

Delivering peak performance every single day

Chairman's Message



I take pleasure in welcoming you to the forty eighth annual general meeting of Hatton National Bank PLC and in presenting to you the annual report and audited financial statements for the year ended 31st December, 2016.

The Bank surpassed its excellent performance of the preceding year to record another exceptional performance, which is discussed in detail in the ensuing MD's Review and the Management Discussion and Analysis (MD&A). Let me present a few highlights of the performance and an overview of the economic landscape which formed the backdrop to the industry's performance.

Backdrop to Performance

The Group's Profit Before Tax grew by 39.2% to reach Rs 22.5 Bn whilst Profits After Tax reached Rs 15.7 Bn during the year as it reaped the dividends of its multipronged strategy which sought to enhance its topline whilst managing the middle line.

Sri Lanka's economic activity began to gather momentum as the year 2016 left behind some of the policy uncertainties that characterized the preceding year of elections and transitions. The Bank's excellent results were well supported by the rise in interest rates which began in late 2015 and continued into 2016, facilitating higher interest income and interest margins for the banking industry. Simultaneously, the Bank benefited from strong credit growth during the year. However credit growth is likely to slow down marginally in the next few months in response to the tightening of monetary policy during the year.

The government's budget proposals for 2017, focused on reining in the ballooned budget deficit and on preventing an overheating of the economy. This augurs well for stronger macroeconomic fundamentals into the future, albeit posing some challenges to the profitability of the banking sector due to the proposed increase in levies.

June 2016 saw Sri Lanka reach an agreement with the IMF for an Extended

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Fund Facility (EFF). This was an important milestone during the year, not only to boost the country's foreign reserves but also to boost investor confidence and provide a sustainable fiscal and monetary policy framework.

Sri Lanka's enhanced image amongst the international community, supported by the new government's commitment to good governance, also complemented HNB's capacity to attract high calibre global investors; and this bodes well for more investments from other multilateral agencies which have partnered HNB in the past.

The global political environment sprung two significant surprises during the year, in the form of Brexit and the United States' election of Donald Trump as its president. Both these events, in a general sense, appear to imply a worldwide trend of rising nationalism and protectionism. However, whilst the global markets were in turmoil in the immediate aftermath of these events, they soon reverted to their previous status quo. HNB has aptly recognized the importance of factoring in such scenarios which may be considered least likely, into its strategic planning. The Bank's strong risk management framework considers multiple scenarios in incorporating international events for the forecasting and management of risks relating to its strategic investments, currency exposures and interest rates.

The political changes in the United States point to a loosening of fiscal policy which is likely to prompt the Federal Reserve to adopt a much tighter monetary policy in 2018. This in turn necessitates that we factor in the likely implications on domestic interest rates and capital flows. The renegotiation of trade arrangements, due to factors such as Brexit and the policy changes in the United States leading to the latter's

exit from trade arrangements in South Asia, could see China play a more dominant role in order to fill in the vacuum thus created. These developments in turn could present new opportunities for the region.

Dividend

I am happy to announce that your Board has proposed a final dividend of Rs 7.00 per share for both voting and non-voting shares consisting of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share in addition to the interim dividend of Rs 1.50 per share paid in December 2016. Accordingly, the total dividend payment for the year amounts to Rs 3.5 Bn.

Governance

A cornerstone of HNB's sustained success and its reputation that spans over a century, as a safe, strong and stable Bank has been its adherence to the highest standards in governance.

The Board sets the tone at the top by promoting professional standards and corporate values that cascade down to senior managers and all other employees of the Bank. Its Board which constitutes members from diverse professional backgrounds who bring a wealth of experience, has established independent committees to ensure the highest standards in transparency, compliance and the efficacy of business and risk management strategies in order to oversee the discharge of stewardship.

In addition to the compliance with the mandatory requirements, HNB has established its own set of benchmarks, structures and processes to meet accepted best practices in governance.

Chairman's Message

Our Sustainable Approach

HNB's journey of growth and leadership which spans over 128 years, is testimony to its sustainable and long term approach in enterprise. Since its inception in Hatton, in 1888, to support the burgeoning tea industry, the Bank has funded a countless number of entrepreneurial initiatives across different industries, geographical, social and ethnic divides; growing with our clients and the nation itself, understanding that each other's success is a win-win. HNB is today the leader in micro and SME funding in the country and will continue to focus on supporting this sector to facilitate economic and social inclusivity and for the sustainable development of Sri Lanka.

The Bank's sustainable approach to business also means that we adopt an approach of partnership with customers, driven by the Bank's tagline - to "partner in progress". The Bank also strives to ensure that its team of employees lives the Bank's values and practices the highest ethical standards expected of them and work within the Bank's ethos via policies, procedures and processes established across the organisation.

Reflecting our Triple Bottom Line focus, the Group will continue to integrate social and environmental value creation into business strategy whilst also looking to uplift communities and the environment through its CSR agenda. Environmental protection is an urgent imperative today. The Bank's solar energy and paper saving initiatives during the year typify a double Bottom Line impact of achieving cost reduction whilst reducing our carbon footprint.

The Future

HNB has been at the forefront of technology in the banking sector and technology will continue to be a key strategic route for sustained profitability and leadership in the future where digital banking would see a rapid proliferation. The Bank's electronic and mobile banking channels augment its extensive brick and mortar channel and the year under review saw the Bank continue to enhance its digital banking proposition to continue its position of leadership in

Rs 22.5 Billion
Group Profit Before Tax

Rs 901 Billion
Group Assets

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this space. The Bank's rebranding initiative launched recently, and currently in progress, has also placed technology at its centre; reflecting the strategic priority of driving banking in the digital space.

The process of formulating strategy at HNB incorporates emerging trends in the socio-economic and political landscape and recognises the importance of pre-empting changing consumer needs. This has been a key factor in the Bank's ability to not only meet changing needs but in fact Change the Game and sustain profitability for over a century.

It is expected that the next 5 - 10 years will see a greater concentration of post millennials in Sri Lanka's workforce, thus requiring that the Bank's employee environment, ethos and HR practices be aligned with the aspirations and needs of this generation of employees. HNB's HR strategies have hence begun to gear itself towards this end; in the development of its employee brand, by empowering its younger workforce and by expanding the channels of communication and the use of social media.

We also foresee a great opportunity for consolidation in the Banking industry as narrowing margins will be an impetus to increase efficiency and productivity with economies of scale being the key to remaining profitable. HNB, as one of the largest players in Sri Lanka's Banking industry sees this as opportunity to enhance the value we create for all our stakeholders.

Whilst we look to the future with much optimism, we are also mindful of the possible challenges of narrower margins, the entry of non-bank players such as telecommunication companies into the banking space and market volatility caused by global events, international conflicts, global terrorism, cyber threats and environmental challenges.

We are confident that the new political landscape will pave the way for political and economic stability, and be a launch pad to create a quantum change for the people of our country. However, I would like to reiterate the need for an unwavering commitment by the government to ensure consistency in its policies and the effective

implementation of them, in order to harness the tremendous growth potential of the country.

Whilst the private sector must be the engine of growth, neither sector can single handedly shoulder the responsibility of development. I would hence like to highlight the importance of Public Private Partnerships (PPP) in driving the nation forward. Entering into effective PPP's with banks and other private enterprises will be vital to ensure the success of key projects. Furthermore, a vibrant export sector is vital for sustainable growth of Sri Lanka's economy. Hence is the need for the government to take leadership in reviving the nation's export sector which continues to underperform.

The Government's commitment to "Good Governance" had become an urgent imperative, and which, as I have alluded to above, has paved the way for better international relations and new trade opportunities. More effort however is needed in the gigantic task of weeding out corruption which has become institutionalised and entrenched and in addressing the inefficiencies it has created. The Government thus stands to benefit by adopting best practices from the private sector and the Banks in particular, to establish controls and enhance governance and independence in the public sector.

In Conclusion

One of HNB's key strengths has been its brand image - with attributes of trust, stability and strength and a proud heritage that spans over a century as Sri Lanka's oldest private commercial bank. Moreover, its substantive footprint, represented by 251 branches and 485 ATMs and a rapidly

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growing digital channel network, has also been a significant strength.

The dedication and unstinted commitment of the entire team that makes up HNB to look at things anew and do things differently have driven the successful implementation of the Bank's multipronged business strategy. HNB's people have thus proved to be the most significant differentiating factor in its success, inspiring it to strive to become Sri Lanka's premier employer.

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solutions to spearhead the industry in technology led banking.

I would like to convey my sincere appreciation to my colleagues on the Board for their valuable support and guidance and to the entire team of employees led by the Managing Director, it is their talents, unreserved effort and commitment that propel the Bank to keep expanding its horizons.

I also wish to extend my sincere gratitude to the shareholders and all other stakeholders for their support and the confidence placed in us to be the Partner in Progress for several generations.

Rienze Arseculeratne
Chairman

Colombo, Sri Lanka
23rd February 2017