting for 11.5% of the total foreign exchange income for the quarter.

Total operating income - 2023



Note: Eliminations are not considered here

### The corporate segment holds the largest share of foreign exchange income

In 2023, the corporate segment accounted for the largest share of total net foreign income, contributing LKR 3.0 billion and reflecting a remarkable growth of 163.9% compared to the previous year. However, for the three months ended June 30, 2024, the corporate segment's share of total net foreign income dropped to -17.6% due to a foreign exchange loss of LKR 237.74 million. This represented a significant decline of 121.1% YoY and 116.0% QoQ.

### The treasury segment has the largest asset composition

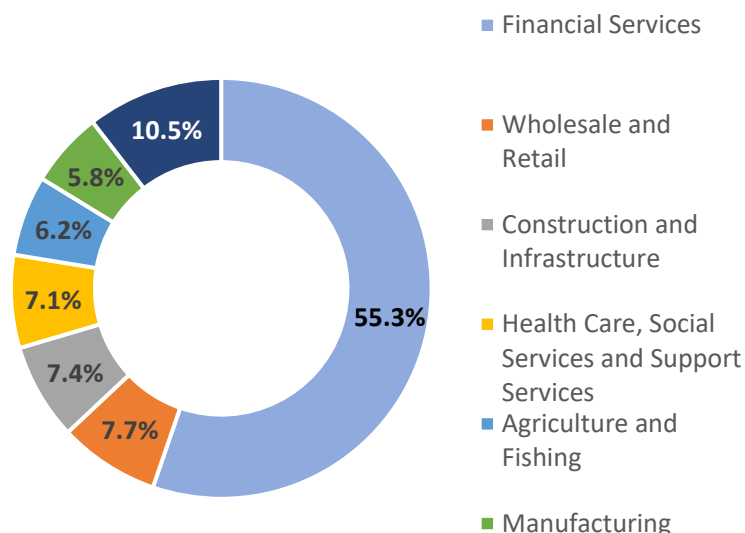
For the year ended December 2023, the treasury segment held the largest share of the company's assets, accounting for 37.7% of the total. In comparison, the corporate segment represented 24.4% and the retail segment contributed 13.1% of total assets. The treasury segment also experienced the highest asset growth during the year, with a YoY increase of 34.6%, while assets in the insurance segment grew by 24.1% YoY. Conversely, total assets in the corporate and retail segments declined by 10.9% YoY and 2.1% YoY, respectively. As of June 30, 2024, the treasury segment's share of total assets was 33.0%, reflecting an 8.9% YoY decline and a 16.1% QoQ decrease. In contrast, the corporate segment achieved the highest asset growth in the last quarter, increasing by 28.9% YoY and 6.2% QoQ.

### The Financial Services sector has the

#### highest loan exposure

In the year 2023, the financial services sector held the largest share of total loans and financial assets, accounting for 55.3%. The wholesale and retail sector, along with the construction and infrastructure sectors, followed with 7.7% and 7.4%, respectively. The information technology and communication sector saw the highest YoY growth in loans, surging by 60.0%, while the financial services sector and education sector recorded YoY loan growth of 31.7% and 19.6%, respectively. In contrast, lending to overseas entities experienced the sharpest YoY decline, dropping by 39.8%, while loans to the professional, scientific, and technical services sector and the arts, entertainment, and recreation sector fell by 17.8% and 16.0%, respectively.

Loan exposure by sector

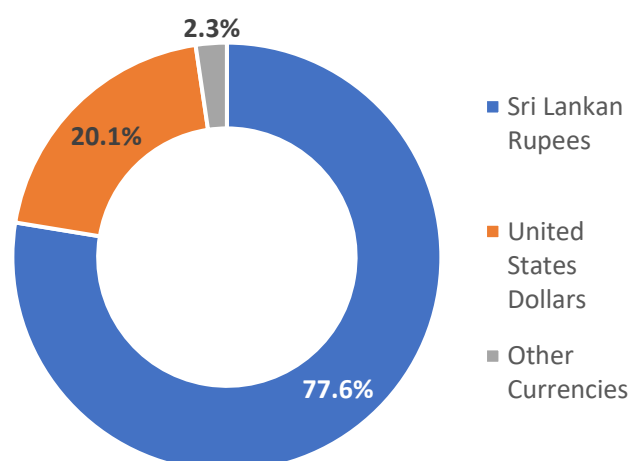


### Local currency deposits account for 77.6%

#### of total deposits

In 2023, local currency (LKR) deposits accounted for 77.6% of total deposits, while foreign currency deposits made up 22.4%. Local currency deposits experienced a YoY increase of 16.2%, whereas foreign currency deposits declined by 2.1%. Among foreign currency deposits, USD deposits held the largest share at 89.6%, followed by GBP and EUR deposits at 3.9% and 3.1%, respectively. While USD deposits rose by 0.1% YoY, GBP deposits and EUR deposits fell by 20.2% YoY and 18.2% YoY, respectively.

Deposits by currency



**In 2023, time deposits comprised 70.5% of total deposits**

In the total deposit mix for 2023, time deposits represented the largest share at 70.5%, followed by savings deposits, which accounted for 23.9%. Time deposits also exhibited the highest growth, increasing by 13.3% YoY, while current account deposits rose by 11.0% YoY. Conversely, margin deposits experienced a significant decline of 44.5% YoY, and certificates of deposit also decreased by 11.6% YoY in 2023.

## Financial Review

### Major changes compared with the previous year (2023 vs 2022):

#### Favourable Changes

- Gross income rose by 24.4%, increasing from LKR 270.51 Bn to LKR 336.64 Bn.
- Net interest income grew by 5.8%, from LKR 111.57 Bn to LKR 118.07 Bn.
- Impairment charges declined by 53.6% from LKR 91.74 Bn to LKR 42.52 Bn.
- Operating profits surged by 141.0%, from LKR 19.34 Bn to LKR 46.60 Bn.
- Profits attributable to equity holders climbed by 48.6%, rising from LKR 15.33 Bn to LKR 22.77 Bn.

#### Unfavourable Changes

- Net interest margin decreased from 7.43% to 6.67%.
- The cost-to-income ratio rose from 30.96% to 40.38%.
- Total operating income fell by 7.1%, decreasing from LKR 160.88 Bn to LKR 149.50 Bn.
- Net gains from trading plummeted by 345.6%, moving from a gain of LKR 4.83 Bn to a loss of LKR 11.85 Bn.
- Income taxes surged by 1125.0%, increasing from a tax credit of LKR 1.33 Bn to a tax expense of LKR 13.61 Bn.

### Major changes compared with the previous quarter (Q2 2024 vs Q1 2024):

#### Favourable Changes

- Operating profits rose by 45.3%, increasing from LKR 13.68 Bn to LKR 19.88 Bn.
- Net interest margin improved from 5.62% to 5.95%.
- The cost-to-income ratio decreased from 53.03% to 45.18%.
- Impairment charges reduced by 50.1% from LKR 1.63 Bn to LKR 814.97 Mn.
- Net gains from trading surged by 186.3%, shifting from a loss of LKR 4.34 Bn to a gain of LKR 3.51 Bn.
- Net profit attributable to equity holders rose by 18.9%, from LKR 7.42 Bn to LKR 8.83 Bn.

#### Unfavourable Changes

- Gross income decreased by 2.5% from LKR 71.93 Bn to LKR 70.11 Bn.
- Income taxes increased by 81.5% from LKR 3.82 Bn to LKR 6.94 Bn.
- Net other operating income plummeted by 187.0% to a loss of LKR 2.02 Bn.
- Net gain from FVOCI investments declined by 94.2% to LKR 21.33 Mn.

### Gross Income increased by 24.4% YoY in 2023

For the year ended December 2023, Hatton National Bank PLC recorded a gross income of LKR 336.64 billion, reflecting a 24.4% YoY increase. This growth was driven by increases in interest income, fee and commission income, gains from FVOCI investments, and insurance premium income. The bank's gross income per employee for the year reached LKR 61.3 million, representing a 16.83% YoY rise, while gross income per branch increased by 24.9% YoY to LKR 1.33 billion.

However, in the most recent quarter, ended June 2024, gross income declined to LKR 70.11 billion, marking a 19.8% YoY decrease and a 2.5% drop compared to the previous quarter. This decline was mainly due to lower interest income and a loss in net other operating income. Gross income per employee fell to LKR 12.7 million, down from LKR 13.1 million in the previous quarter and LKR 17.0 million in Q2 2023. Similarly, gross income per branch dropped to LKR 274.9 million in Q2 2024, compared to LKR 283.2 million in Q1 2024 and LKR 343.0 million in Q2 2023.



**Interest income increased despite declining interest rates in 2023**

Net interest income for the year totaled LKR 118.07 billion, representing a 5.8% increase from the previous year. This growth was supported by a high-interest rate in the first half of the year and strong performance in pawning and CASA within the retail segment. However, the net interest margin fell to 6.97%, down from 7.79% the previous year, primarily due to declining interest rates in the later period of the year. Net interest income for the quarter ended June 2024 saw a significant 13.3% YoY decrease to LKR 27.25 billion, though it showed a 7.6% increase compared to the preceding quarter which was supported by the reduced interest expenses.

**Operating profit surged by 141.0% YoY in 2023**

In 2023, the company's operating profit surged by 141.0% YoY, reaching LKR 46.60 billion, fueled by robust growth in net interest income, fee and commission income, insurance premium income, and lower impairment charges. In Q2 2024, operating profit soared by an impressive 286.6% YoY, reaching LKR 19.88 billion, with a strong QoQ growth of 45.3%, primarily driven by a further reduction in impairment charges. In 2023, impairment charges dropped significantly by 53.6% YoY, totaling LKR 42.52 billion. In Q2 2024, impairment charges further decreased to LKR 814.97 million, marking an 95.4% YoY reduction and a 50.1% decline compared to the previous quarter.

Net fee and commission income grew by 4.2% YoY to LKR 16.57 billion, primarily due to higher digital revenue and card transactions. Additionally, net fee and commission income for the quarter saw a significant increase of 23.1% YoY and 10.0% QoQ, rising to LKR 4.77 billion, driven by increased card usage and digital transactions. Despite a slight appreciation of the LKR, the bank posted a foreign exchange gain of LKR 1.35 billion during the quarter which is a 359.2% YoY increase, reflecting strong performance in foreign exchange transactions.

**Income tax expenses saw a substantial increase in 2023**

In 2023, the income tax expense reached LKR 13.61 billion, reflecting a significant 1125% YoY increase compared to the tax credit of LKR 1.32 billion in 2022. The effective tax rate for the year rose to 36.57%, driven by the government's efforts to boost tax revenues and address the budget deficit. In Q2 2024, income tax expense for the quarter amounted to LKR 6.94 billion, marking a 436.7% YoY increase and an 81.5% QoQ rise.

**Net Profit Surged Amid Strong Operational Efficiency in 2023**

For the year ended December 2023, HNB achieved a net profit attributable to shareholders of LKR 22.77 billion, reflecting a 48.6% increase from the previous year, despite a significant tax burden. This impressive profit growth was driven by higher interest income, fee and commission income, insurance premium revenue, and a reduction in impairment charges. The net profit margin rose to 6.8%, up from 5.7% in 2022.

Additionally, the bank's operational efficiency improved, with net income per branch reaching LKR 89.6 million and net income per employee at LKR 4.1 million. Return on Equity (ROE) increased to 11.51% in 2023, compared to 8.52% in 2022, while Return on Assets (ROA) rose to 1.23%, up from 0.97% in the prior year.

For the quarter ended June 2024, HNB reported a net profit attributable to shareholders of LKR 8.57 billion, marking a remarkable 261.7% YoY increase and an 18.9% growth compared to the previous quarter mainly due to the reduced impairment charges. Net income per branch reached LKR 33.6 million, and net income per employee stood at LKR 1.6 million, both showing improvements from the previous quarter and the same period last year. Return on Assets (before tax) rose from 2.02% in Q1 2024 to 2.65% in Q2 2024, while Return on Equity increased from 13.29% in Q1 2024 to 16.02% in Q2 2024.



## HNB has room to reverse the provisions made for ISB restructuring

According to Sri Lanka's Ministry of Finance, the country has secured USD 17 billion in debt service relief, including USD 9.5 billion from bondholders. Recent discussions between bondholders and the Sri Lankan government indicate that local banks will be able to exchange 70% of their International Sovereign Bonds (ISBs) for dollar bonds, subject to a 10% haircut. The remaining 30% will be converted into rupee-denominated securities. Additionally, past due interest will be restructured into a bond with an 11% haircut.

PDI Bond

Exchange of USD-denominated instruments into USD-denominated securities, with features identical to the PDIs treatment agreed with international bondholders:

- 11% haircut on claim as of end March-2024
- Nonlinear amortization as per the JWF amortization structure, with first amortization in 2024 and final maturity in 2028 (30-Sep-2024: 7.0%, 31-Mar-2025: 20.0%, 31-Mar-2026: 20.0%, 31-Mar-2027: 20.0%, 31-Mar-2028: 33.0%)
- Fixed interest rate coupon at 4%

Terms of USD-denominated securities ("USD Bond")

70% of nominal value (before haircut)

Exchange of USD-denominated instruments into USD-denominated securities, with the following features:

- Consent fee of c. 1.8% applied to the face value of ISB holdings (identical to the Agreement in Principle)
- 10% nominal haircut on 70% of the face value of ISB holdings (face amount of the USD-denominated B bond at 63% of the original face value)

Amortization <sup>(1)</sup>				Maturity date	Coupon payments <sup>(2)</sup>								
2029-32	2033-37	2038			2024	2025	2026	2027	2028	2029-30	2031-32	2033-35	2036-38
8.0%	12.0%	8.0%		31-Mar-2038	1.0%	1.0%	1.5%	1.75%	2.0%	2.25%	2.75%	3.0%	3.5%

- Foreign law bond

Terms of LKR-denominated securities ("LKR Bond")

30% of nominal value

Exchange of USD-denominated instruments into LKR-denominated securities, with the following features:

- Linear semi-annual amortization, with first amortization in 2036 and final maturity in 2043
- Floating interest rate coupon: Central Bank of Sri Lanka's SLFR + 0.5% margin
- Governing law of Sri Lanka

With the IMF and the newly elected government after the presidential election expressing their commitment to working together, the debt restructuring process is expected to progress. As of the end of 2023, Hatton National Bank holds a total of LKR 196.3 billion in ISBs as outlined below.

Year of Maturity	LKR'000
2022	31,935,968
2023	33,280,623
2024	63,001,824
2025	26,905,810
2026	20,538,758
2027	12,654,398
2028	7,372,674
2029	615,040
<b>Total Sri Lanka sovereign bonds</b>	<b>196,305,095</b>

The Bank, which had allocated Rs 73.4 billion for investments in international sovereign bonds by the end of 2022, prudently increased its impairment cover from 35% to 52%. This was achieved by setting aside an additional provision of LKR 38.0 billion during the year. The bank has made sufficient provisions, some of which could potentially be reversed following recent discussions on debt restructuring.

## Environment, Social and Governance

### HNB significantly reduced emissions and enhanced energy efficiency

In 2023, HNB achieved significant milestones in its environmental initiatives, including a 21% reduction in total greenhouse gas emissions, totaling 1,715 tCO<sub>2</sub>e for scope 1, 7,252 tCO<sub>2</sub>e for scope 2, and 58 tCO<sub>2</sub>e for scope 3. The bank enhanced energy efficiency through the installation of LED lighting, energy-efficient elevators, and inverter air conditioning systems. By the end of 2023, 95 out of 254 branches were equipped with solar energy systems, contributing to 15% of their electricity needs, with solar power generation increasing by 15% to 2,124 MWh.

Diesel consumption decreased by 71%, and employees logged 44,133 km of cycling and 16,148 km of walking, supported by the "HNB Walk the Talk" initiative, which engaged 108 cyclists and 263 walkers. Additionally, paper consumption dropped by 20% due to a focus on digitization, resulting in less waste. The company collaborated with schools and Eco Spindles to recycle 1,598 kg of plastic bottles.

Over a five-year period, HNB restored 2.5 acres of degraded forest land in Kanneliya with assistance from IUCN and the Forest Department. To further optimize resource usage, the bank introduced a smart carbon calculator system and continuously improved its waste management practices.

### The bank promotes employee welfare, gender equality, and CSR initiatives.

All full-time employees are entitled to life insurance and healthcare benefits, which include reimbursement for surgical and hospitalization expenses for both the employee and their family. The bank also promotes health and well-being through regular health and wellness programs, which saw the participation of 1,395 employees in 2023. Additional employee benefits include flexible working hours, work-from-home options, merit-based promotions, and equal pay for women and men in the same pay grades.

The Bank's "Women at Work" initiative underscores its commitment to empowering female employees by providing training, career development opportunities, and continuous support throughout their professional journeys. Additionally, in 2023, the Bank drafted a Gender Policy to further enhance its Diversity and Equality Policy, which already covers recruitment, promotions, and work allocations. The new Gender Policy will also assess the Bank's lending practices to ensure no gender-based discrimination exists within its loan portfolio.

In 2023, the Bank's lending activities in paddy cultivation focused on generating income for farmers and creating employment in impoverished provinces. This initiative resulted in the generation of 116,438 man-days of employment and LKR 968 million in gross income for farmers.

The Bank invested LKR 56.5 million in Corporate Social Responsibility (CSR) initiatives in 2023, benefiting over 13,824 individuals. Through the "Oba Venuwen Api" project, the Bank donated essential medical equipment and medicines to Lady Ridgeway, Rikilagaskada, Kalmunai, Mathugama, and Balangoda hospitals. Since the project's inception in 2020, a total of 44 hospitals have received donations, amounting to LKR 19 million in cumulative support.

### HNB governance emphasizes ethics, independence, and transparency

#### Board of Directors

Name	Directorship Status	Skills and Expertise
Mr. Nihal Jayawardene (Chairman)	Non-Independent Non-Executive Director	Legal
Mr. Jonathan Alles (Managing Director/CEO)	Executive Director	Banking & Finance
Mr. Madura Ratnayake	Independent Non-Executive Director	Information Technology and Digital

Mr. Devaka Cooray	Independent Non-Executive Director	Accounting & Finance
Mr. Dilshan Rodrigo*	Executive Director	Banking & Finance
Mr. Osman Chandrawansa	Independent Non-Executive Director	Regulatory and Banking & Finance
Mr. Rimoe Saldin	Non-Independent Non-Executive Director	Management and Accounting & Finance
Mr. Rasitha Gunawardana	Independent Non-Executive Director	Risk Management and Banking & Finance
Mr. Kithsiri Gunawardana	Non-Independent Non-Executive Director	Management and Legal
Dr. Prasad Samarasinghe	Non-Independent Non-Executive Director	Information Technology, Digital, Management and Telecommunication

\* Resigned with effect from 12<sup>th</sup> January 2024

### Board Sub-committees

Sub-committees	Members
<b>Mandatory Committees</b>	
Board Audit Committee	<ul style="list-style-type: none"> <li>Mr. Devaka Cooray (Chairperson)</li> <li>Mr. Osman Chandrawansa</li> <li>Mr. Rasitha Gunawardana</li> </ul>
Human Resources & Remuneration Committee	<ul style="list-style-type: none"> <li>Mr. Madura Ratnayake (Chairperson)</li> <li>Mr. Nihal Jayawardene, PC</li> <li>Mr. Kithsiri Gunawardana</li> <li>Mr. Rasitha Gunawardana</li> <li>Mr. Osman Chandrawansa</li> </ul>
Nominations & Governance Committee	<ul style="list-style-type: none"> <li>Mr. Devaka Cooray (Chairperson)</li> <li>Mr. Madura Ratnayake</li> <li>Mr. Nihal Jayawardene, PC</li> </ul>
Board Integrated Risk Management Committee	<ul style="list-style-type: none"> <li>Mr. Rimoe Saldin (Chairperson)</li> <li>Mr. Jonathan Alles</li> <li>Mr. Prasad Samarasinghe</li> <li>Mr. Madura Ratnayake</li> <li>Mr. Kithsiri Gunawardana</li> </ul>
Related Party Transactions Review Committee	<ul style="list-style-type: none"> <li>Mr. Devaka Cooray (Chairperson)</li> <li>Mr. Jonathan Alles</li> <li>Mr. Osman Chandrawansa</li> <li>Mr. Nihal Jayawardene, PC</li> </ul>
<b>Voluntary Committees</b>	
Strategy & Investment Review Committee	<ul style="list-style-type: none"> <li>Mr. Nihal Jayawardene, PC (Chairperson)</li> <li>Dr. Prasad Samarasinghe</li> <li>Mr. Madura Ratnayake</li> <li>Mr. Kithsiri Gunawardana</li> </ul>
Procurement & Assets Disposal Committee	<ul style="list-style-type: none"> <li>Mr. Rimoe Saldin (Chairperson)</li> <li>Dr. Prasad Samarasinghe</li> <li>Mr. Rasitha Gunawardana</li> </ul>
Board Credit Committee	<ul style="list-style-type: none"> <li>Mr. Rasitha Gunawardana (Chairperson)</li> <li>Mr. Devaka Cooray</li> <li>Mr. Osman Chandrawansa.</li> <li>Mr. Nihal Jayawardene, PC</li> </ul>
Board Recoveries Committee	<ul style="list-style-type: none"> <li>Mr. Rasitha Gunawardana (Chairperson)</li> <li>Mr. Nihal Jayawardene, PC</li> <li>Mr. Osman Chandrawansa</li> </ul>

Special Board Committee on Digital Banking	<ul style="list-style-type: none"> <li>• Mr. Madura Ratnayake (Chairperson)</li> <li>• Dr. Prasad Samarasinghe</li> <li>• Mr. Dilshan Rodrigo*</li> </ul>
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\* Resigned with effect from 12<sup>th</sup> January 2024

80% of the board of directors comprises Non-Executive Directors, with half of them classified as Independent Directors. The board convenes monthly, while its sub-committees meet at varying frequencies. Directors are permitted to serve a maximum of nine years on the bank's board and must be under 70 years of age. To ensure responsibilities are met, directors participate in annual self-assessments, with results presented during the March 2023 Board Meeting.

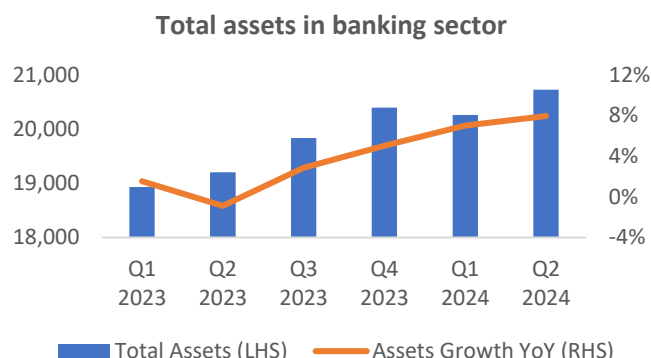
The board has established a Code of Conduct and Ethics applicable to Directors, Key Management Personnel, and all employees. Training on this code is provided during induction and reinforced through regular refresher courses. Additionally, the bank has implemented a Share Trading Policy to guide financial reporting procedures. A Whistleblowing Policy is in place to encourage the reporting of fraud, unethical behavior, or violations of the Code of Conduct, Ethics, Human Rights, and regulatory requirements. This policy is communicated to all staff and is reviewed by the Board Audit Committee, which allows concerns to be raised confidentially.

Directors are required to declare any personal financial interests that may conflict with their duties both at the time of their appointment and quarterly thereafter. They must excuse themselves from meetings when conflicts arise. The Related Party Transactions Review Committee oversees these transactions to ensure they are conducted fairly and in the best interests of the bank.

## Industry & Macroeconomic Analysis

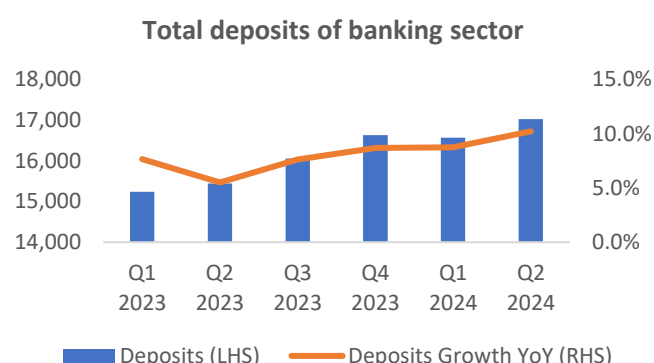
### Assets in the banking sector increased by 7.9% YoY in Q2 2024

In Q2 2024, the total assets of the banking sector grew by 7.9% YoY to LKR 20,724.7 billion, up from LKR 19,199.4 billion in Q2 2023 due to the increased investments and loans & receivables. Gross Loans & Receivables increased by 4.8% YoY, reaching LKR 11,081.9 billion. However, the Gross Loans to Total Assets ratio declined to 53.5% in the quarter. Additionally, investments in the banking sector saw a significant YoY increase of 19.1%, rising to LKR 7,849.1 billion in Q2 2024.



### Banking sector liabilities rose by 7.6% YoY in Q2 2024

By the end of Q2 2024, total liabilities in the banking sector had risen by 7.6% YoY to LKR 18,892.6 billion due to the growth in deposits. Deposits saw a notable increase of 10.2% YoY, reaching LKR 17,023.6 billion. In contrast, borrowings declined by 15.4% YoY to LKR 1,273.8 billion. Additionally, equity capital and reserves experienced growth, increasing by 11.5% to LKR 1,832.1 billion in Q2 2024.



### Higher capital ratio strengthens banks' resilience and stability

The Regulatory Capital to Risk Weighted Assets (RWA) ratio in the banking sector improved to 18.0% at the end of Q2 2024, up from 16.9% at the end of Q2 2023, driven by an increase in regulatory capital. Total regulatory capital in the sector grew by 11.4% YoY to LKR 1,678 billion, while Tier 1 Capital rose by 12.3% YoY to LKR 1,392.7 billion. Risk-weighted assets increased by 4.4% YoY, reaching LKR 9,301.3 billion in the quarter, and the sector's leverage exposure grew by 8.0% YoY to LKR 21,485.7 billion.

### Lower NPLs signal improved credit quality and stability in the industry

The Non-Performing Loans (NPL) to Total Loans ratio in the banking sector declined to 12.8% at the end of Q2 2024, down from 13.5% at the end of Q2 2023, reflecting a gradual reduction in default risk. Non-performing loans decreased by 1.4% year-on-year (YoY) to LKR 1,401.6 billion. Meanwhile, provisions for total loans increased by 4.2% YoY, reaching LKR 968.6 billion, and provisions for non-performing loans grew by 11.6% YoY to LKR 729.3 billion.

### Interest rates are steadily declining in the country

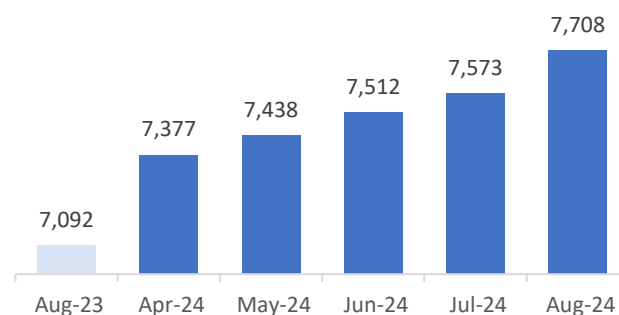
The Central Bank of Sri Lanka implemented an expansionary monetary policy in recent months to combat high inflation by reducing interest rates. In its September 2024 monetary policy review, CBSL decided to keep the policy rate unchanged, as inflation remains within the expected range. Currently, the Standard Lending Facility Rate (SLFR) is set at 9.25%, while the Standard Deposit Facility Rate (SDFR) stands at 8.25%.

Market lending interest rates continue to decline in response to the current accommodative monetary policy stance. By the end of September 2024, the Average Weighted Prime Lending Rate (AWPLR) for commercial banks was reported at 9.31%, reflecting a decrease of 924 basis points compared to September 2023.

### Credit to the private sector has increased notably

With reduced interest rates in the country, credit to the private sector from Licensed Commercial Banks has expanded notably. In August 2024, credit to the private sector reached LKR 7,707.70 billion, marking a growth of LKR 615.6 billion (8.7%) compared to the same month the previous year and an increase of LKR 135.1 billion from July 2024.

Credit to private sector (LKR Bn)



### LKR is appreciating against the major currencies

In September 2024, the Sri Lanka rupee recorded an appreciation, continuing an overall upward trend throughout the year. By end September 2024, the rupee had appreciated by 8.2% against the US dollar and strengthened against other major currencies, including the euro, pound sterling, Chinese yuan, Japanese yen, Indian rupee, and Australian dollar. Correspondingly, the real effective exchange rate (REER 24) also appreciated, rising from an index of 70.2 at the end of December 2023 to 72.8 at the end of August 2024, indicating a decline in external competitiveness during this period. The appreciation of the LKR can negatively impact a bank's profitability through reduced FX gains and potential losses on foreign currency transactions.

LKR appreciation against the USD



### Sri Lanka recorded a deflation of 0.5% for September 2024

In September 2024, headline inflation in the Colombo Consumer Price Index (CCPI) entered negative territory, with a deflation of 0.5%. The food category saw deflation of 0.3%, down from 0.8% in August, while the non-food category experienced deflation of 0.5%, a reversal from the 0.4% inflation recorded in August 2024. Meanwhile, core inflation declined to 3.3% in September 2024, down from 3.6% in August.

This inflation trend aligns with Central Bank projections, and headline inflation is expected to remain below the 5% target in the coming months. Deflation may persist for a few months due to easing supply conditions and price changes.

## Financial Snapshot

## Income statement - Annual

LKR Millions	2019	2020	2021	2022	2023
Gross income	145,401	134,436	135,710	270,509	336,638
Net interest income	56,356	50,837	56,462	111,567	118,075
Net fee and commission income	9,977	8,026	10,316	15,902	16,573
Total operating income	76,511	72,074	84,404	160,875	149,500
Net operating income	65,084	56,027	64,870	69,139	106,976
Operating profit before taxes on financial services	28,656	21,222	27,521	19,336	46,601
Profit before income tax	20,445	17,580	23,054	14,420	37,218
Income tax expense	5,416	3,918	2,969	1,328	(13,612)
Profit for the year	15,029	13,662	20,084	15,748	23,606
Profit attributable to:					
Equity holders of the Bank	14,670	13,095	19,025	15,329	22,771
Non-controlling interests	359	567	1,059	420	836

## Income statement - Quarterly

LKR Millions	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2
Gross income	87,459	83,990	77,908	71,926	70,111
Net interest income	31,444	27,185	24,625	25,334	27,252
Net fee and commission income	3,878	3,911	4,238	4,342	4,774
Total operating income	37,532	36,651	34,116	32,605	37,745
Net operating income	19,752	32,306	25,428	30,971	36,930
Operating profit before taxes on financial services	5,141	16,559	10,618	13,680	19,877
Profit before income tax	3,870	13,842	8,181	11,242	15,766
Income tax expense	1,293	4,832	3,424	3,822	6,936
Profit for the year	2,577	9,010	4,757	7,420	8,830
Profit attributable to:					
Equity holders of the Bank	2,369	8,874	4,440	7,209	8,570
Non-controlling interests	208	136	317	212	260

## Statement of financial position - Annual

LKR Millions	2019	2020	2021	2022	2023
<b>Assets</b>					
Net Loans and Advances	769,392	800,816	911,253	1,014,519	988,601
Debt & other financial instruments	156,511	193,349	171,931	479,787	584,131
Cash & placements with banks	45,754	47,025	47,272	138,802	135,595
Total assets	1,196,384	1,371,483	1,453,651	1,798,275	2,047,040
<b>Liabilities and equity</b>					
Deposits	835,060	994,949	1,107,066	1,443,179	1,609,154
Borrowings	22,604	30,526	25,556	33,386	25,032
Total Liabilities	1,045,914	1,211,823	1,270,383	1,608,188	1,827,484
Total shareholders' equity	145,508	154,249	176,668	183,292	212,240



## Statement of financial position - Quarterly

LKR Millions	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2
<b>Assets</b>					
Net Loans and Advances	934,680	965,846	988,601	964,081	992,354
Debt & other financial instruments	722,174	484,518	584,131	689,404	680,868
Cash & cash equivalents (Cash & placements with banks)	131,856	154,994	135,595	116,738	106,170
Total assets	1,943,409	1,970,003	2,047,040	2,063,999	2,073,095
<b>Liabilities and equity</b>					
Deposits	1,509,241	1,563,182	1,609,154	1,587,790	1,625,387
Borrowings	26,319	27,998	25,032	22,416	21,311
Total Liabilities	1,742,707	1,754,634	1,827,484	1,838,049	1,838,226
Total shareholders' equity	193,678	208,094	212,240	218,641	227,540

## Key Ratios - Annual

LKR Millions	2019	2020	2021	2022	2023
Net interest margin	NA	NA	4.39%	7.79%	6.97%
Cost to income ratio	47.61%	48.29%	44.25%	30.96%	40.38%
Net margin	10.1%	9.7%	14.0%	5.7%	6.8%
Return on assets (before tax)	1.28%	1.06%	1.42%	0.97%	1.23%
Return on equity	10.55%	8.74%	11.50%	8.52%	11.51%
EPS (LKR)*	25.66	22.90	33.27	26.81	39.82
Equity to total assets	12.2%	11.2%	12.2%	10.2%	10.4%
Deposits to total assets	69.8%	72.5%	76.2%	80.3%	78.6%
Cash to total assets	3.8%	3.4%	3.3%	7.7%	6.6%
Net Loans to Total Assets	66.12%	60.23%	64.99%	56.02%	46.71%
Loans to Customer Deposits	98.27%	87.15%	89.04%	79.65%	71.21%
NAVPS (LKR)*	254.46	269.75	308.96	320.54	371.17
Core capital ratio (%)	14.74%	14.99%	14.45%	11.42%	14.70%
Total capital ratio (%)	18.12%	18.02%	17.80%	14.15%	17.95%
Impaired loans (stage 3) ratio (%)	NA	NA	2.55%	3.40%	3.76%
Impairment (stage 3) to stage 3 loans ratio (%)	NA	NA	56.11%	56.99%	57.49%
Statutory Liquid Asset Ratio (SLAR)	29.55%	39.58%	28.02%	33.95%	48.17%
Liquidity Coverage Ratio (For All CCY)	251.07%	290.29%	207.60%	252.37%	445.92%
Liquid Assets to Short Term Liabilities	72.25%	90.40%	78.25%	118.89%	138.35%
Commitments to Liquid Assets	124.73%	76.59%	68.11%	31.19%	56.42%
Commitments to Total Loans	53.76%	45.99%	32.51%	20.89%	55.76%
Gross income growth (YoY)	5.2%	-7.5%	0.9%	99.3%	24.4%
Net interest income growth (YoY)	5.1%	-9.8%	11.1%	97.6%	5.8%
PAT growth (YoY)	-16.8%	-10.7%	45.3%	-19.4%	48.6%
Assets growth (YoY)	4.2%	14.6%	6.0%	23.7%	13.8%
Portfolio Growth (YoY)	4.8%	18.0%	3.5%	15.9%	17.9%
Gross loan growth (YoY)	1.0%	5.5%	14.4%	14.3%	-2.4%
Deposit growth (YoY)	2.1%	19.1%	11.3%	30.4%	11.5%



Gross income per employee (LKR Mn)	29.6	27.8	26.9	52.5	61.3
Net income per employee (LKR Mn)	3.0	2.7	3.8	3.0	4.1
Gross income per branch (LKR Mn)	577.0	533.5	532.2	1,060.8	1,325.3
Net income per branch (LKR Mn)	58.2	52.0	74.6	60.1	89.6

\* Based on the latest no. of shares

### Key Ratios - Quarterly

LKR Millions	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2
Net interest margin	6.63%	6.23%	5.66%	4.54%	4.70%
Cost to income ratio	38.93%	42.96%	43.41%	53.03%	45.18%
Net margin	2.7%	10.6%	5.7%	10.0%	12.2%
Return on assets (before tax)	1.52%	1.96%	1.77%	2.02%	2.65%
Return on equity	10.26%	13.05%	11.59%	13.29%	16.02%
EPS (LKR) (TTM)*	33.19	39.60	39.82	40.03	50.88
Equity to total assets	10.0%	10.6%	10.4%	10.6%	11.0%
Deposits to total assets	77.7%	79.3%	78.6%	76.9%	78.4%
Cash to total assets	6.8%	7.9%	6.6%	5.7%	5.1%
NAVPS (LKR)*	338.70	363.91	371.17	382.36	397.92
Core capital ratio (%)	13.06%	12.53%	14.70%	15.48%	16.89%
Total capital ratio (%)	15.91%	15.13%	17.95%	18.81%	20.18%
Impaired loans (stage 3) ratio (%)	4.77%	4.90%	3.76%	4.02%	4.09%
Impairment (stage 3) to stage 3 loans ratio (%)	51.35%	50.74%	57.49%	55.50%	56.08%
Statutory Liquid Asset Ratio (SLAR)	43.78%	48.02%	48.17%	49.34%	N/A
Liquidity Coverage Ratio (For All CCY)	341.50%	509.01%	445.92%	421.55%	383.90%
Gross income growth (QoQ)	0.2%	-4.0%	-7.2%	-7.7%	-2.5%
Net interest income growth (QoQ)	-9.7%	-13.5%	-9.4%	2.9%	7.6%
PAT growth (QoQ)	-66.6%	274.6%	-50.0%	62.4%	18.9%
Assets growth (QoQ)	4.6%	1.4%	3.9%	0.8%	0.4%
Portfolio Growth (QoQ)	5.2%	0.9%	5.4%	2.0%	1.6%
Gross loan growth (QoQ)	-3%	3%	2%	-2%	3%
Deposit growth (QoQ)	2.4%	3.6%	2.9%	-1.3%	2.4%
Gross income per employee (LKR Mn)	17.0	15.7	14.2	13.1	12.7
Net income per employee (LKR Mn)	0.5	1.7	0.8	1.3	1.6
Gross income per branch (LKR Mn)	343.0	329.4	305.5	283.2	274.9
Net income per branch (LKR Mn)	9.3	34.8	17.4	28.4	33.6

\* Based on the latest no. of shares

## News and Corporate Actions

3<sup>rd</sup> September 2024

### HNB is acquiring DFCC Bank's 50% stake in Acuity Partners

Acuity Partners (Pvt) Ltd, a joint venture between DFCC Bank and HNB, received approval from the board on August 30 to sell its 50% stake in Acuity Partners to HNB for a total consideration of LKR 7 billion. With this transaction, DFCC Bank will fully divest its entire shareholding in Acuity Partners. For 2023, Acuity Partners reported a profit attributable to equity holders of LKR 2,279 million, of which HNB owns 50%. The total assets of Acuity Partners stood at LKR 55.62 billion and HNB's carrying amount of net assets is LKR 4.47 billion at the end of 2023.

27<sup>th</sup> August 2024

### HNB is set to acquire the Bangladesh unit of Bank Alfalah

The Board of Directors of Hatton National Bank PLC has approved the initiation of discussions with Bank Alfalah, and the issuance of a non-binding offer to acquire its operations in Bangladesh. Bank Alfalah is a multinational bank with an international presence in Pakistan, Afghanistan, Bahrain, the UAE, and Bangladesh. For the year ended December 2023, Bank Alfalah in Bangladesh reported shareholders' equity of LKR 15,590 million and a profit after tax of LKR 1,093 million as per the announcement date.

16<sup>th</sup> August 2024

### HNB's debenture issue oversubscribed by LKR 12 billion

Hatton National Bank PLC announced that its recent Basel III-compliant Tier 2 debenture issuance was significantly oversubscribed. The initial offer aimed to raise LKR 8 billion, with an option to increase the total to LKR 12 billion. HNB confirmed that applications exceeded the LKR 12 billion target, reflecting strong investor interest.

6<sup>th</sup> June 2024

### HNB's rating remains stable despite high sovereign risk exposure

Fitch Ratings has reaffirmed Hatton National Bank PLC's National Long-Term Rating at 'A(lka)' with a stable outlook, noting that while the economy is stabilizing, the bank has the highest exposure to defaulted sovereign bonds. HNB's elevated risk profile, comparable to its peers, is largely due to its significant exposure to sovereign risk, with defaulted foreign-currency denominated sovereign bonds accounting for 10% of its assets by the end of 2023, the highest among local banks.

10<sup>th</sup> May 2024

### HNB appoints Suresh Shah to the Board of Directors

HNB PLC appointed Suresh Shah as an Independent Non-Executive Director, enhancing its governance and strategic direction. Shah, who is currently the Chairman of Ceylon Tobacco Company PLC and a director at several other companies, is known for his leadership and strategic insights.

2<sup>nd</sup> May 2024

### HNB has appointed Sanjay Wijemanne as its new Chief Operating Officer

Hatton National Bank PLC appointed Sanjay Wijemanne as its new Chief Operating Officer (COO) effective 26<sup>th</sup> April 2024. With over 29 years in the banking industry, including 14 years in corporate management, Wijemanne previously served as HNB's Deputy General Manager for the Retail Banking Group, bringing extensive technical expertise and insights into modern banking.

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