



**HNB**

# INVESTOR FORUM 2016

# Agenda

- HNB Business Model
- Strategic Direction
- Financial Performance
- Q & A



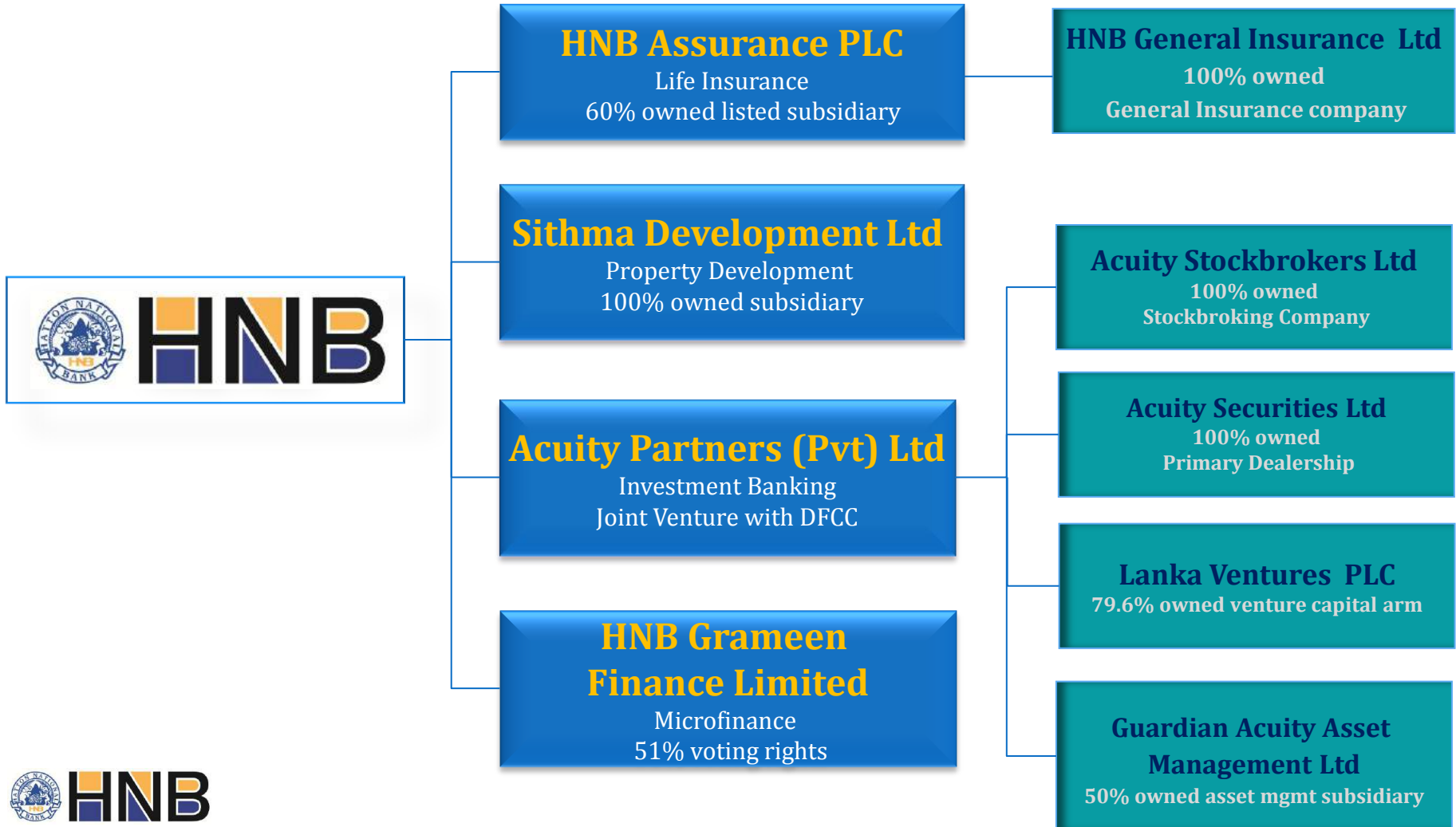
**HNB**

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# **Business Model**

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# HNB Group



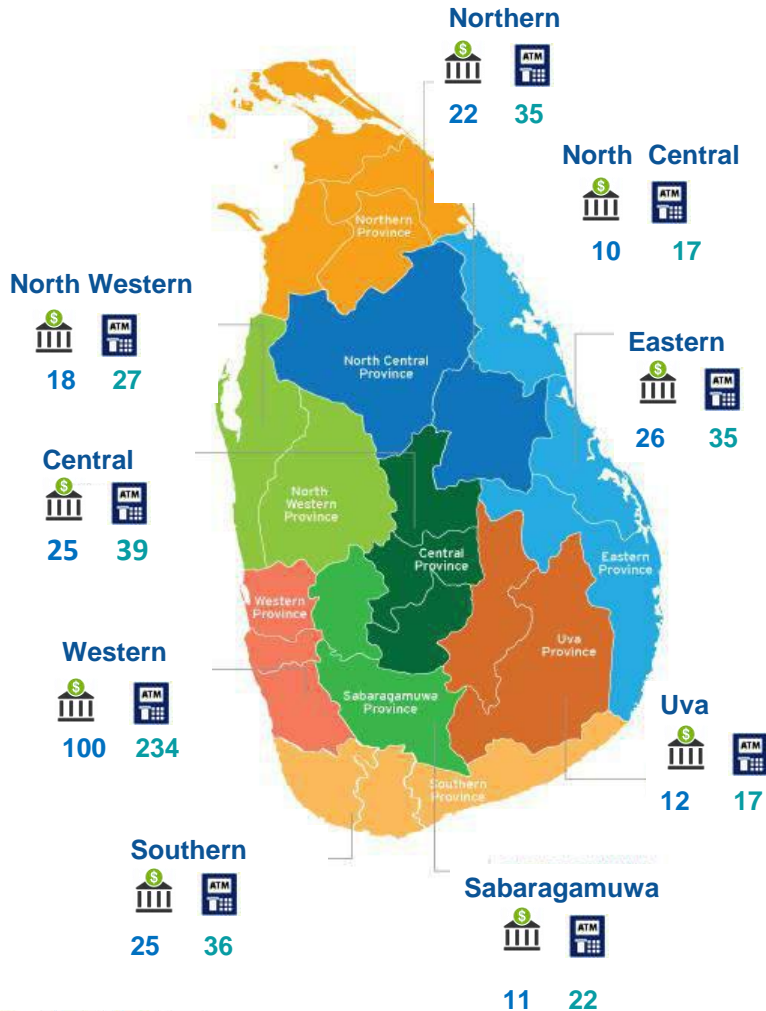
# Customer Life Cycle Vs Product Offering (individual)



# Customer Life Cycle Vs Product Offering (Commercial)



# Choice & convenience through multiple channels



249 customer centres

12,000+ POS merchants

140,000 E Banking Customers

**24x7x365 day banking through New World Banking**

- 462 ATMs
- Fully fledged mobile banking
- Internet Banking
- Bill payment Kiosks



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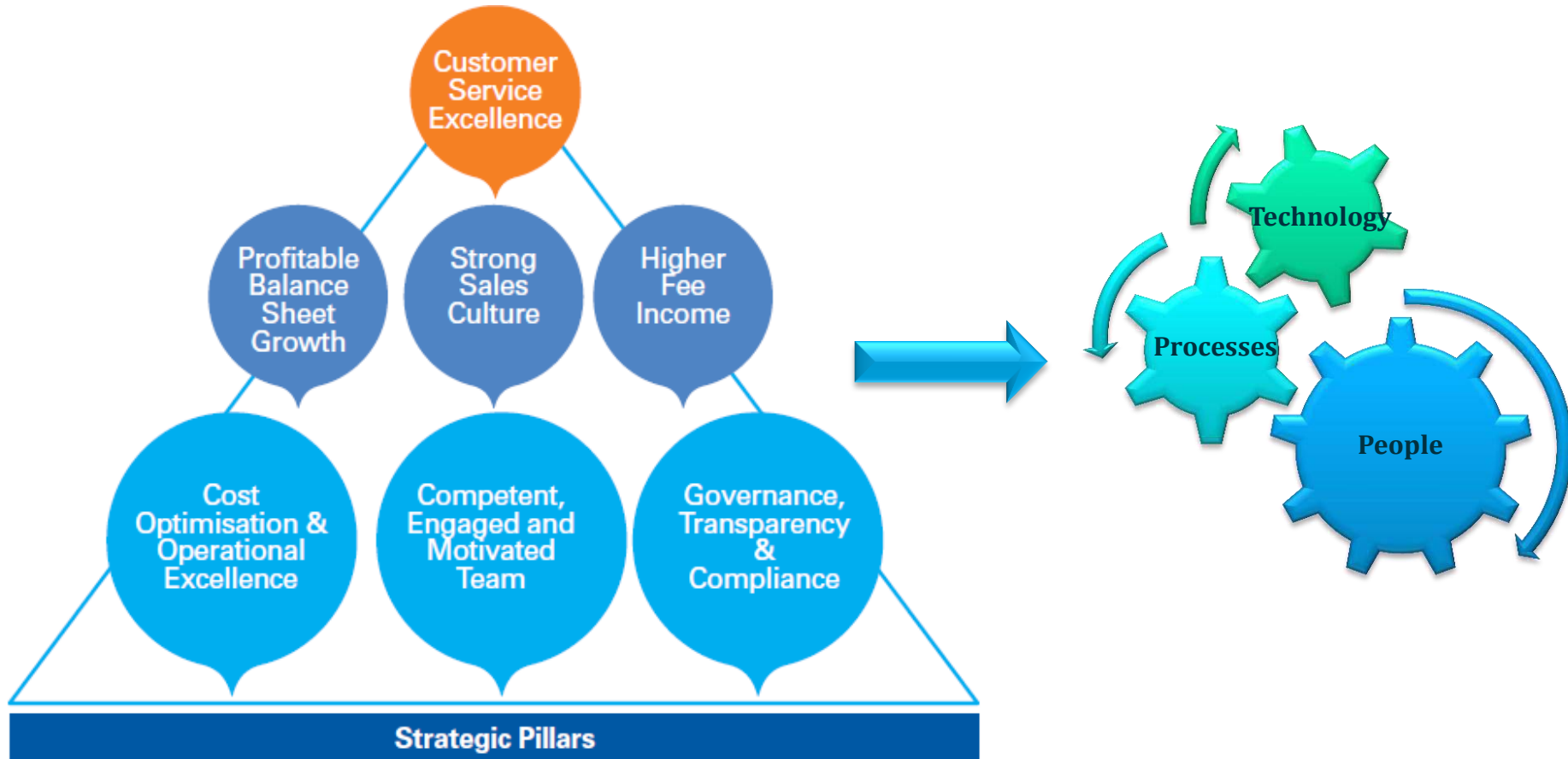
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# Strategic Direction

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# Strategic Direction



# People

## Lean Organisation

- Reduced headcount by 394 over the past 3 years.
- Redeploying staff to front line.

## Seamless Learning

- Virtual learning management system
- Virtual training
- Enhancing sales culture and service quality through structured programmes

## Talent Pipeline

- Leadership development programme for high potential employees
- Increased opportunities for professionally and academically qualified staff for career progression

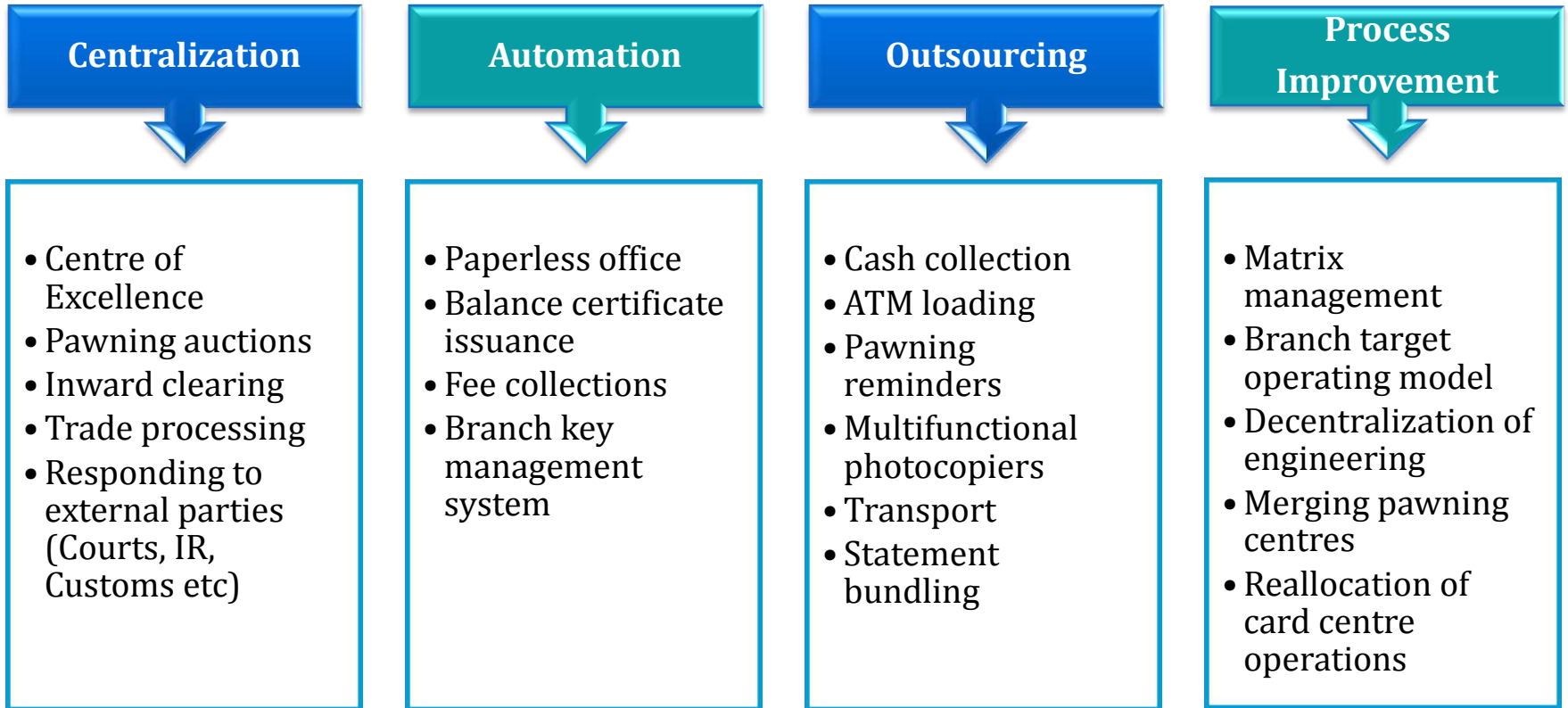
## Future Organisation

- Job enrichment, multiskilling and greater opportunities for cross functional teams

## Agile Rewards

- Increased rewards and incentives for achievement of targets
- Introduction of variable pay schemes to enhance performance

# Processes



Initiatives in 2015

# Technology

## Core Systems

- ATM switch
- Cards / Leasing systems

## Channels

- Mobile Banking
- Call Centre
- EDI
- MOMO

## New Products

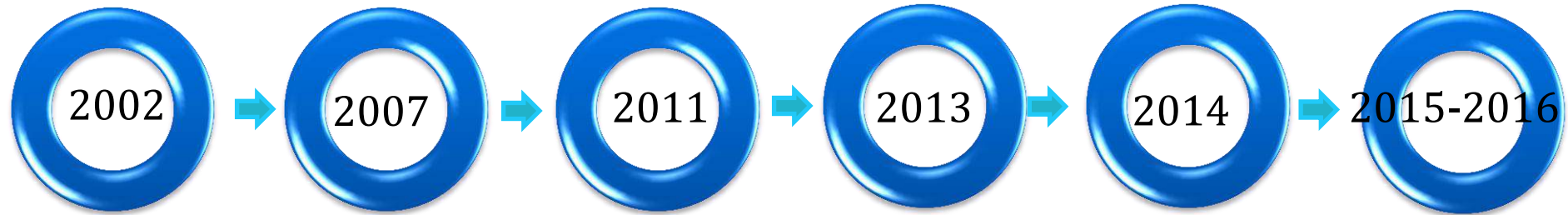
- Cash Management
- Online Trade
- Dealer Finance

## Support Systems

- AML
- ALM / FTP
- Online learning management system
- SWIFT
- IFRS

Approx. Rs 1.8Bn invested in technology over the past 3 years

# Digital Journey



- Telephone Banking

- Retail e-banking

- EDI

- Corporate e-banking
- Mobile Banking
- MOMO

- Social Media

- Upgrade FEBA
- Cash Management
- Online Trade
- Dealer Financing
- Transaction Alerts





**HNB**

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# Financial Performance

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# HNB Performance 2015

Rs Mn	2015	2014	% Change
Net interest income	26,335.5	24,901.5	5.8%
Net fee and commission income	5,776.3	4,877.9	18.4%
Other income	2,663.1	2,655.9	0.3%
Less: Impairment for loans and other losses	931.9	2,491.5	(62.6%)
Net operating income	33,843.0	29,943.8	13.0%
Operating expenses	15,978.6	15,387.0	3.9%
Operating profit before VAT	17,864.4	14,565.8	22.6%
Less: Financial VAT & NBT	2,814.3	2,501.9	12.5%
Profit before income tax	15,050.0	12,063.9	24.8%
Less - Income tax expense	4,601.2	3,058.7	50.4%
Profit for the year	10,448.8	9,005.3	16.0%

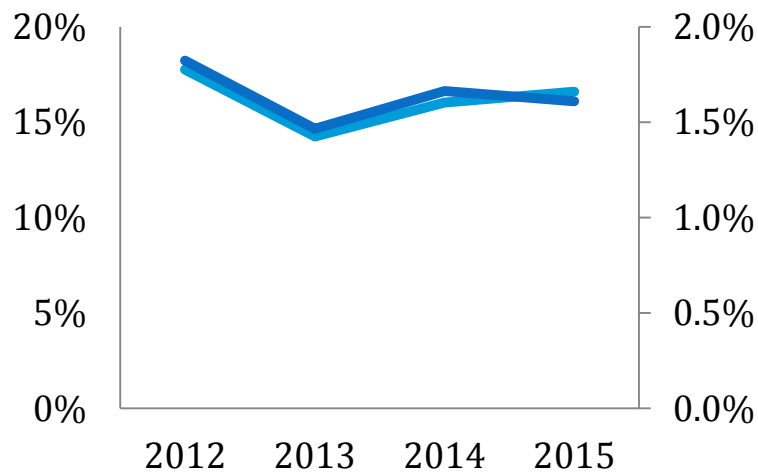
# Group Performance 2015

Rs Mn	2015	2014	% Change
Net interest income	29,693.7	25,984.7	14.3%
Net fee and commission income	6,424.0	5,072.8	26.7%
Other income	6,706.6	6,765.2	(0.87%)
Less: Impairment for loans and other losses	1,022.1	2,532.8	(59.6%)
Net operating income	41,622.3	35,289.9	17.9%
Operating expenses	22,460.3	19,734.2	13.8%
Operating profit before VAT	19,162.0	15,555.7	23.2%
Less: Financial VAT & NBT	3,061.8	2,550.2	20.1%
Profit before income tax	16,160.3	13,148.5	22.9%
Less - Income tax expense	5,064.4	3,080.4	64.4%
Profit for the year	11,095.8	10,068.1	10.2%
Profit attributable to equity holders	10,553.6	9,819.6	7.5%

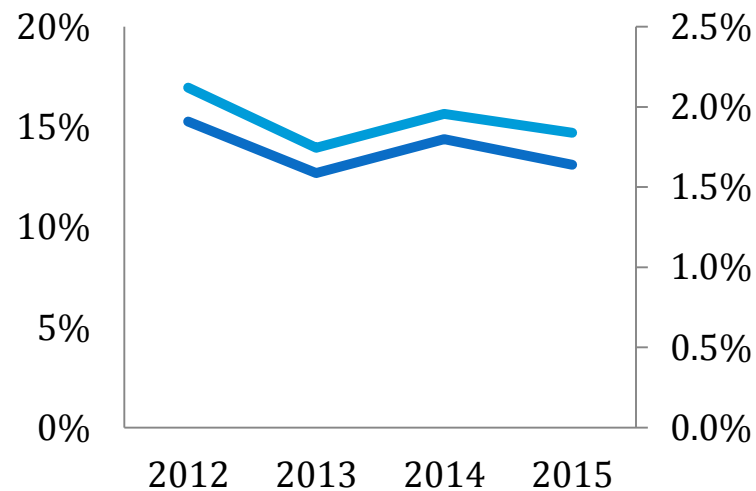


# Strong profitability despite pressure on margins

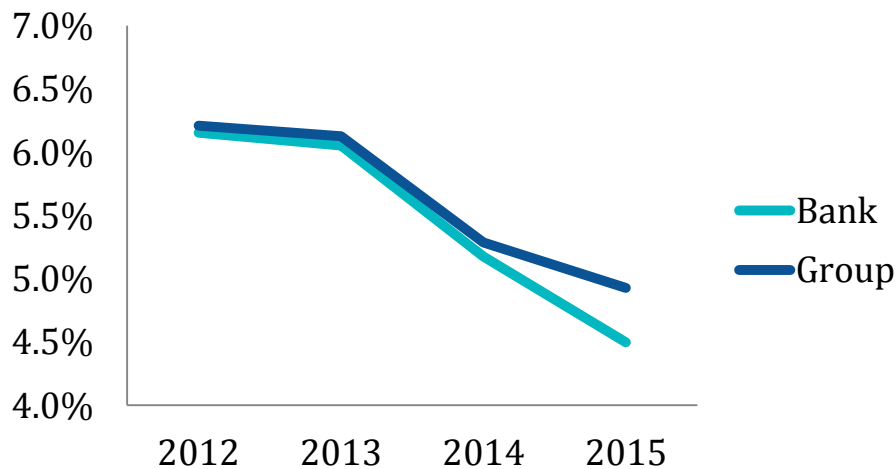
## Bank



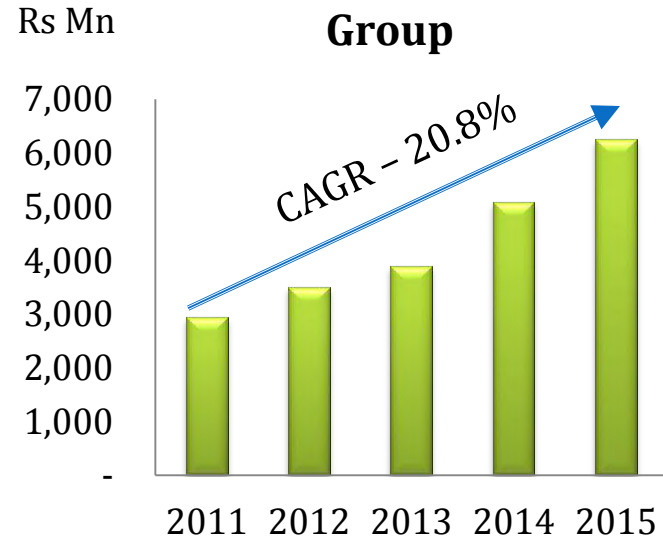
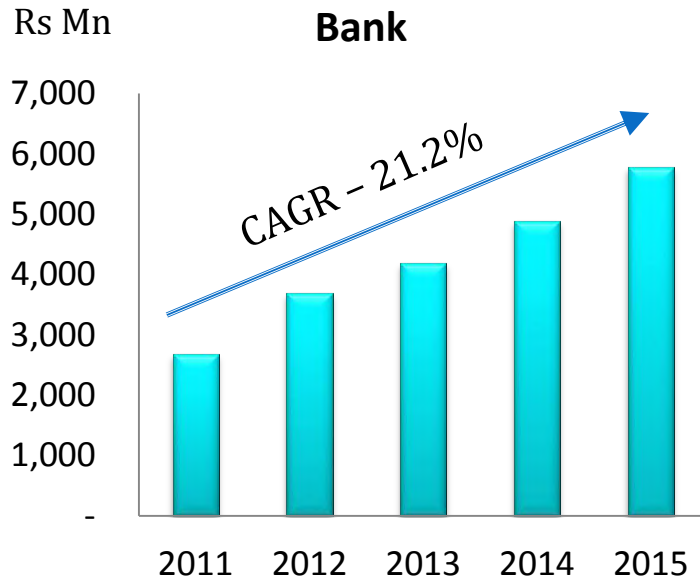
## Group



## Net Interest Margin

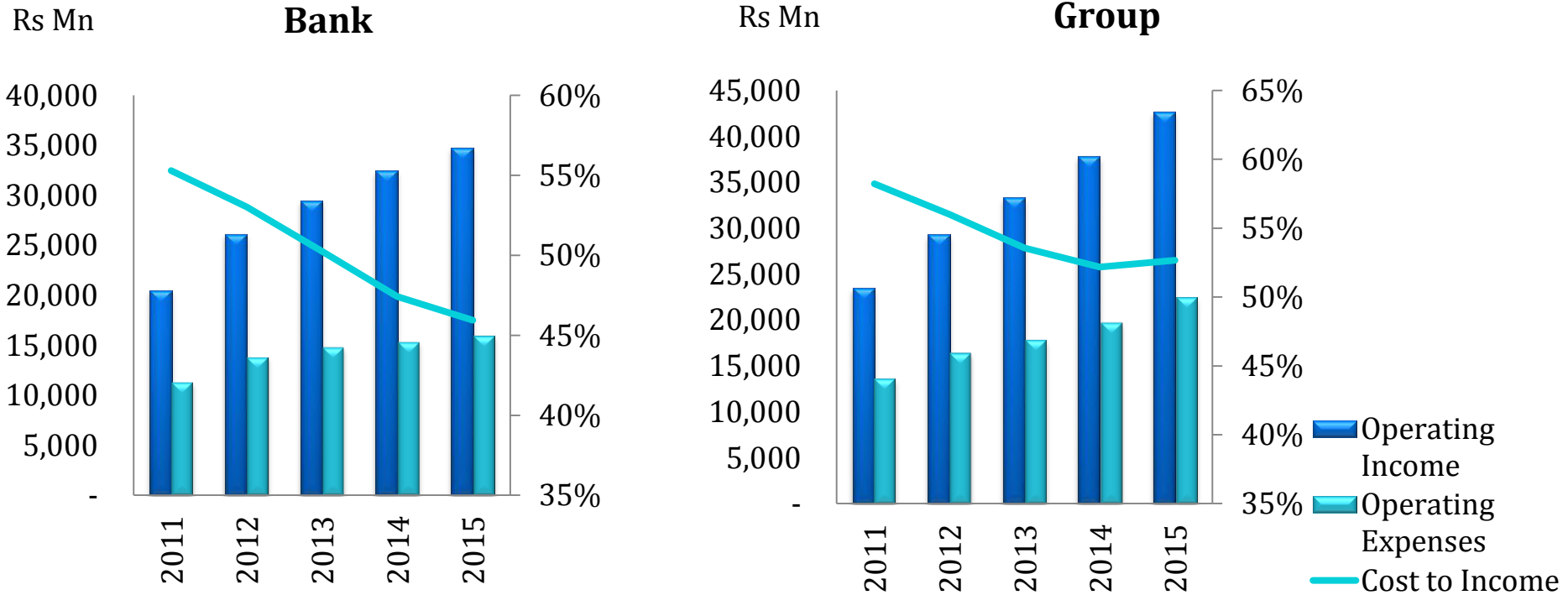


# Enhanced fee income



- The Credit Card Business and Trade Finance collectively accounted for approx. 40% of net fee income in 2015
- Fee Income from International Banking, Leasing and Electronic Banking witnessed very high growth rates
- The YOY growth in net fee income amounted to 23.1% for the Group and 18.4% for the Bank

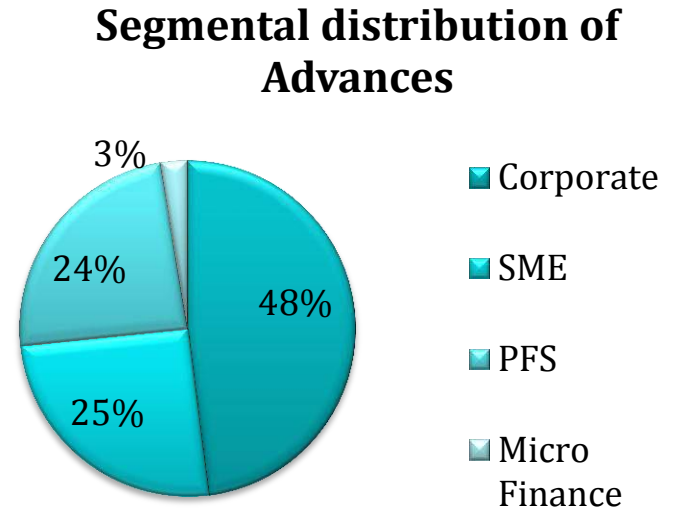
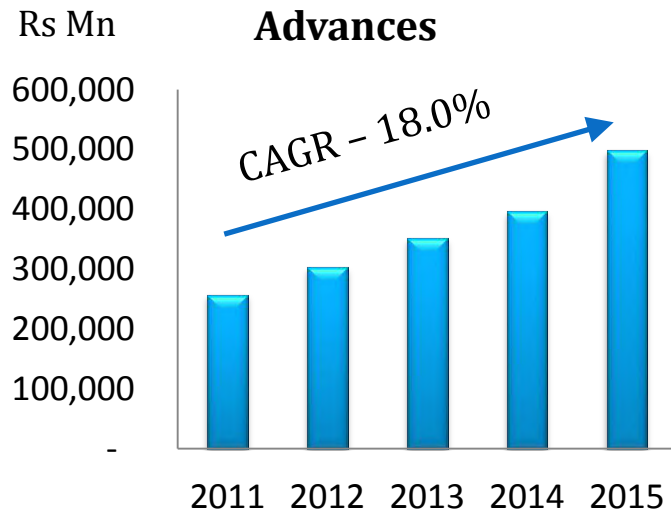
# Driving operational efficiency



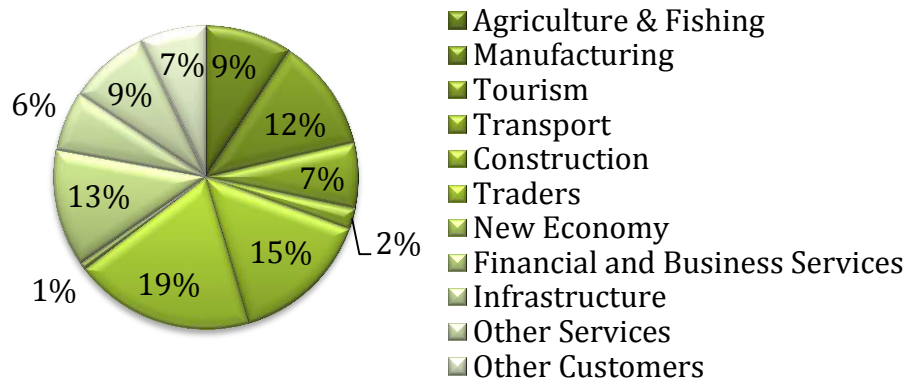
Note : 2013 Operating Expenses have been adjusted for a one off provision reversal on account of ESBT

- Bank cost increase contained to 3.9% yoy despite revision to collective agreement

# Sound Advances growth

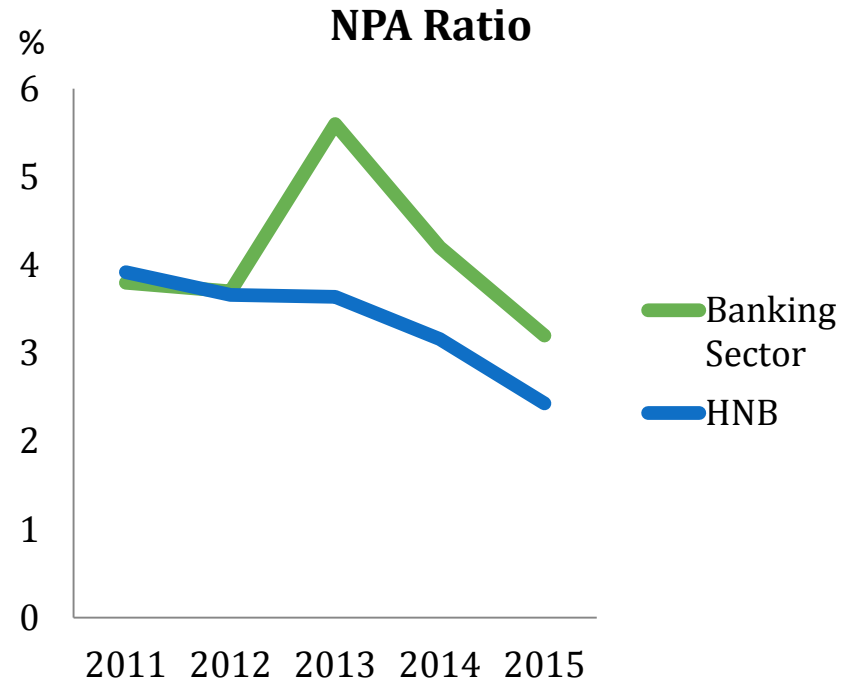
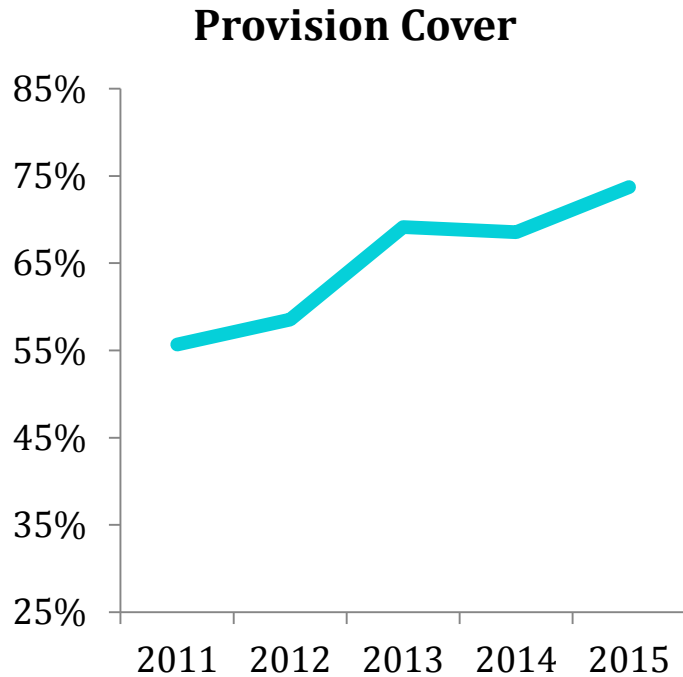


## Sectorwise distribution of Advances



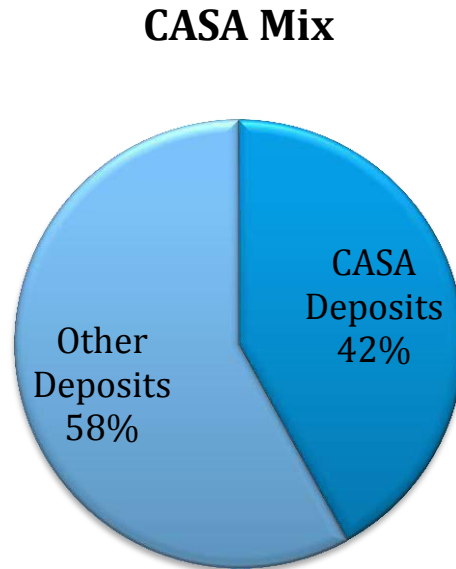
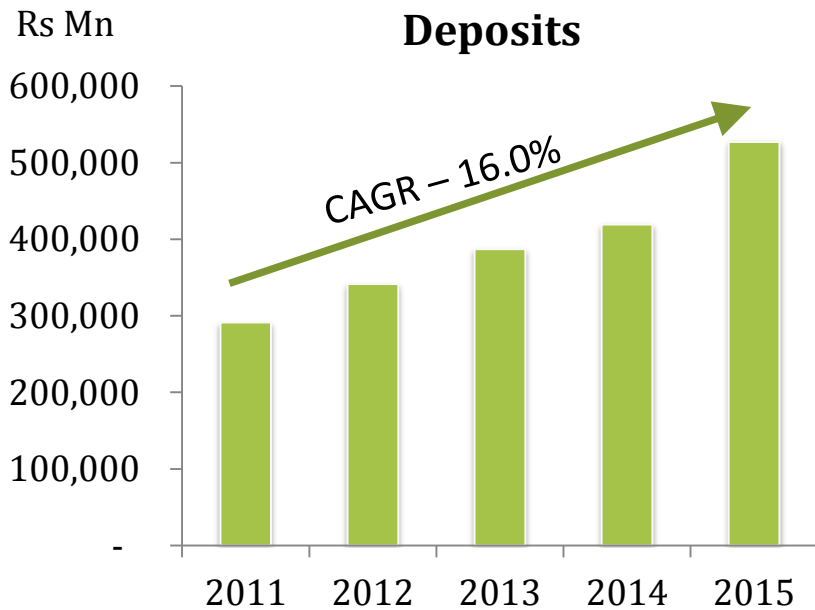
- Rs 100 Bn growth in advances - 26% yoy
- Well diversified portfolio

# Improving Asset Quality



- Lowest NPA ratio of 2.43% in decades
- Significantly below the industry average of 3.20%

# CASA and Borrowings funding growth



- Rs 100 Bn growth in deposits
- Strong CASA ratio maintained despite 35% growth in FD's
- USD 185 Mn raised through agreements with the ADB, DEG Germany and PROPARCO

# DuPont Analysis

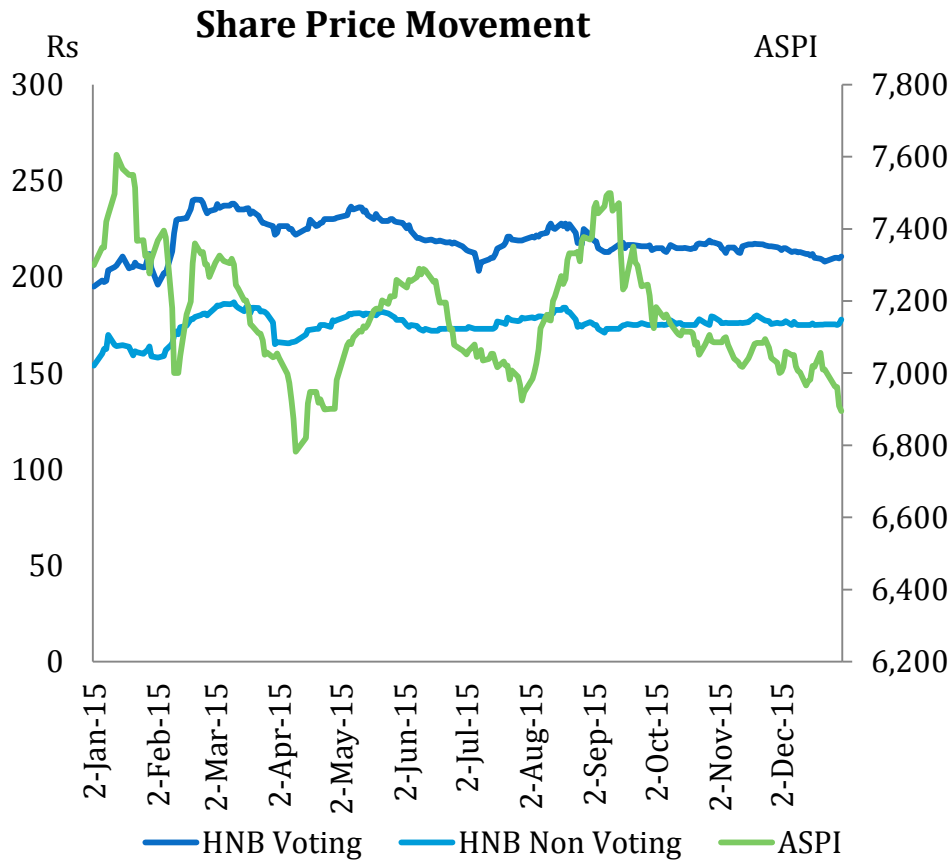
	2015	2014	2015	2014
	Bank		Group	
NII/ Avg Assets	4.06%	4.60%	4.39%	4.64%
Other Income / Avg Assets	1.30%	1.39%	1.92%	2.14%
Net Income/ Avg Assets	5.36%	5.99%	6.31%	6.78%
Operating Cost/ Avg Assets	2.46%	2.84%	3.32%	3.53%
Provisions / Avg assets	0.14%	0.46%	0.15%	0.45%
Taxation/ Avg assets	1.14%	1.03%	1.20%	1.01%
Return on Avg Assets	1.61%	1.66%	1.64%	1.80%
Minority Interest	-	-	0.08%	0.04%
Equity Multiplier	10.31	9.64	9.44	8.92
Return on Avg Equity	16.59%	16.03%	14.71%	15.65%

# KPIs

KPI	HNB 2015	HNB Medium Term Goal	Industry 2015
Asset Growth	26.60%	18%	15.87%
Advances Growth	25.76%	20%	21.08%
Deposit Growth	25.71%	20%	15.30%
Cost to Income	45.95%	<45%	49.0%
NPA	2.43%	<3%	3.20%
ROA	1.61%	1.8%	1.30%
ROE	16.59%	20%	16.1%



# Return to Shareholders



- Dividend payout – 33%
- Dividend per share – Rs 8.50
- Dividend yield (N) – 4.0%
- Dividend yield (X) – 4.8%
- Voting share - 12.4% return
- Non-voting share - 21.9% return
- ASPI - 5.5% decline

# Awards and Accolades



- 'Best Retail Bank in Sri Lanka' by the Asian Banker in 2015 for the 7th time
- 3rd place – Business Today Top 25 Awards
- Gold Award for 'Corporate Governance' at the CA Sri Lanka Annual Report Awards
- National Productivity Award 2014 - 'Service Sector – Large Organization' Category
- HRM 'Gold' Award at the HRM Awards 2014 organised by the Association of Human Resource Professionals
- International award for Marketing Campaign of the Year at the Golden Globe Tigers Summit Awards 2015
- Ranked amongst the 'Top 10 Best Corporate Citizens' by the Ceylon Chamber of Commerce
- Overall Award for 'Best Results Based Training' for the fourth consecutive year at the Asia's Training & Development Excellence Awards 2015 organised by the World HRD Congress

Q & A