First Capital
A Janashakthi Group Company

EQUITY | SRI LANKA | BANKS

EARNINGS UPDATE |07 SEP 2026

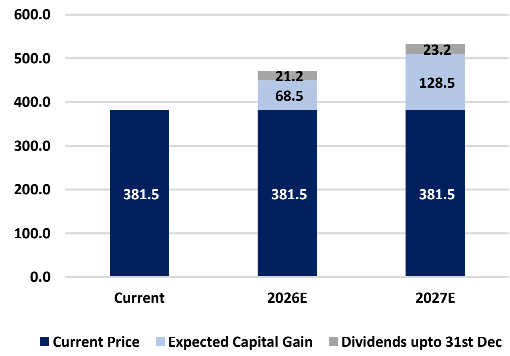
HATTON NATIONAL BANK PLC [HNB.N0000]

MAINTAIN BUY

"BUILT ON STRENGTH; BACKED BY CONFIDENCE"

Fair Value: 2026E - LKR 450.0 [+18%] **2027E - LKR 510.0 [+34%]**

Total Return with DPS: 2026E - 24% [AER 95%] *2027E - 40% [AER 29%]*



HNB reported marginal YoY growth in quarterly earnings, broadly in line with FCR's expectations. While core operations continued to perform well, this was offset by a notable increase in impairment charges during the quarter. On the core banking front, net interest income (NII) grew 30.0%YoY to LKR 34.2Bn, supported by a strong 36.3%YoY expansion in the gross loan book. However, margin pressure persisted, with net interest margins (NIMs) easing marginally to 4.40% in 2Q2026 from 4.45% in 1Q2026, although remaining above the 4.20% recorded in 2Q2025. Non-interest income remained a key contributor to earnings, with net fee and commission income rising a robust 19.6%YoY, driven by higher digital banking activity, increased card-related transactions, and strong contributions from the transaction banking and leasing businesses. Net insurance premium income also grew 26.9%YoY to LKR 6.5Bn, underscoring the resilience of HNB's diversified income streams. However, the earnings performance was tempered by a net impairment charge of LKR 1.9Bn during the quarter, compared with a reversal of LKR 4.6Bn in 2Q2025. The increase primarily reflects higher impairment requirements amid the significant expansion of the Bank's lending portfolio during the period. Although earnings for the quarter were broadly in line with our forecasts, we anticipate that the bank may face higher impairment charges over the periods ahead. In light of this, we have marginally revised down our earnings estimates to LKR 47.6Bn from LKR 48.6Bn for 2026E and to LKR 52.1Bn from LKR 53.4Bn for 2027E.Nevertheless, given the modest revisions to earnings, we maintain our fair value estimates at LKR 450.0 for HNB.N and LKR 360.0 for HNB.X for 2026E, while 2027E fair values remain unchanged at LKR 510.0 and LKR 410.0, respectively. While near-term headwinds remain, particularly from moderating credit growth following the recent policy rate hike and subdued market conditions, we remain positive on HNB's underlying fundamentals. This view is supported by resilient core banking performance, disciplined asset quality management, and a well-diversified earnings base. With long-term prospects intact, we MAINTAIN BUY.

FIRST CAPITAL RESEARCH

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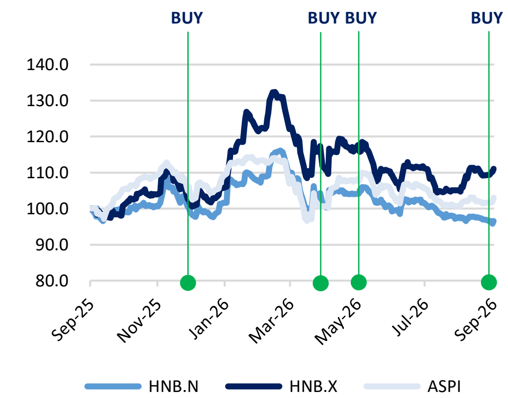
Price performance of HNB vs ASPI (Indexed and rebased to 100)



Source: CSE

LKR (Mn)	2Q2025	2Q2026	YoY	1H2025	1H2026	YoY
Earnings (LKR 'Mn)						
NII	26,301	34,199	+30%	54,212	66,737	+23%
Total Operating Income	40,448	51,739	+28%	81,900	101,830	+24%
Net Operating Income	45,097	49,791	+10%	86,743	96,801	+12%
Pre Tax Profit	19,416	20,315	+5%	36,483	37,276	+2%
Net Profit : Equity Holders	11,743	11,774	+0%	22,441	21,864	-3%
Balance Sheet (LKR 'Mn)						
Net Loans	1,241,568	1,733,084	+40%	1,241,568	1,733,084	+40%
Shareholder's Equity	276,695	311,669	+13%	276,695	311,669	+13%
Adjusted NAVPS	494.3	541.0	+9%	494.3	541.0	+9%

Minimum Return for BUY:

Buy Below 2027E [AER of 15.0% with DPS]: *LKR 444.0*
HNB.N categorized as 'Grade A' counter

Disclosure on Shareholding:
First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of HNB during the five trading days prior to the issuance of this document.

HNB records marginal growth in 2Q2026

HNB reported marginal YoY growth in quarterly earnings, broadly in line with FCR's expectations. While core banking operations remained strong, earnings were partly offset by a notable increase in impairment charges during the quarter. On the core banking front, NII increased 30.0% YoY to LKR 34.2Bn, supported by a strong 36.3% YoY expansion in the gross loan book. Despite robust balance sheet growth, margin pressure persisted, with NIMs moderating to 4.40% in 2Q2026 from 4.45% in 1Q2026, although remaining above the 4.20% recorded in 2Q2025. Non-interest income continued to provide meaningful support to earnings. Net fee and commission income grew a robust 19.6% YoY, driven by increased digital banking activity, higher card-related transactions, and strong contributions from the transaction banking and leasing businesses. Net insurance premium income also rose 26.9% YoY to LKR 6.5Bn, highlighting the resilience and diversification of HNB's non-interest income streams. However, earnings were tempered by a net impairment charge of LKR 1.9Bn during the quarter, compared with a reversal of LKR 4.6Bn in 2Q2025. The increase primarily reflects higher impairment requirements associated with the significant expansion of the Bank's lending portfolio during the period. Despite this, asset quality remained resilient, with the net Stage 3 ratio improving to 1.17% from 1.59% in 2Q2025 and 1.18% in 1Q2026. Profitability was also constrained by continued cost pressures, with operating expenses rising 14.8% YoY, largely reflecting higher foreign currency-denominated technology and payment processing costs. Tax-related expenses increased as well, with VAT on financial services and corporate income tax rising 11.8% YoY and 11.0% YoY, respectively.

Loan book expands as private credit gains momentum

The Average Weighted Prime Lending Rate (AWPR) increased to 10.39% in 2Q2026, from 9.28% at end-1Q2026 and 8.11% at end-2Q2025. Despite the higher interest rate environment, private sector credit growth accelerated to 27.4%YoY as of Jun 2026, compared with 17.9%YoY in Jun 2025. Against this backdrop, HNB's gross loan book expanded robustly by 36.3%YoY to LKR 1.8Tn as at 2Q2026, outperforming overall system credit growth. Segment-wise, domestic currency lending grew by 33.1%YoY, driven primarily by higher term loan volumes, while foreign currency lending recorded a stronger 56.2%YoY increase, supported by increased term loan disbursements and LKR depreciation against the USD during the quarter. On the funding side, total deposits rose by 12.9%YoY to LKR 2.2Tn in 2Q2026. With loan growth outpacing deposit mobilisation, the loan-to-deposit ratio increased to 84.6% in 2Q2026, from 70.1% in 2Q2025 and 82.1% in 1Q2026. Meanwhile, the CASA ratio dipped to 32.8%, compared to 34.8% in 2Q2025 and 34.4% in 1Q2026.

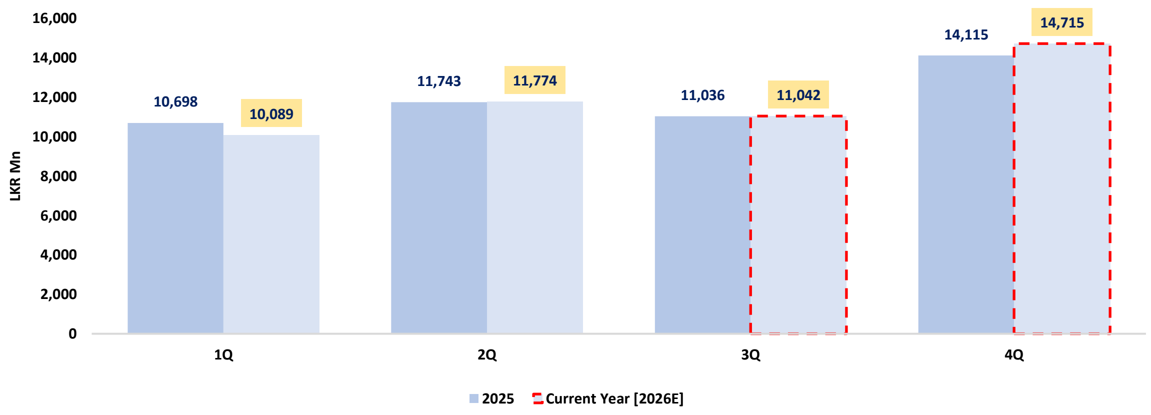
Capital adequacy soars past regulatory hurdles

The Bank continues to maintain a strong capital and liquidity position, with a Tier I Capital Ratio of 15.44%, a Total Capital Ratio of 18.18% and an all-currency Liquidity Coverage Ratio (LCR) of 186.69%, providing ample capacity to support future business growth while remaining well above regulatory requirements.

FV for 2027E maintained at LKR 510.0

HNB reported marginal YoY growth in quarterly earnings, broadly in line with FCR's expectations. While core operations remained resilient, the stronger underlying performance was partly offset by a notable increase in impairment charges during the quarter. Although earnings for the quarter were broadly in line with our forecasts, we expect the bank to face higher impairment charges in the periods ahead. Accordingly, we have marginally revised down our earnings estimates to LKR 47.6Bn from LKR 48.6Bn for 2026E and to LKR 52.1Bn from LKR 53.4Bn for 2027E. Nevertheless, given the relatively modest adjustments to our earnings forecasts, we maintain our 2026E fair value estimates at LKR 450.0 for HNB.N and LKR 360.0 for HNB.X, while our 2027E fair value estimates remain unchanged at LKR 510.0 and LKR 410.0, respectively. While near-term headwinds remain, particularly from moderating credit growth following the recent policy rate hike and subdued market conditions, we remain constructive on HNB's underlying fundamentals. This view is underpinned by resilient core banking performance, disciplined asset quality management, and a well-diversified earnings base, which we believe should continue to support the bank's overall performance. With long-term prospects intact, we **MAINTAIN BUY.**

Quarterly Earnings



Estimate Revision

In LKR Mn	2026E-O	2026E-R	% Change	2027E-O	2027E-R	% Change
Earnings Estimate						
Net Interest Income	133,422	129,753	-3%	153,024	145,201	-5%
Total Operating Income	199,252	198,641	-0%	219,021	216,245	-1%
Net Operating Income	193,484	191,407	-1%	209,416	205,869	-2%
Pre Tax Profit	84,860	83,095	-2%	93,867	90,853	-3%
Net Profit : Equity Holders	48,633	47,621	-2%	53,794	52,067	-3%
Adjusted EPS	84.4	82.7	-2%	94.1	90.4	-4%
Net Profit Growth YoY	2%	0%		11%	9%	
Balance Sheet Estimate						
Loans & Advances	1,738,721	1,737,256	-0%	1,930,591	1,928,354	-0%
Shareholders' Equity	318,013	317,459	-0%	334,734	333,498	-0%
Adjusted NAVPS	568.1	567.2	-0%	598.0	595.8	-0%
Ratio Estimate						
ROE (%)	***15.7%***	***15.4%***		***16.5%***	***16.0%***	
PER (x)	***4.7***	***4.6***		***4.3***	***4.2***	
PBV (x)	***0.7***	***0.7***		***0.7***	***0.6***	

Valuation Table

P/E 31st December	2022	2023	2024	2025	2026E	2027E	2028E
Estimates (LKR 'Mn)							
Net Interest Income	111,567	118,075	109,765	115,109	129,753	145,201	162,301
Total Operating Income	160,875	149,500	97,124	174,875	198,641	216,245	235,642
Net Profit: Equity Holders	**15,329**	**22,771**	**43,539**	**47,593**	**47,621**	**52,067**	**58,068**
Recurring Net Profit: Equity Holders	**15,329**	**22,771**	**14,974**	**47,593**	**47,621**	**52,067**	**58,068**
Adjusted EPS (LKR)	26.6	39.5	26.0	82.6	82.7	90.4	100.8
YoY Growth (%)	-19.4%	48.6%	-34.2%	217.8%	0.1%	9.3%	11.5%
Valuations							
PER (x)	14.3x	9.7x	14.7x	4.6x	4.6x	4.2x	3.8x
PBV (x)	1.2x	1.0x	0.8x	0.7x	0.7x	0.6x	0.6x
Dividend Yield (%)	1.3%	2.1%	3.9%	5.2%	5.7%	6.2%	6.9%
Adjusted NAVPS (LKR)	318.2	368.4	453.7	525.6	567.2	595.8	628.3
DPS (LKR)	4.8	8.0	14.9	19.9	21.7	23.7	26.5
Dividend Payout (%)	18.0%	20.2%	19.7%	24.0%	26.3%	26.3%	26.3%

Note: Recurring net profit for 2024 indicates reported net profit adjusted for impairment reversal on ISB holdings and net losses from derecognition of financial assets.

Ratio Analysis

		2022	2023	2024	2025	2026E	2027E	2028E
Growth	Asset	23.7%	13.8%	7.9%	19.4%	10.3%	10.7%	12.4%
	Deposit	30.4%	11.5%	8.8%	15.3%	11.0%	11.0%	13.0%
	Net Loans	11.3%	-2.6%	11.7%	36.4%	15.4%	11.0%	10.4%
Profitability	Return on Equity	8.5%	11.5%	18.4%	16.9%	15.4%	16.0%	17.0%
	Return on Average Assets	0.9%	1.2%	2.0%	2.0%	1.7%	1.7%	1.7%
	Net Interest Spread	7.4%	6.4%	5.0%	4.5%	4.3%	4.4%	4.4%
	Net Interest Margin	7.8%	6.9%	5.7%	5.1%	5.0%	5.1%	5.1%
Funding &	Loan/ Deposits	70.3%	61.4%	63.1%	74.6%	77.6%	77.6%	75.8%
Liquidity	Loan/ Assets	56.4%	48.3%	50.0%	57.1%	59.7%	59.9%	58.9%
	Deposit/ Liabilities	89.7%	88.1%	90.2%	86.9%	87.0%	86.7%	86.6%
	CASA	30.4%	29.4%	33.5%	34.3%	34.0%	33.0%	32.5%

Valuation Summary

Expected HNB.N Price	2026E	2027E
Justified PBV Based Target Price	425.4	478.0
Residual Income Valuation	486.1	538.2
PER Valuation Based Target Price	454.7	497.1
Average Target Price	455.4	504.4
Target Price After Rounding Off	450.0	510.0

Return	2026E	2027E
Target Price	450.0	510.0
Current Price	381.5	381.5
Capital Gain (LKR)	68.5	128.5
Dividends upto 31st Dec (LKR)	21.7	23.7
Capital Gain %	18%	34%
Dividend Yield %	6%	6%
Total Return %	24%	40%
Annualized Return %	95%	29%

Justified PBV Valuation

Justified PBV Based Valuation	2026E	2027E
ROAE	15.4%	16.0%
Growth	3.0%	3.0%
COE	19.2%	19.2%
PBV	0.8	0.8
NAVPS	567.2	595.8
Value per Share	425.4	478.0

PER Valuation

PER Based Valuation	2026E	2027E
Earnings (LKR 'Mn)	47,621	52,067
No. of Shares ('Mn)	576	576
EPS	82.7	90.4
Expected PER	5.5x	5.5x
Value per Share	454.7	497.1

Residual Income Valuation

Residual Income Based Valuation	2026E	2027E
PV of Residual Income	-22,762	-16,688
No. of Shares ('Mn)	576	576
RI per Share	-39.5	-29.0
Opening Book Value per Share	525.6	567.2
Value per Share	486.1	538.2

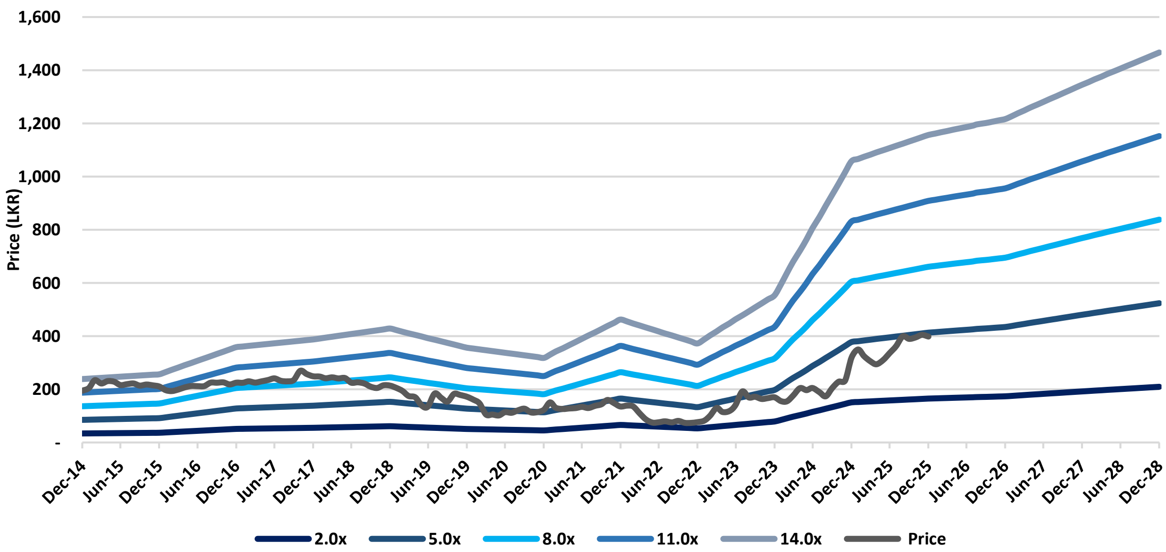
COE	2026E	2027E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
β	1.2	1.2
Ke=Rf+β(Rm-Rf)	19.2%	19.2%

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement P/E 31 December	2022	2023	2024	2025	2026E	2027E	2028E
Interest income	220,581	304,578	240,244	239,723	288,176	322,170	364,441
Interest expenses	109,015	186,504	130,479	124,615	158,423	176,969	202,140
Net interest income	**111,567**	**118,075**	**109,765**	**115,109**	**129,753**	**145,201**	**162,301**
Net fee and commission income	**15,902**	**16,573**	**19,149**	**24,995**	**31,684**	**33,533**	**35,545**
Net loss from trading	4,826	-11,851	-3,966	1,228	1,760	1,689	1,617
Other operating income	28,558	26,393	-28,331	33,001	34,982	35,430	35,845
Total Operating income	**160,875**	**149,500**	**97,124**	**174,875**	**198,641**	**216,245**	**235,642**
Less: Impairment charge/(reversal) for loans	-91,736	-42,524	77,874	8,395	-7,234	-10,376	-12,117
Net operating income	**69,139**	**106,976**	**174,998**	**183,271**	**191,407**	**205,869**	**223,525**
Personnel expenses	18,491	20,934	26,329	29,838	31,788	35,269	36,645
Other expenses	19,598	24,222	27,486	33,643	34,316	35,002	38,152
Total operating expenses	**49,804**	**60,375**	**71,129**	**85,815**	**88,996**	**93,736**	**98,848**
Operating profit before value added tax (VAT)	19,336	46,601	103,869	97,456	102,411	112,133	124,676
Value Added Tax (VAT) on Financial Services	5,248	10,523	21,148	18,768	20,130	22,110	24,198
Operating profit after value added tax (VAT)	**14,088**	**36,077**	**82,722**	**78,688**	**82,281**	**90,023**	**100,478**
Share of profit of joint venture (net of income tax)	332	1,141	1,378	798	814	830	847
Profit before income tax	**14,420**	**37,218**	**84,099**	**79,486**	**83,095**	**90,853**	**101,325**
Income Tax Expense	-1,328	13,612	39,260	29,673	33,252	36,357	40,547
Profit for the Year	**15,748**	**23,606**	**44,840**	**49,813**	**49,842**	**54,496**	**60,777**
Profit attributable to Non-controlling interests	420	836	1,301	2,220	2,222	2,429	2,709
Profit attributable to equity holders of the Bank	**15,329**	**22,771**	**43,539**	**47,593**	**47,621**	**52,067**	**58,068**
Recurring profit attributable to equity holders of the Bank	**15,329**	**22,771**	**14,974**	**47,593**	**47,621**	**52,067**	**58,068**
Adjusted EPS	26.6	39.5	26.0	82.6	82.7	90.4	100.8

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2022	2023	2024	2025	2026E	2027E	2028E
Assets							
Cash and Cash Equivalents	80,630	73,759	64,065	56,743	58,719	63,925	70,409
Balances with Central Bank of Sri Lanka	32,344	12,234	6,913	37,289	41,710	45,981	51,523
Placements with Banks	58,172	61,836	48,656	42,282	67,190	49,721	70,231
Reverse Repurchase Agreements	1,381	1,830	5,281	25,047	39,413	43,748	48,316
Financial Assets Measured at FVTPL	236	801	2,963	72,322	80,277	89,108	100,692
Financial Assets Measured at Amortised Cost - Loans & Advances	1,014,519	988,601	1,104,013	1,505,588	1,737,256	1,928,354	2,129,708
Financial investments - FVOCI	6,062	195,975	112,407	115,172	111,984	174,023	196,646
Financial Assets Measured at Amortised Cost - Debt & Other Instruments	479,787	584,131	770,021	684,366	671,905	720,954	842,770
Property, Plant and Equipment	49,616	50,165	55,468	57,340	56,322	55,353	54,431
Other Assets	30,573	33,415	24,538	25,023	27,776	30,831	34,839
Total assets	**1,798,275**	**2,047,040**	**2,209,174**	**2,638,237**	**2,909,385**	**3,219,822**	**3,618,403**
Liabilities							
Due to Banks	6,105	9,020	6,596	11,343	12,100	13,179	14,319
Due to Other Customers	1,443,179	1,609,154	1,750,259	2,017,732	2,239,683	2,486,048	2,809,234
Other Borrowings	33,386	25,032	19,742	27,213	56,451	62,661	69,204
Other Liabilities	18,042	20,696	18,580	33,364	37,951	39,156	40,505
Total Liabilities	**1,608,188**	**1,827,484**	**1,939,424**	**2,320,756**	**2,575,009**	**2,866,978**	**3,244,688**
Equity							
Stated Capital	38,679	40,955	42,858	42,858	50,738	59,354	68,963
Retained Earnings	50,247	68,252	91,385	125,166	128,017	131,128	134,873
Total Equity Attributable to Equity Holders of the Bank	**183,292**	**212,240**	**261,361**	**302,785**	**317,459**	**333,498**	**351,659**
Non-controlling Interests	6,795	7,317	8,389	14,696	16,918	19,347	22,056
Total Equity	**190,087**	**219,557**	**269,749**	**317,481**	**334,376**	**352,844**	**373,715**
Total Liabilities and Equity	**1,798,275**	**2,047,040**	**2,209,174**	**2,638,237**	**2,909,385**	**3,219,822**	**3,618,403**
Adjusted NAVPS	**318.2**	**368.4**	**453.7**	**525.6**	**567.2**	**595.8**	**628.3**

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Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

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Isuru Jayawardana		+94 76 708 4953
Nishantha Mudalige		+94 72 346 5000
Anushka Buddhika		+94 71 431 0600
Thushara Pathiraja		+94 77 007 6314
Anjelo LaBrooy		+94 77 754 6645
Dillon Lowe		+94 76 616 0647
Evelyn John		+94 77 779 2452
Yudheshan Kannadasan		+94 77 415 5809
Imashi Sellapperuma		+94 72 444 4135
Tehan Liyanage		+94 76 399 6785
Hirosha Gayani		+94 72 444 4149
Tharindu Priyankara		+94 77 728 2586

Equity Branches		
Anuradhapura	Sumiyuru Rajaguru	+94 76 885 6571
Gampaha	Chinthaka Deshapriya	+94 71 491 5856
Galle	Thilina Shashimal	+94 77 639 8477
Jaffna	Gratian Nirmal	+94 77 4510 000
Kandy	Sudesh Upatissa	+94 77 651 6105
Negombo	Priyanka Anuruddha	+94 77 454 6070
	Priyantha Wijesiri	+94 77 906 5779
Agents		
Anuradhapura	Amila Luwishewa	+94 71 062 8195
Colombo	Dayan Fernando	+94 77 735 4081
	Kithsiri Jayasinghe	+94 77 779 0657
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Galle	Nuwan Abeynayake	+94 77 728 8274
Kandy	Ajith Ihalawatta	+94 77 847 7530
Kurunagala	Muditha Eranga	+94 70 504 0090

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799

BRANCHES

Kandy	**Kurunegala**	**Matara**	**Negombo**
CSE Branch Office,	No.174/B2,	CSE Branch Office,	Colombo Stock Exchange
No. 88,	Negombo Road,	1 st Floor, E.H.Cooray Tower,	Negombo Branch Office,
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