

The logo graphic consists of a yellow horizontal bar on top, a light blue square to its right, and a dark blue vertical bar extending downwards from the light blue square.

**HNB**

**YOUR PARTNER IN PROGRESS**

# Investor Update

**28<sup>th</sup> February 2024**

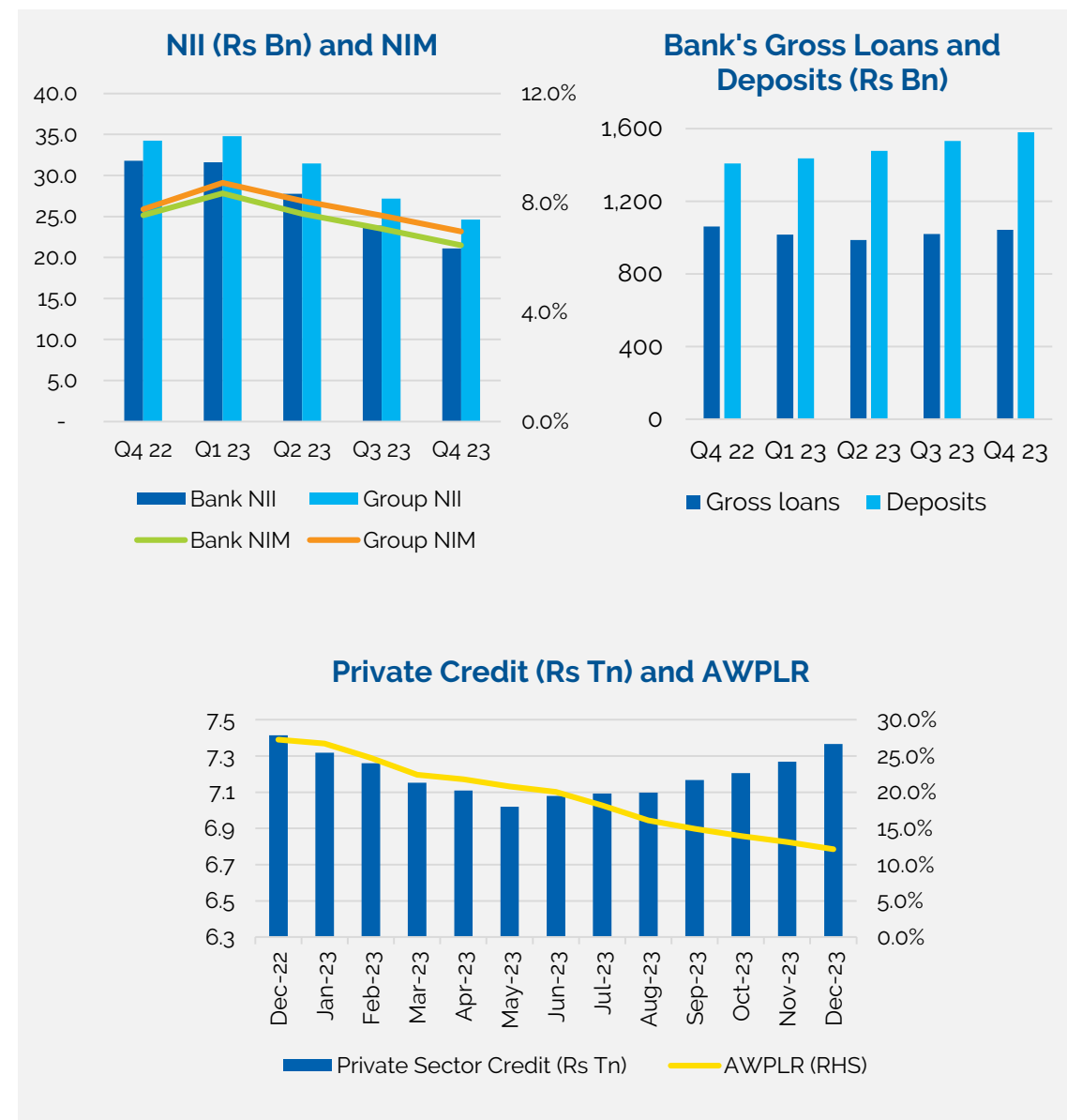
# Financial Highlights

## 2023

# Fund Based Income

Rs Bn	2023	2022	% change
Interest Income	304.58	220.58	38.1
Interest Expense	186.50	109.01	71.1
NII	118.07	111.57	5.8

- The Bank's interest income experienced a YoY growth of 37.2%, despite the decline in AWPLR by approximately 1500 bps during the year, in line with the Central Bank's expansionary monetary policy.
- NIMs were largely cushioned during the year due to lag effects, with NII increasing by 1.4% YoY at the Bank level.
- The Bank's asset base expanded at 14.4% YoY to Rs 1.9 Tn, however there was a contraction in gross loan book growth of 1.8% compared to 2022 due to sluggish demand for credit and cautious approach in the first half of the year. The loan book grew by 5.7% during the second half of 2023.
- The Bank's deposit base continued its growth trajectory, expanding by 12.2% YoY to Rs 1.6Tn.

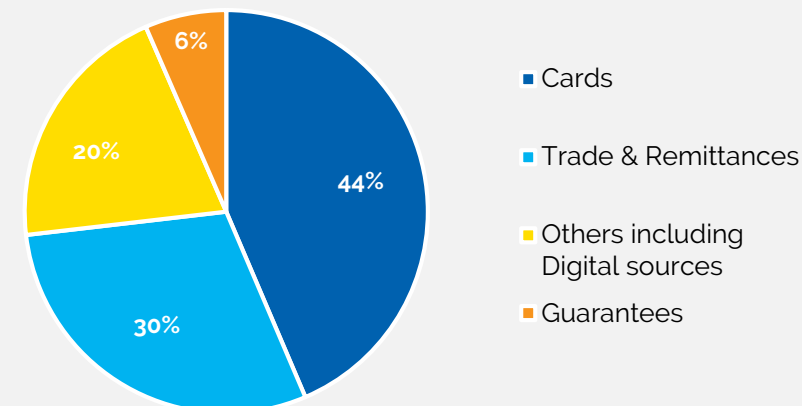


# Non-Fund Based Income

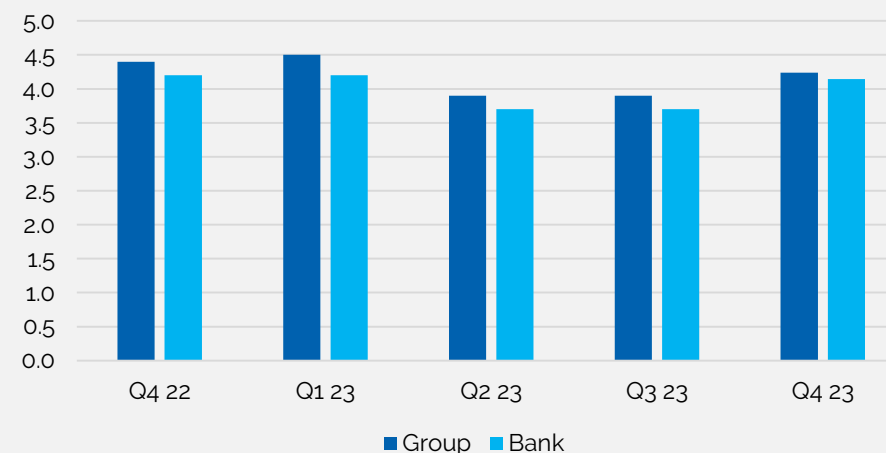
Rs Bn	2023	2022	% change
Net Fee and Commission Income	16.57	15.90	4.2
Other Gains/ (Losses)	-0.40	20.66	-101.9
Insurance Premium	15.25	12.75	19.6
Total Operating Income	149.50	160.88	-7.1

- Net fee and commission income grew by 4.2% supported by higher credit card volumes and increased use of digital platforms.
- The higher swap volumes and the rupee appreciation of approx. 12% as opposed to the significant rupee depreciation of approx. 80% in 2022 resulted in a exchange loss in 2023, impacting the total operating income.

### Breakup of Bank Fee Income



### Net Fee Income (Rs Bn)



# Impairment and Asset Quality

Rs Bn	2023	2022	% change
Impairment on Financial Assets	36.81	59.25	-37.9%
Loans and Other	5.72	32.48	-82.4%
Total Impairment	42.52	91.74	-53.6%

- Continued record one of the best asset quality ratios in the industry. Net Stage 3 ratio improved from 4.90% in Sep 2023 to 3.76% by end of the year.
- Impairment charge was relatively low in 2023 compared to the previous year as the Bank provided approx. Rs 60 Bn for ISBs in 2022 compared to Rs 38.0 Bn in 2023, as the provision in ISBs increased from 35% in 2022 to 52%. Further improved economic conditions helped customers to meet their restructured repayment plans.

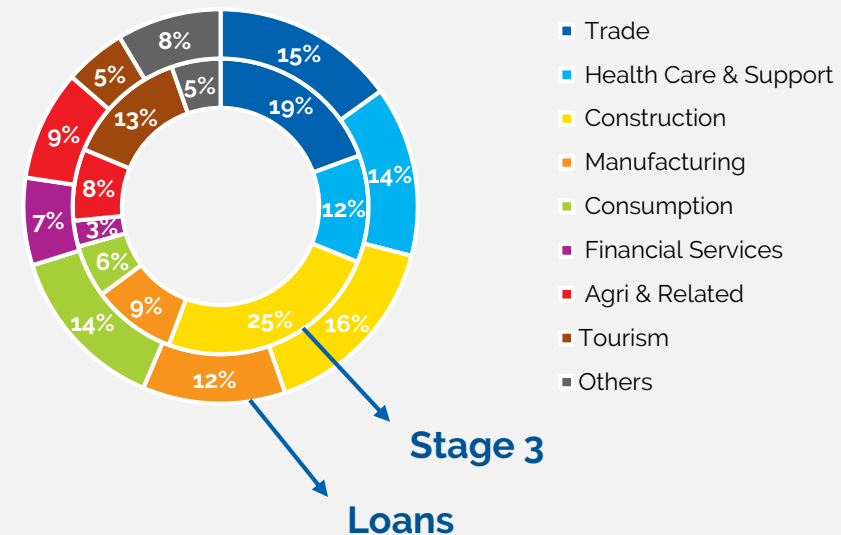
## 3.76%

### Net Stage 3 ratio

## 57.5%

### Stage 3 coverage ratio

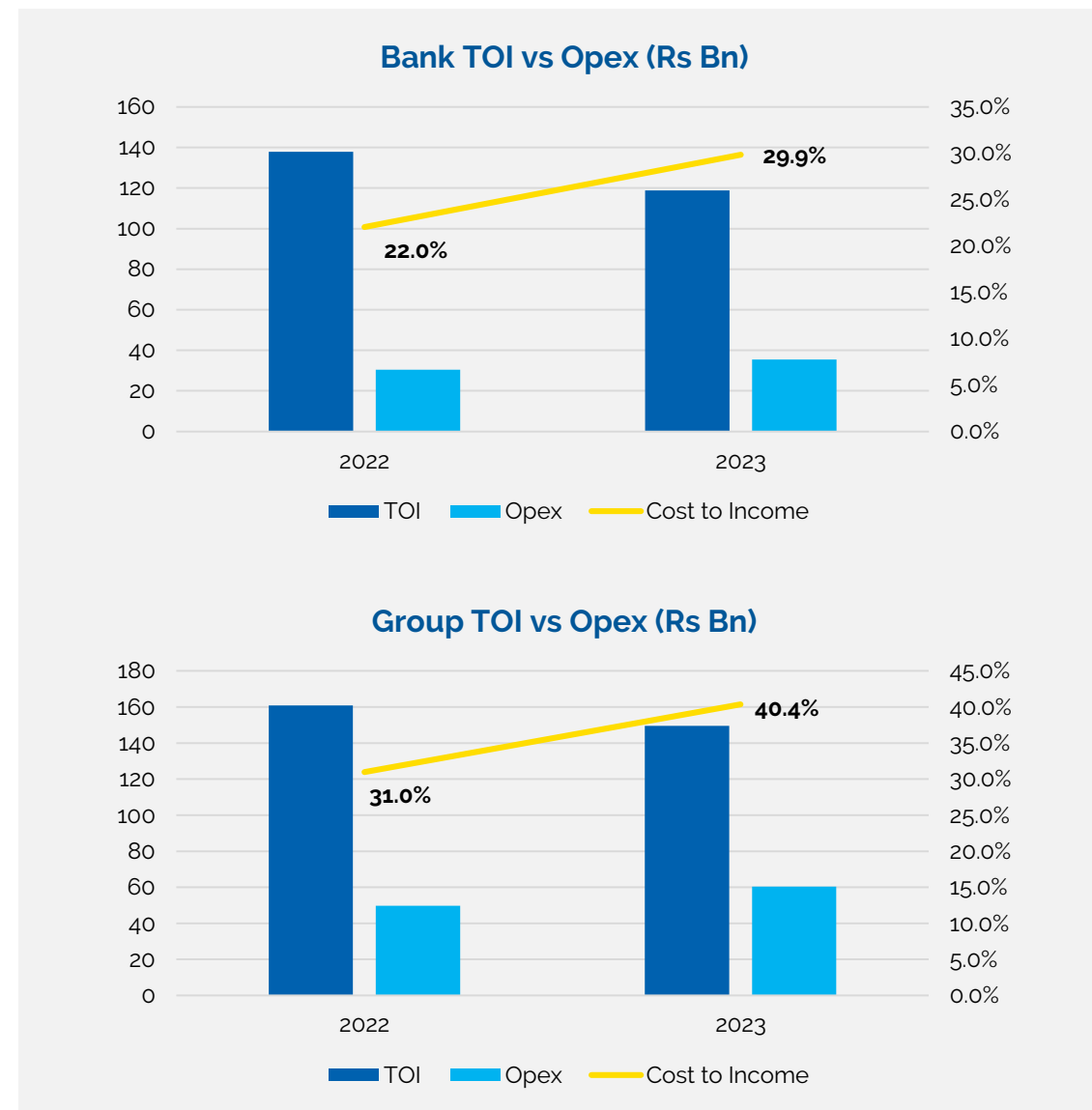
### Sector Wise Breakup



# Operational Expenses

Rs Bn	2023	2022	% change
Personnel Expenses	20.93	18.49	13.2
Insurance Costs	15.22	11.72	29.9
Other Expenses	24.22	19.60	23.6
<b>Total Operating Expenses</b>	<b>60.38</b>	<b>49.80</b>	<b>21.2</b>

- The Bank's total operating expenses increased by 16.8% to Rs 35.5 Bn, reflecting the impact of inflationary pressures. However, the Bank and the Group maintained a cost to income ratio of 29.9% and 40.4% respectively and Bank's cost to income remained one of the best in the industry.
- Costs of insurance claims increased by 29.9% as healthcare and repair costs increased. This contributed to a 21.2% increase in expenses at the Group level.

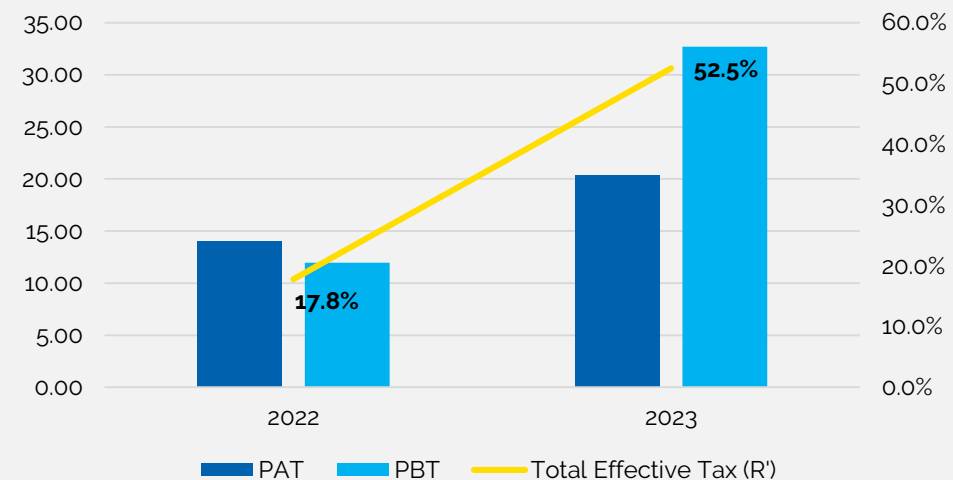


# Taxation and Profitability

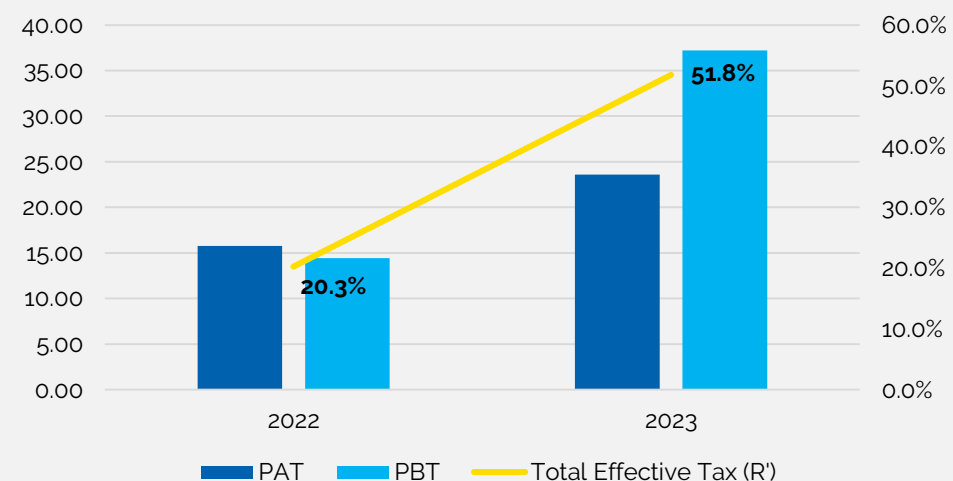
Rs Bn	2023	2022	% change
FSVAT and SSCL	10.52	5.25	100.5
Profit Before Income Tax	37.22	14.42	158.1
Income Tax Expense	13.61	-1.33	1125.0
Total Group PAT	23.61	15.75	49.9

- The Bank's total effective tax rate increased to 52.5% from 17.8% in the previous year, on account of the revision in the corporate tax rate from 24% to 30% and the introduction of the social security contribution levy established in October 2022.
- The total tax charge for 2022 remained low, as the settlement of prior year taxes in 2022 resulted in a reversal of provisions made in the previous years.

### Bank PBT vs PAT (Rs Bn)



### Group PBT vs PAT (Rs Bn)

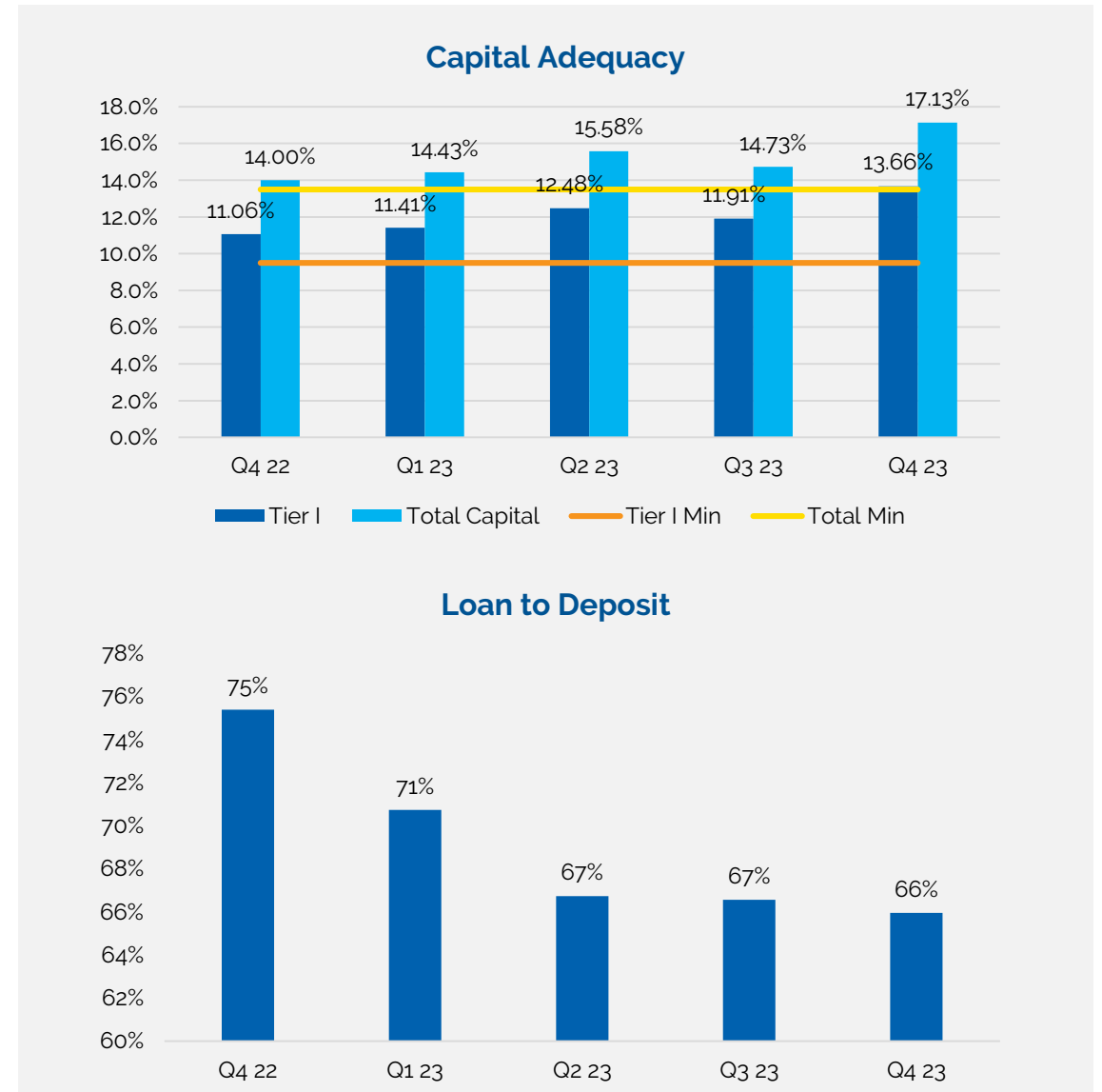




# Soundness Indicators – Bank Level

Ratio	HNB	Requirement
LCR (All)	445.92%	100%
SLAR (DBU)	46.53%	20%
SLAR (Consolidated)	48.17%	20%

- Bank recorded Tier 1 and Total Capital Adequacy Ratios of 13.66% and 17.13% against the minimum statutory requirements of 9.5% and 13.5% respectively.
- There is provision to drawdown 250 bps from the Capital Conservative Buffer.
- Liquidity improved during the year as indicated by the improvement in both the Statutory Liquid Assets ratio and Liquidity Coverage ratio.



# Group – DuPont Analysis

**ROE**  
11.51% (8.52%)

**ROA**  
1.23% (0.97%)

Minority Interest  
0.04% (0.03%)

**Leverage multiplier**  
9.73x (9.03x)

**NII**  
6.14% (6.86%)

**Other income**  
1.69% (3.05%)

**Impairment**  
2.21% (5.64%)

**Operating Costs**  
3.14% (3.06%)

**Taxation**  
1.26% (0.24%)

2023  
2022

# **Awards and Recognition**

- Awarded the esteemed title of “Sri Lanka’s Best Corporate Citizen” for 2022 by the Ceylon Chamber of Commerce
- “Best Retail Bank in Sri Lanka” for the 13<sup>th</sup> occasion by the Asian Banker
- Declared the “Best SME Bank” by Asiamoney Magazine
- Awarded the Best Service in Trade Finance (Asia Banks) and Market Leader in Trade Finance (Asia Banks) for 2023 by Asiamoney Magazine
- Secured a Top 5 position on Business Today’s Top 40 rankings for 2022
- Ranked among Sri Lanka’s Top 10 Most Admired companies in 2022 by the Chartered Institute of Management Accountants, in collaboration with the International Chamber of Commerce Sri Lanka
- Awarded the Sri Lanka Technology Excellence Award for Robotics Banking at the Asian Technology Excellence Awards 2023 for integration of Robotic Process Automation (RPA) with the Custody Banking and Trustee Service
- Awarded as the joint-winner in the banking sector at the ACCA Sustainability Reporting Awards 2023



BEST CORPORATE  
CITIZEN -  
MANUFACTURING  
SECTOR

# Thank You

Hatton National Bank PLC