



**HNEB**

**YOUR PARTNER IN PROGRESS**

# Investor Update

20 August 2019

# Financial Performance 1H 2019


# Net Operating Income - Group

	2019 (Rs Bn)	2018 (Rs Bn)	Growth %
Interest Income	63.6	55.0	 16%
Interest Expenses	34.4	30.1	 14%
NII	29.2	24.9	 17%
Net Fee Income	4.9	4.8	 3%
Net Insurance Premium	3.9	3.5	 11%
Other Income	0.02	1.5	 99%
Impairment	7.0	3.8	 86%
Net Operating Income	31.0	30.9	 0.4%

# Expenses & Profits - Group

	2019 (Rs Bn)	2018 (Rs Bn)	Growth %
Operating Expenses	18.1	15.3	 19%
Profit Before VAT & Taxes	12.9	15.6	 17%
Total Taxes	7.8	7.4	 5%
PAT	5.1	8.3	 38%
Profit Attributable to Shareholders	4.9	7.8	 37%

# Net Operating Income - Bank

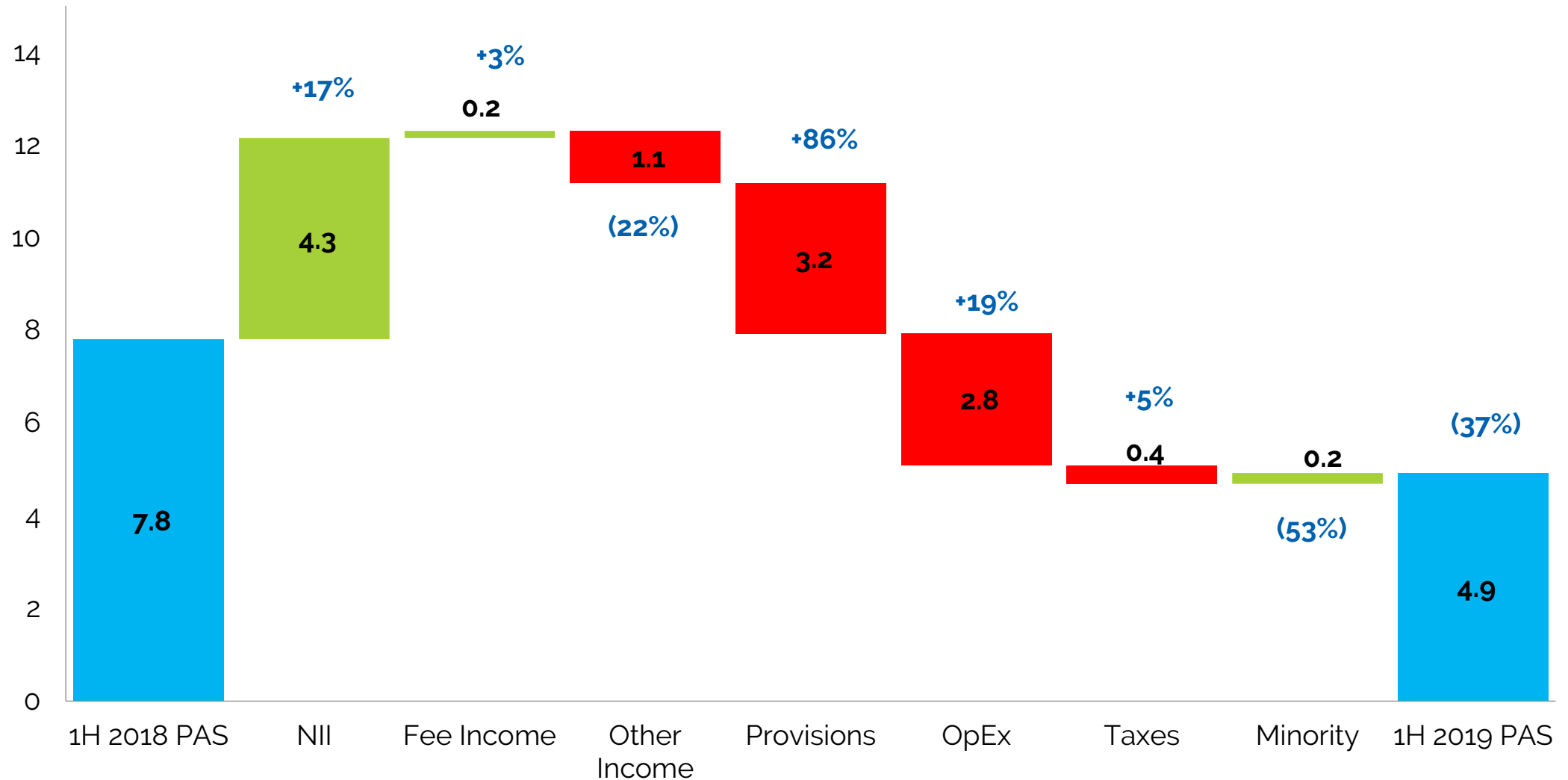
	2019 (Rs Bn)	2018 (Rs Bn)	Growth %
Interest Income	59.0	50.9	 16%
Interest Expenses	33.1	29.0	 14%
NII	25.9	22.0	 18%
Net Fee Income	4.4	4.4	 0.2%
Other Income	(0.1)	1.5	 107%
Impairment	6.3	3.3	 87%
Net Operating Income	24.0	24.5	 2%

# Expenses & Profits - Bank

	2019 (Rs Bn)	2018 (Rs Bn)	Growth %
Operating Expenses	11.9	10.5	 13%
Profit Before VAT & Taxes	12.0	14.0	 14%
Total Taxes	7.2	6.7	 8%
PAT	4.8	7.3	 34%

# Movement in Group Profit Attributable to Shareholders

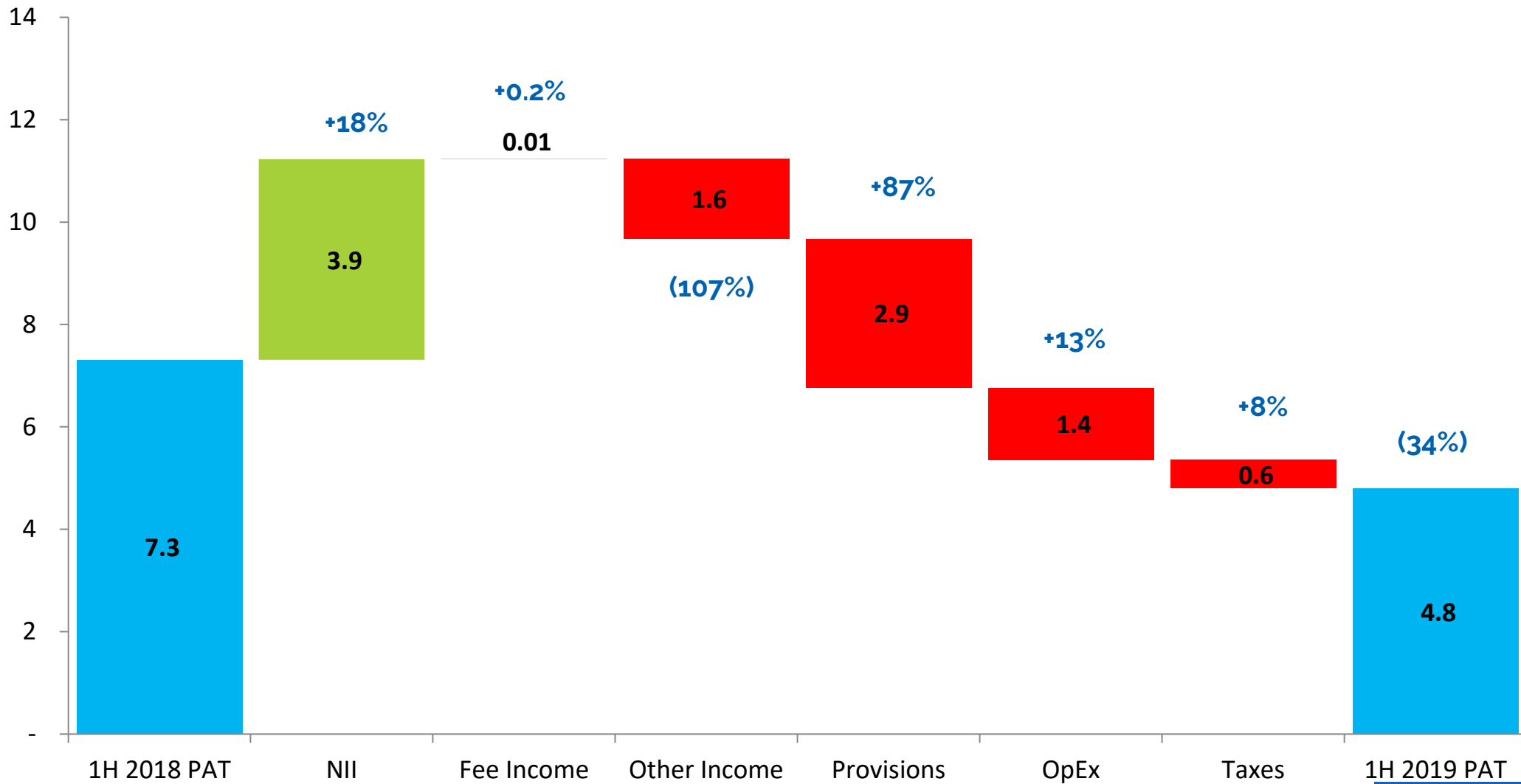
Rs Bn



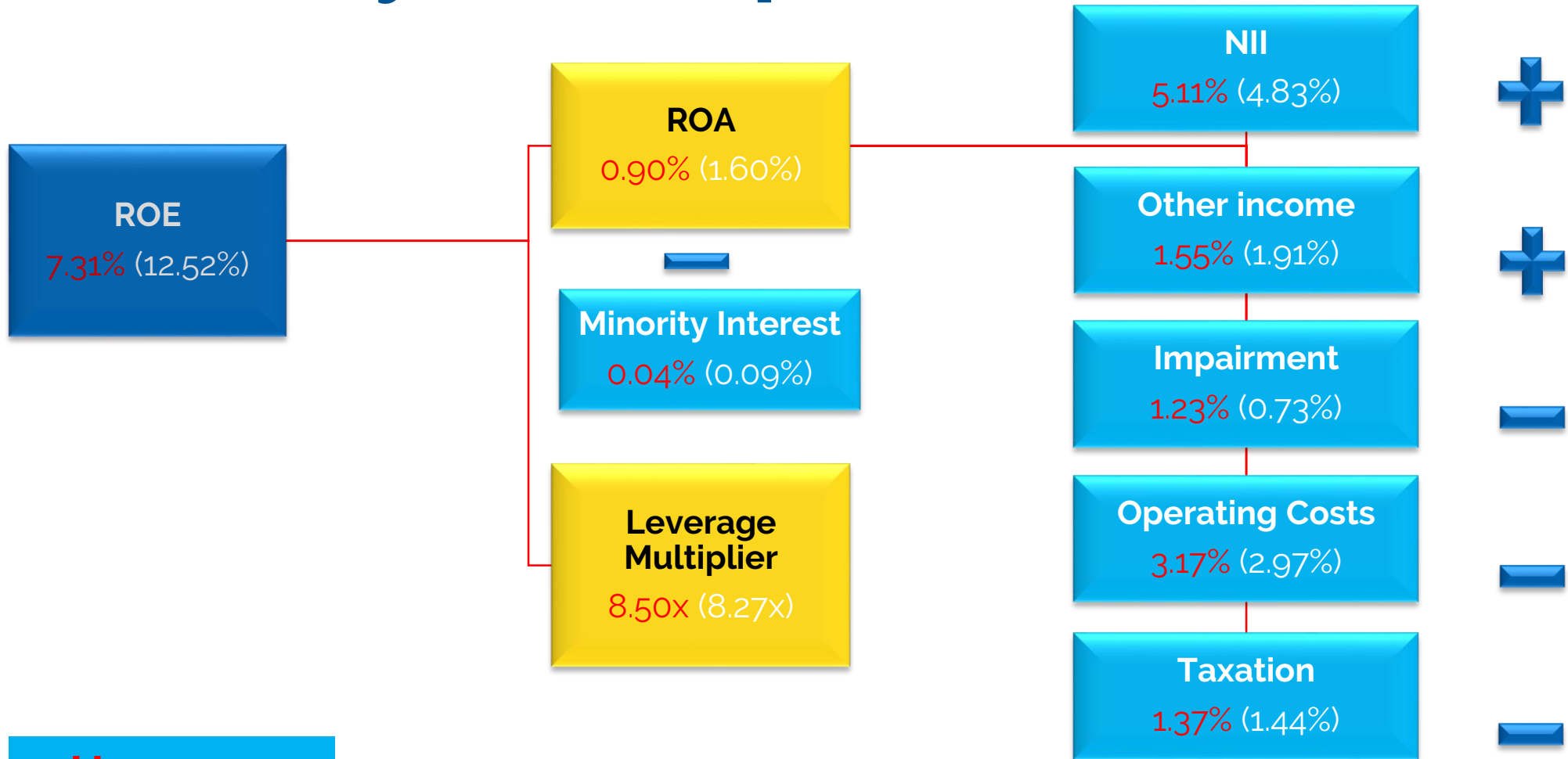


# Movement in Bank Profit After Tax

Rs Bn

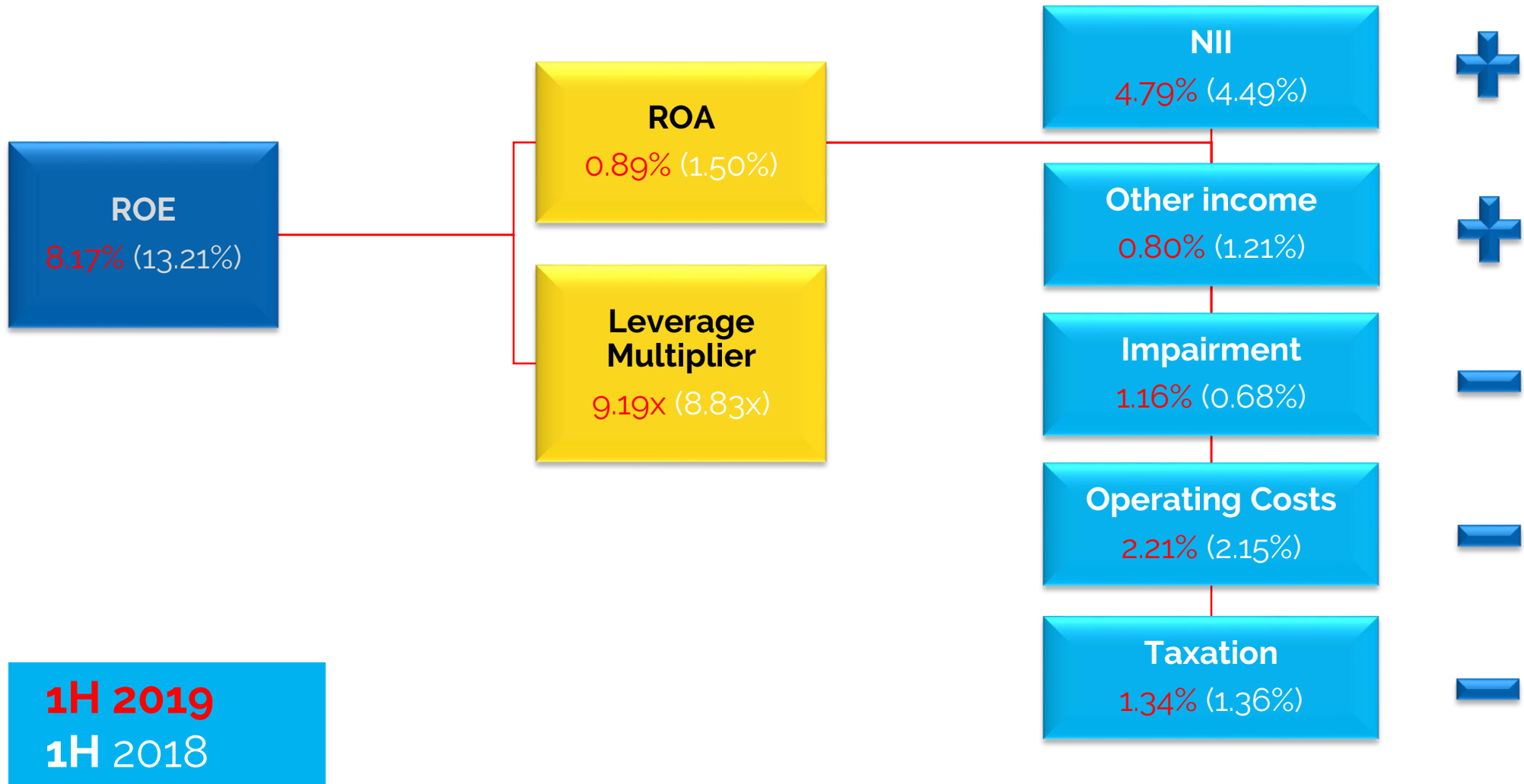


# DuPont Analysis – Group



**1H 2019**  
1H 2018

# DuPont Analysis – Bank



# Performance of Group Companies



60%  
**Insurance**

PAT - Rs 288 Mn  
ROE - 9.8%



51% (voting)  
**Microfinance**

PAT - Rs 337 Mn  
ROE - 13.9%



50%  
**Investment  
Banking**

PAT - Rs 165 Mn  
ROE - 7.6%

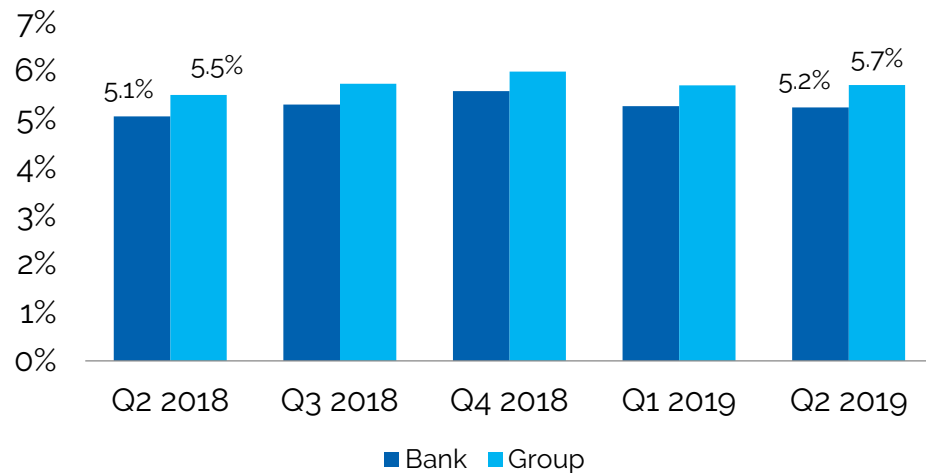
**Sithma  
Development**

100%  
**Real Estate**

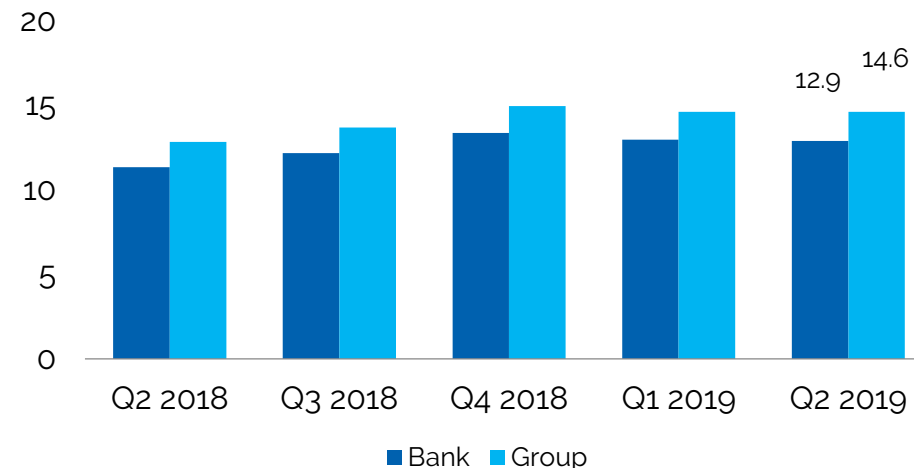
PAT - Rs 140 Mn  
ROE - 4.0%

# Strong Core Banking Amid Challenges

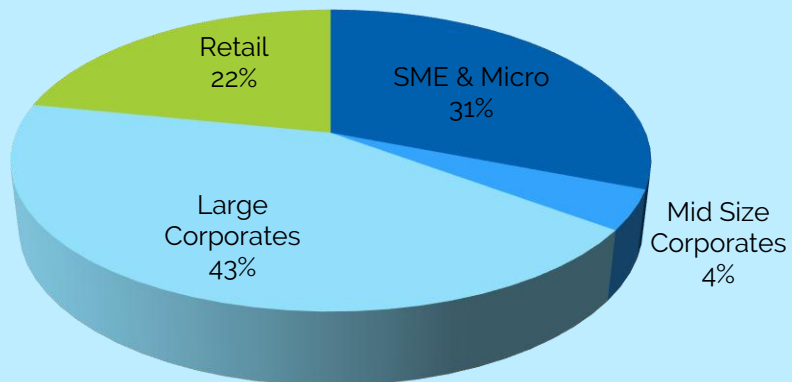
## Consistent & Superior NIM



## NII Growth (Rs Bn)



## Diversified Loan Book



Balanced portfolio with 53% in higher yielding segments

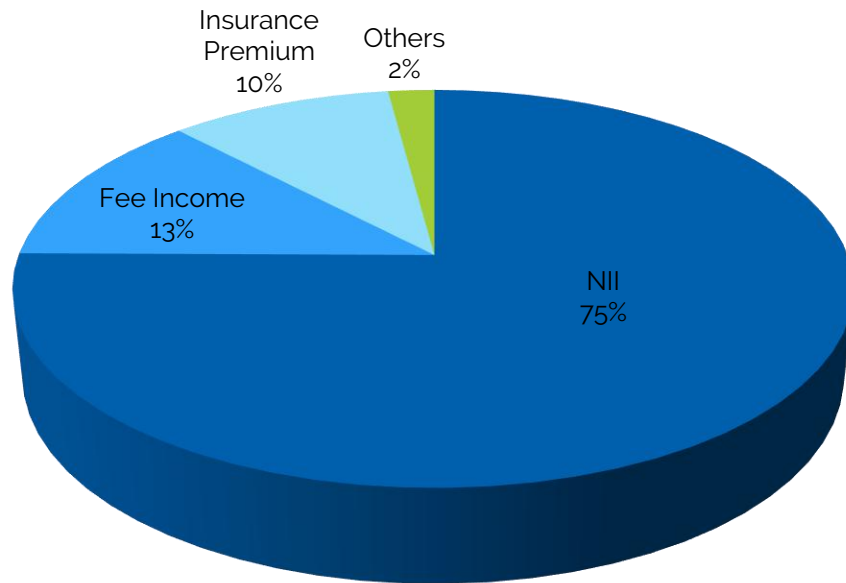
Supported by low cost CASA of Rs 266 Bn

Prudent ALM Management drives NIM despite slow loan growth and rates falling late in 2Q.

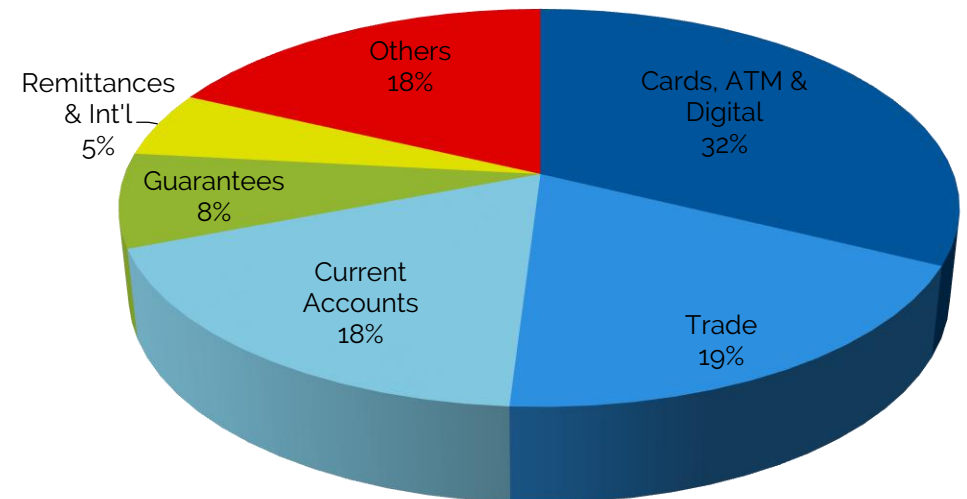
# Non Fund Income

- Net fee Income amounts to 15% of Bank TOI
- Fees and Insurance income collectively contribute 23% to Group TOI

Group TOI (prior to trading losses)

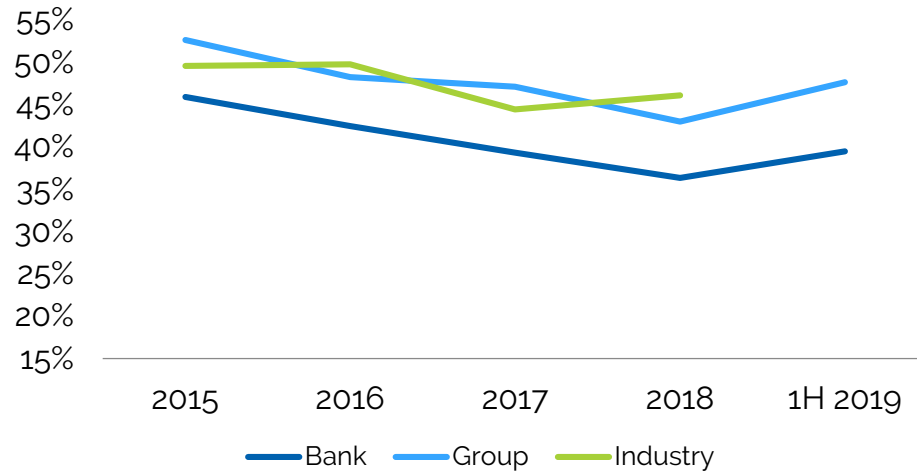


Bank Fee Income

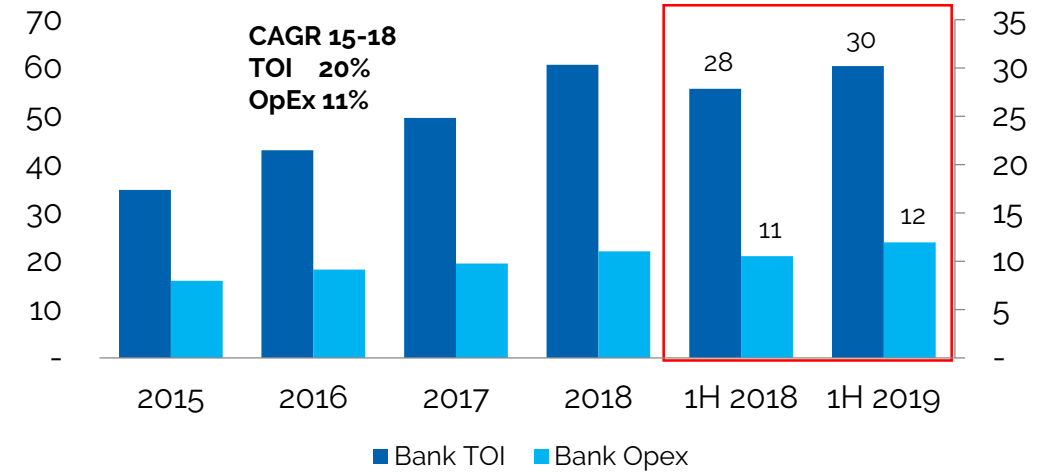


# Operational Excellence

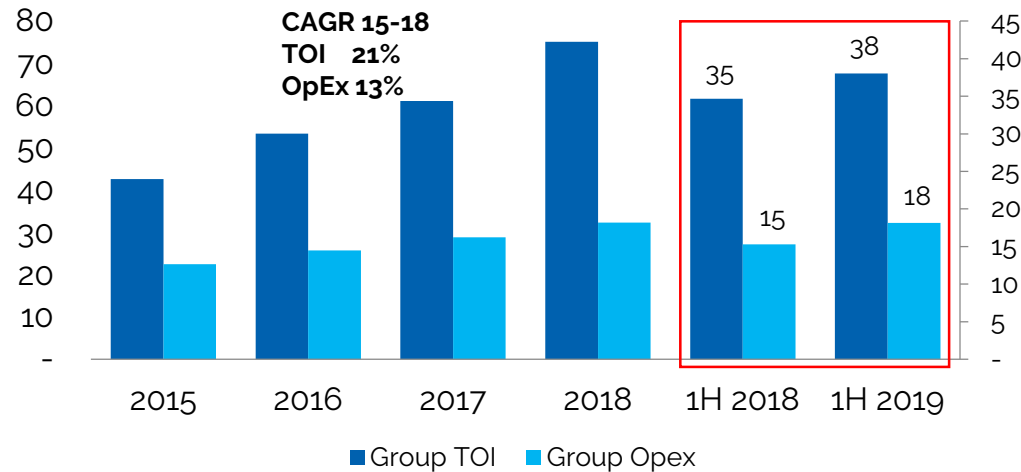
## Cost to Income



## Bank - TOI vs. Opex (Rs Bn)



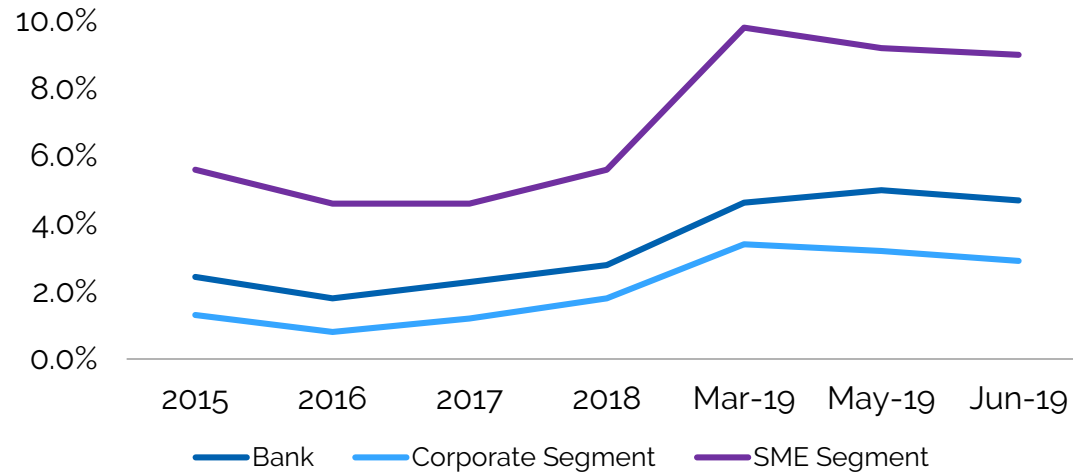
## Group - TOI vs. Opex (Rs Bn)



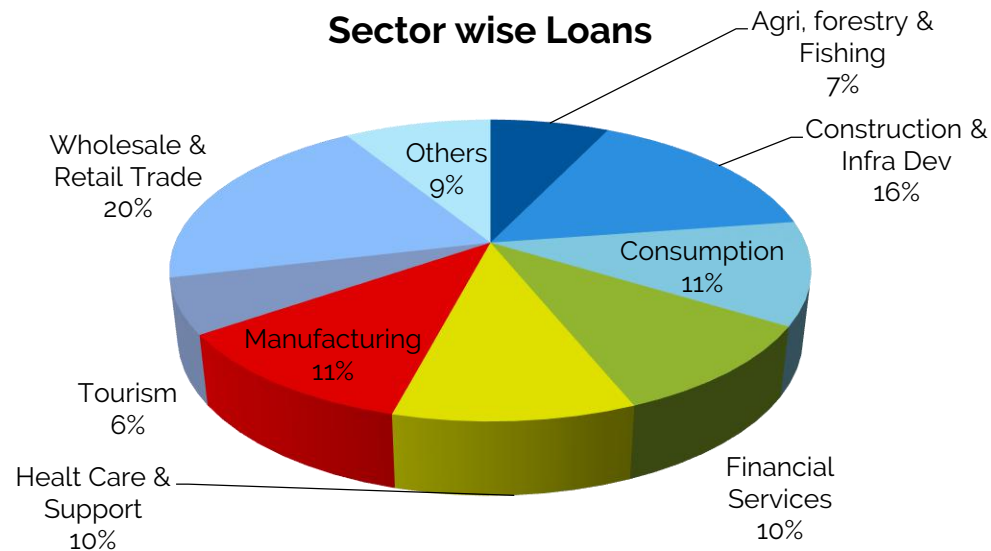
- **Group and Bank Cost to Income ratios improve by nearly 10% between 2015 and 2018**
- **% changes in 1H OpEx exceed % changes in TOI; lead to marginal increase in Cost/Income ratios**

# Asset Quality & Credit Cost

Gross NPA



Sector wise Loans

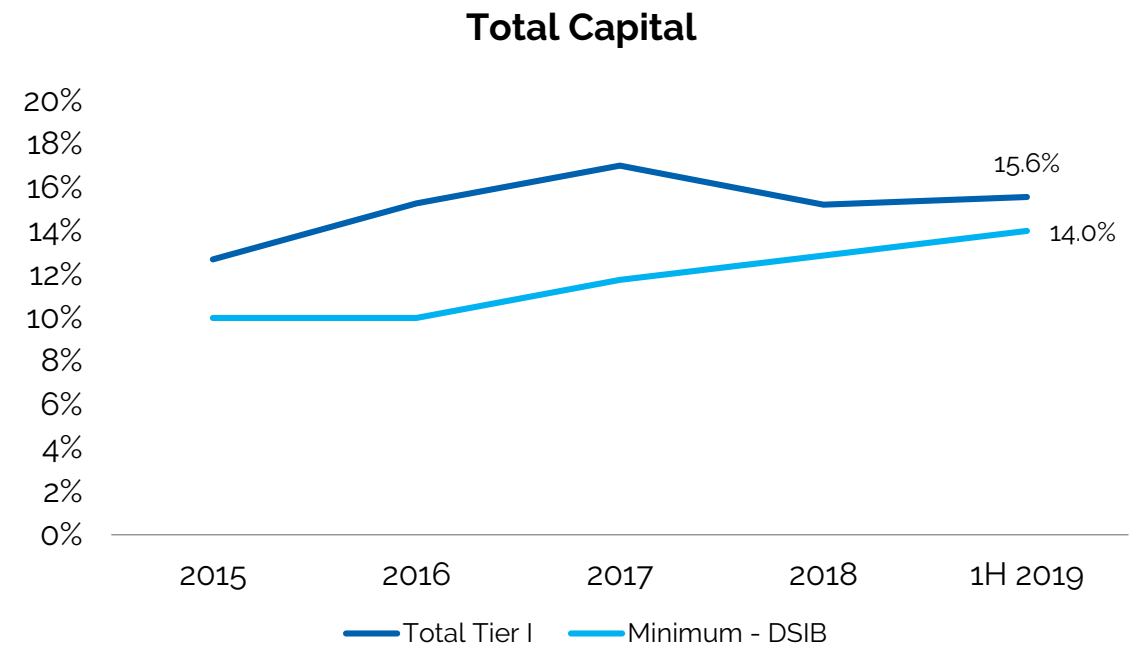
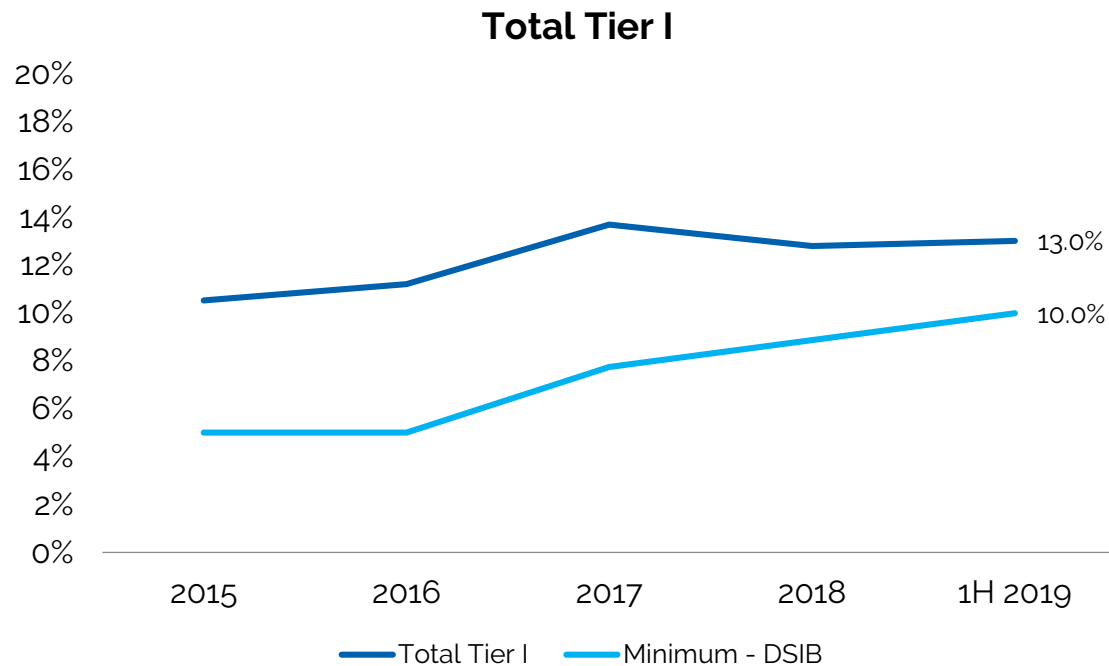


- Stressed operating conditions within the Agri and Construction sectors precipitated NPA crisis.
- Proactive steps taken and dedicated vertical specializing in underwriting set up.
- Despite worsening of scenario post 21/4 attacks, HNB has been able to curtail and bring NPA down during June.
- Concentration risk remains low with well diversified loan book
- Construction & Infrastructure collectively at 16% only.



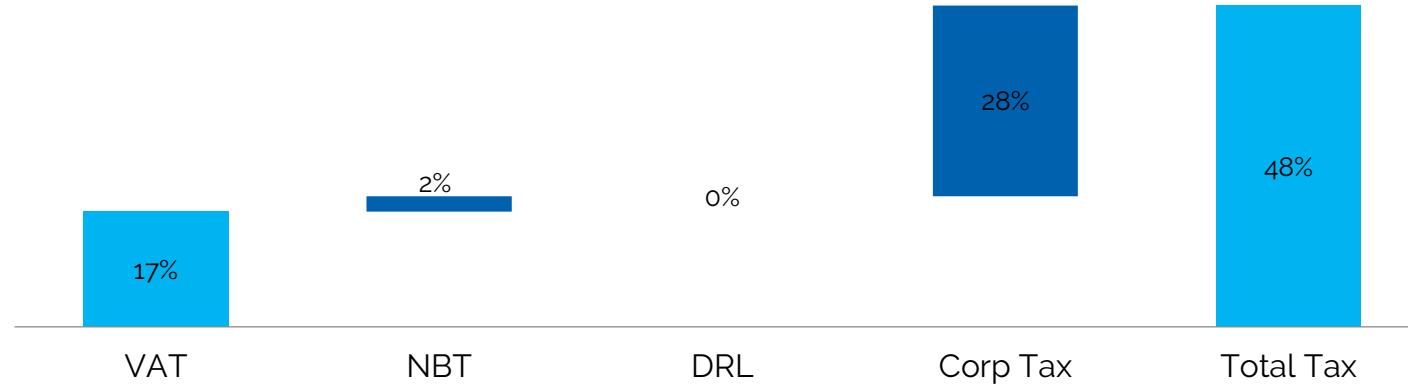
# Sound Capitalization

- Capital Adequacy maintained above requirements despite higher credit costs and taxes affecting internal capital generation.
- Impending Debenture Issue of Rs 7 Bn to strengthen Total Capital

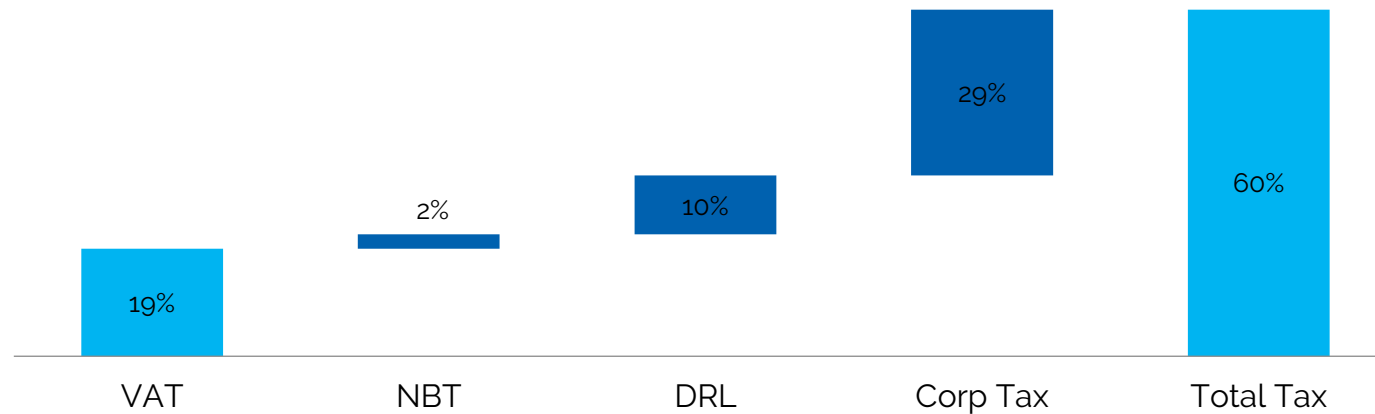


# Taxes and Levies

## Tax Breakup – 1H 2018



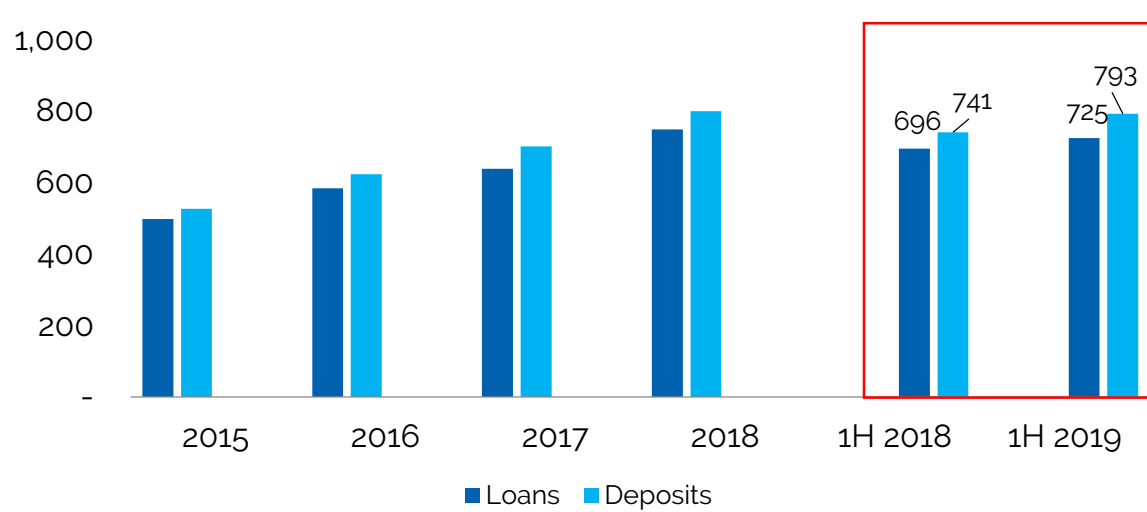
## Tax Breakup – 1H 2019



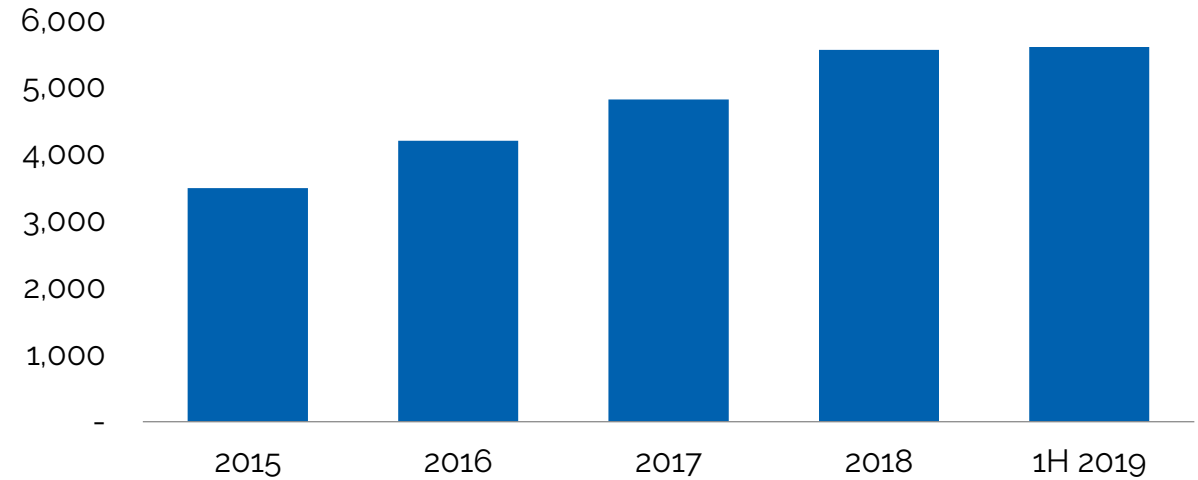
- **Effective Total Tax rate of 48% in 1H 2018 on Bank Operating Profit.**
- **10% DRL in 1H 2019 drives Total Tax rate to 60%**

# Position Analysis

## Loans & Deposits (Rs Bn)

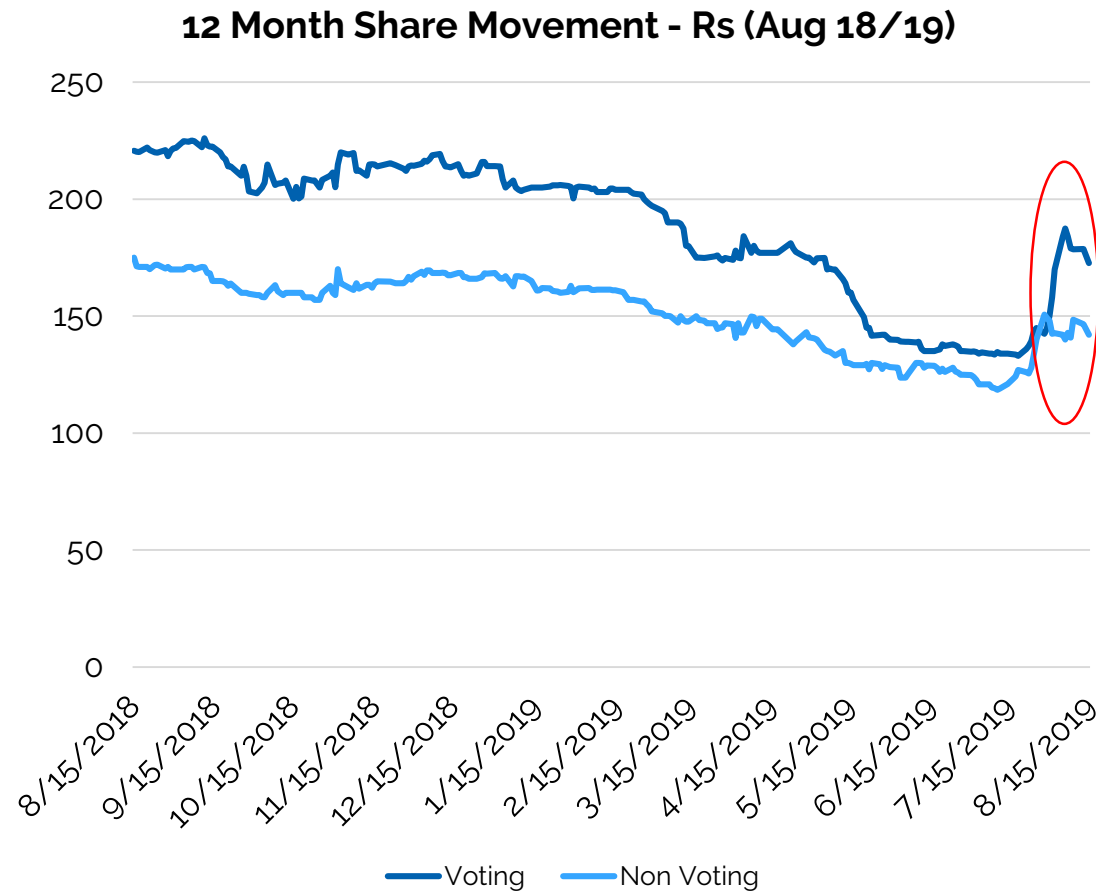


## Private Credit Extended by Commercial Banks (Rs Bn)



- YoY growth in loan book and deposits amount to 4.2% and 7% respectively
- 3% & 1% negative growth during 1H for Loans and deposits respectively
- Negative loan Growth during 1 H as Bank focusses on NIM and NPA management - Mirrors industry flat growth trend

# Shareholder Return



Annualized EPS (Rs)	19.67
BVPS (Rs)	272.95
PBV Voting	0.49
PE Voting	6.84
Total Dividends (Rs)	8.50
Dividend Yield (%)	6.3 (N) & 7.0 (X)

# Thank you

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