

Investment Analysis of HNB Assurance PLC: A Recommendation

1. Executive Summary:

This report provides a comprehensive analysis of HNB Assurance PLC (HASU.N), a prominent insurance company listed on the Colombo Stock Exchange (CSE), to determine the advisability of investment. The analysis encompasses the company's profile, its recent financial performance in the first quarter of 2025, its standing within the Sri Lankan insurance market, and the broader macroeconomic environment. Key findings indicate that while the overall HNB Group, including its banking operations, has demonstrated robust growth in profitability, HNB Assurance PLC itself experienced a slight decrease in Profit After Tax (PAT) during the same period. Despite this, the company benefits from a strong market position, a strategic alliance with its parent company Hatton National Bank PLC, and operates within a sector poised for future expansion. Considering these factors, along with a potentially attractive valuation, this report concludes with a buy recommendation for HNB Assurance PLC, subject to careful consideration of the identified risks and individual investment objectives.

2. Introduction to HNB Assurance PLC:

- **Company Profile:**

HNB Assurance PLC (HASU.N) stands as a key player in Sri Lanka's financial services sector, operating as a publicly listed entity on the Colombo Stock Exchange (CSE).¹ The company's core business revolves around providing a comprehensive suite of Life and General Insurance solutions tailored to meet the diverse needs of both individual and corporate clients across the nation.¹ These solutions encompass a wide array of essential financial protection instruments, including life coverage, health insurance, savings plans, retirement solutions, and mortgage protection insurance.² A significant strategic advantage for HNB Assurance lies in its affiliation with its parent company, Hatton National Bank PLC (HNB), a leading commercial bank in Sri Lanka.³ This relationship provides HNB Assurance with a robust and well-established distribution network through bancassurance, enabling it to reach a vast customer base efficiently.³ The synergy between an established banking institution and an insurance provider not only offers a cost-effective channel for distributing insurance products but also enhances customer trust and leverages the strong brand recognition of Hatton National Bank.³
- **Business Segments:**

HNB Assurance operates primarily through two distinct business segments: Life Insurance and General Insurance.² The Life Insurance segment offers a range of policies designed to provide financial security and long-term savings for individuals and groups. Complementing this, the General Insurance business is conducted through its wholly-owned subsidiary, HNB General Insurance Limited (HNBGI).⁴ HNB General Insurance specializes in providing a diverse portfolio of general insurance products, including motor insurance, non-motor insurance covering areas such as fire, marine, and engineering, as well as Takaful insurance solutions adhering to Islamic finance principles.⁴ Understanding the individual performance and growth drivers within each of these segments is essential for a nuanced evaluation of HNB Assurance's overall business health and future prospects.

- **Market Positioning in Sri Lanka:**

HNB Assurance PLC has established a notable presence in the Sri Lankan insurance market. In the life insurance sector, the company held a market share of 7.5% according to a recent report, demonstrating its competitive standing.³ Furthermore, HNB Assurance has articulated an ambitious goal to expand its footprint in this segment, aiming to achieve a 10% market share by the year 2026, indicating a strong focus on growth and increasing its penetration in the life insurance market.³ Similarly, its subsidiary, HNB General Insurance Limited, has set its sights on becoming a top 5 player within the general insurance market in Sri Lanka by 2026, highlighting the Group's overall competitive aspirations across both its primary business lines.⁹ While HNB Assurance has clearly defined growth objectives within the life insurance sector, specific and recent market share data for its general insurance operations within the available research material necessitates further scrutiny for a more comprehensive understanding of its current position and strategies in that segment.

3. Q1 2025 Financial Performance Analysis:

- **Gross Written Premium (GWP) Analysis:**

While the specific Group GWP for the first quarter of 2025 is not explicitly detailed within the provided snippets, it is crucial to consider the context provided by previous periods. In the first quarter of 2024, the HNB Assurance Group recorded a Gross Written Premium of LKR 6.2 billion.¹⁰ Furthermore, HNB Assurance PLC (the life insurance arm) reported a substantial GWP growth of 26% in the full year of 2024³, and the HNB Assurance Group as a whole achieved a 21% increase in GWP during the same period.¹⁴ For the first quarter of 2024 specifically, HNB Assurance PLC posted a GWP of LKR 3.3 billion, while HNB General Insurance contributed LKR 2.9 billion.¹⁰ Although the precise GWP

figures for Q1 2025 for the Group and its individual segments are not available in the provided material, the strong growth momentum demonstrated in 2024 suggests a positive trajectory for the beginning of 2025. Monitoring the trend in GWP is a fundamental aspect of assessing an insurance company's performance, as it directly reflects its ability to generate revenue through the sale of insurance policies and expand its business operations. Consistent year-on-year growth in GWP typically indicates a healthy demand for the company's products and effective sales strategies.

- Profitability Analysis:

The HNB Group, encompassing its banking and insurance operations, reported a robust Profit After Tax (PAT) of Rs 11.1 billion for the first quarter of 2025, marking a significant 49% year-on-year growth.¹⁵ Within this, the banking arm of the HNB Group demonstrated even stronger profitability, with a PAT of Rs 10.2 billion, representing an impressive 64% year-on-year increase.¹⁵ However, the Profit After Tax specifically for HNB Assurance PLC (the insurance arm) for the three months ended March 31, 2025, was Rs 3,399.4 million (approximately Rs 3.4 billion), compared to Rs 3,745.3 million for the corresponding period in 2024.¹⁶ This indicates a decrease in PAT of approximately 9.2% for HNB Assurance PLC year-on-year. While the overall HNB Group and its banking segment experienced substantial PAT growth, the decrease in profitability for HNB Assurance PLC itself warrants a closer examination to understand the underlying factors contributing to this divergence. This could potentially be attributed to various factors such as increased operating expenses within the insurance business, a higher volume of claims, or changes in investment income specific to the insurance segments.

- Key Financial Highlights:

As of March 31, 2025, the HNB Group reported total assets of Rs 2,149.9 billion, reflecting an increase of 3% from December 31, 2024.¹⁵ The banking arm of the group showed even stronger asset growth, with total assets reaching Rs 2,356.3 billion, a significant 7% increase from the end of the previous year.¹⁵ On the liabilities side, the Group's total liabilities stood at Rs 1,916.8 billion, a 4% increase from December 2024, while the Bank's total liabilities were Rs 2,080.5 billion, up by 7%.¹⁵ The total equity for the Group was Rs 233.1 billion, representing a 1% increase from December 31, 2024, and the Bank's total equity was Rs 275.8 billion, a 2% increase.¹⁵ The net assets value per ordinary voting share for the Bank was Rs 407.75, a 1% increase from the end of the previous year.¹⁵ These figures indicate a continued expansion in the scale of operations for both the HNB Group and its banking segment.

- Net Interest Income (NII) and Non-Interest Income:

Hatton National Bank's Net Interest Income (NII) grew by a notable 7.7%

year-on-year in the first quarter of 2025, reaching Rs 23.7 billion.¹⁵ This growth was achieved despite a backdrop of lower interest rates compared to the corresponding period in 2024. The bank attributed this positive performance to a higher rate of decrease in interest expenses (27.1% YoY) compared to the decrease in interest income (14.4% YoY), which was further supported by growth in its CASA (Current Account and Savings Account) deposits.¹⁵ In addition to NII, the Bank also experienced a significant increase in non-interest income. Net fee and commission income rose by 17.0% year-on-year, driven primarily by higher card usage and a surge in digital transactions, underscoring the Bank's successful promotion of a cashless economy.¹⁵ Furthermore, the Bank's other income surged to Rs 2.3 billion, compared to a loss of Rs 2.1 billion in the first quarter of 2024. This substantial turnaround was largely attributed to foreign exchange gains resulting from the depreciation of the Sri Lankan Rupee.¹⁵ While these figures pertain specifically to the banking operations of the HNB Group, the robust growth in non-interest income, particularly from digital transactions, aligns with the global trend towards a cashless economy and suggests that the broader HNB Group, including HNB Assurance, is adapting to and benefiting from this shift.

- Operating Expenses:

The total operating expenses for Hatton National Bank increased by 14% year-on-year in the first quarter of 2025, while for the overall HNB Group, the increase was 16% year-on-year.¹⁷ A primary driver of this rise in operating expenses was a significant 22% year-on-year increase in personnel expenses.¹⁶ This increase in staff costs was primarily due to the realignment of compensation structures and the implementation of performance-based pay systems within the organization.¹⁶ While the HNB Group demonstrated strong growth in revenue and profit during the first quarter of 2025, it is important to closely monitor the trend in operating expenses, particularly the operating expense ratio (operating expenses as a percentage of revenue), to ensure that the Group maintains operational efficiency and that the growth in expenses does not outpace the growth in revenue in the long term. The rise in personnel expenses, while potentially contributing to improved employee motivation and performance through compensation adjustments, needs to be balanced with overall cost management to sustain profitability.

- Asset Quality and Impairment:

Hatton National Bank demonstrated an improvement in its asset quality during the first quarter of 2025, as evidenced by a lower Net Stage 3 ratio of 1.82%, which improved from 1.88% in December 2024.¹⁵ Furthermore, the Bank's Stage 3 coverage ratio strengthened to 75.12%.¹⁵ This positive development in asset

quality was accompanied by an impairment reversal of Rs 379.7 million in the first quarter of 2025, compared to an impairment charge of Rs 1.4 billion recorded in the corresponding period of the previous year.¹⁵ This impairment reversal indicates a positive movement in the Bank's stage 3 portfolio, suggesting a reduced level of credit risk and potential future losses. The improvement in asset quality and the impairment reversal are positive indicators for investors, as they reflect the Bank's effective risk management practices and a healthier loan portfolio.

- **Capital Adequacy and Liquidity:**

Hatton National Bank maintained strong capital buffers during the first quarter of 2025, with its Tier 1 Capital Adequacy ratio at 17.60% and its Total Capital Adequacy ratio at 21.89%.¹⁵ These ratios are significantly above the minimum statutory requirements of 9.5% and 13.5%, respectively, indicating a robust capital position that provides a strong foundation for future growth and resilience against potential financial shocks.¹⁵ Additionally, the Bank maintained a strong liquidity position, with its all-currency Liquidity Coverage Ratio (LCR) at 364.49%, substantially exceeding the regulatory minimum requirement of 100%.¹⁵ This high LCR demonstrates the Bank's ability to meet its short-term obligations and underscores its sound liquidity management practices. The strong capital and liquidity positions of Hatton National Bank provide a sense of financial stability and security for the entire HNB Group, including its insurance arm, HNB Assurance PLC.

- **Strategic Developments:**

A key strategic development for the HNB Group during the first quarter of 2025 was the completion of the acquisition of the remaining 50% stake in HNB Investment Bank (formerly known as Acuity Partners (Pvt) Ltd) from DFCC PLC.¹⁵ This acquisition, which took place on January 21, 2025, for a consideration of Rs 6.5 billion, integrates the fully owned investment banking business under the HNB Group.¹⁵ This move is expected to streamline operations, enhance synergies between the banking and investment banking arms, and potentially lead to the development of new and comprehensive financial service offerings for the Group's clientele. The integration of a fully owned investment banking business can provide HNB Assurance with opportunities to collaborate on product development, such as investment-linked insurance products, and to leverage the investment expertise of HNB Investment Bank for managing its own investment portfolio.

- **Recognition and Ratings:**

Hatton National Bank received several notable recognitions and ratings during and prior to the first quarter of 2025. Following the completion of Sri Lanka's

external debt restructuring program, Fitch Ratings Lanka Ltd upgraded HNB's credit rating to AA-(lka) in January 2025, as part of a broader rating recalibration.¹⁵ This upgrade reflects Fitch's assessment of HNB's improved creditworthiness and stability in the context of the country's economic developments. Furthermore, in 2024, HNB was honored as the 'No. 1 Corporate in Sri Lanka' in the 'Business Today Top 40' rankings, underscoring its strong overall performance and reputation within the Sri Lankan corporate sector.¹⁵ These positive recognitions and the credit rating upgrade not only enhance the reputation of Hatton National Bank but also indirectly benefit its subsidiary, HNB Assurance PLC, by reinforcing the perception of financial strength and reliability associated with the broader HNB Group.

4. Sri Lankan Insurance Industry Overview:

- **Market Size and Growth Trends:**

The Sri Lankan Life & Non-Life Insurance Market is poised for steady growth, with projections indicating a Compound Annual Growth Rate (CAGR) of 4.53% between 2025 and 2030.¹⁸ The market size, in terms of gross written premiums, is expected to increase from USD 0.91 billion in 2025 to USD 1.13 billion by 2030.¹⁸ This growth is underpinned by a rising per capita GDP, which has a strong positive correlation with life insurance penetration, and increasing public awareness regarding the importance of insurance for financial security.¹⁸ The Sri Lankan insurance market has experienced consistent expansion in recent years, driven by the entry of new players and the introduction of innovative insurance products catering to evolving consumer needs.¹⁸ In 2023, the total Gross Written Premium for the entire insurance industry in Sri Lanka witnessed a significant 39.6% increase compared to 2019, demonstrating the sector's overall growth momentum.²⁰ Both the Life Insurance and General Insurance sectors have contributed to this growth, reflecting a greater acceptance of insurance products across the country.²⁰ This positive outlook for the Sri Lankan insurance market provides a favorable environment for companies like HNB Assurance PLC to capitalize on the increasing demand for insurance products.

- **Competitive Landscape:**

The Sri Lankan insurance market is characterized by a competitive landscape with a mix of local and international players. In the Life Insurance segment, key competitors include Ceylinco Life, which held the top position in 2024 with a premium income of Rs 37.14 billion ²², Sri Lanka Insurance, Softlogic Life Insurance, which recorded a GWP of Rs 31.6 billion in 2024 ²⁴ and a market share of 16.8% in Q3 2024 ²⁴, AIA Insurance, Union Assurance, HNB Assurance, and Janashakthi Insurance.¹⁸ In the General Insurance segment, major players include

Sri Lanka Insurance General, which held the largest market share of 19.4% in 2024²⁹, Fairfirst Insurance, Allianz, and Ceylinco General Insurance.¹⁹ While specific market share data for Q1 2025 is limited in the provided snippets, Softlogic Life's Q3 2024 market share provides a recent benchmark.²⁴ The presence of these well-established competitors underscores the need for HNB Assurance to focus on strategies that differentiate it within the market, such as leveraging its strong bancassurance channel, innovating its product offerings, and providing superior customer service.

- **Regulatory Environment and Recent Developments:**

The insurance industry in Sri Lanka is regulated and supervised by the Insurance Regulatory Commission of Sri Lanka (IRCSL), which plays a crucial role in ensuring the stability and orderly growth of the sector.²⁰ Recent regulatory developments have included the implementation of a Risk Based Capital (RBC) framework, which requires insurers to hold capital commensurate with the risks they undertake.⁴⁰ Additionally, the IRCSL has enforced segregation rules, mandating composite insurers (those operating in both life and general insurance) to separate their businesses into distinct legal entities to enhance transparency and protect policyholder interests.⁴ HNB Assurance, being a life insurer with a fully-owned general insurance subsidiary, has already adapted to these segregation rules.⁴ Compliance with these regulatory requirements is essential for all insurance companies operating in Sri Lanka and can influence their strategic decisions and operational structures.

5. Investment Thesis for HNB Assurance PLC:

- **Strengths and Opportunities:**

HNB Assurance PLC possesses several key strengths and operates in an environment with promising opportunities. A significant advantage is its strong bancassurance channel, leveraging the extensive network of its parent company, Hatton National Bank PLC.³ This embedded distribution system provides a cost-effective means of reaching a broad customer base and enhances market penetration, setting it apart from competitors who may rely more heavily on traditional agency models.³ The increasing contribution of fee and commission income from higher card usage and digital transactions, as seen in the HNB Bank's performance ¹⁵, suggests that the broader HNB Group, including HNB Assurance, is successfully adapting to the growing digital economy in Sri Lanka and capitalizing on evolving consumer preferences. The strategic acquisition of the remaining stake in HNB Investment Bank represents another strength, allowing for the integration of investment banking services within the Group.¹⁵ This integration has the potential to create synergies, diversify revenue streams

through new product offerings such as investment-linked insurance plans, and enhance the Group's overall financial performance. Furthermore, the credit rating upgrade of the parent company, HNB Bank, by Fitch Ratings Lanka to AA-(Ika) signifies improved financial stability and a lower risk profile for the entire HNB Group, bolstering investor confidence in HNB Assurance as well.¹⁵ While the Q1 2025 financial results showed a decrease in PAT for HNB Assurance PLC itself, the robust profit growth and improving asset quality demonstrated by the parent company, Hatton National Bank, indicate a strong overall financial environment for the Group.¹⁵

- Weaknesses and Risks:

Despite its strengths, HNB Assurance PLC faces certain weaknesses and operates within a market exposed to several risks. The ongoing economic recovery in Sri Lanka, while showing positive momentum ⁴², remains susceptible to both global and domestic economic uncertainties. Any significant downturn could negatively impact the growth prospects of the insurance sector and HNB Assurance's ability to increase its premium income and maintain profitability.²¹ The Sri Lankan insurance market is also characterized by intense competition, with numerous established local and international players vying for market share.¹⁸ This competitive environment could put pressure on HNB Assurance's pricing strategies and its ability to attract and retain customers. A notable concern is the reported decrease in PAT for HNB Assurance PLC in the first quarter of 2025 ¹⁶, which contrasts with the overall positive profitability trend of the HNB Group. This divergence warrants a thorough investigation to understand the specific factors affecting the insurance business's profitability, such as potential increases in claims or operating expenses. The relaxation of the vehicle import ban in Sri Lanka could have a complex impact on HNB Assurance, particularly its general insurance arm, HNB General Insurance.⁴⁹ While increased vehicle imports could lead to higher demand for motor insurance, it could also result in a rise in claims, potentially impacting the profitability of this segment.

- Impact of Macroeconomic Factors:

The prevailing lower interest rate environment in Sri Lanka ¹⁵ could exert pressure on the investment income generated from HNB Assurance's substantial financial investments, as insurance companies rely on these returns to bolster their overall profitability.¹⁵ Potential inflationary pressures within the Sri Lankan economy ³⁴, although specific data for Q1 2025 is not detailed, could lead to increased claims costs, particularly within the general insurance segment, affecting areas such as vehicle repairs and healthcare expenses. Trends in disposable income within Sri Lanka ⁴² will also play a crucial role in shaping the demand for insurance products. An anticipated increase in disposable income, driven by economic

recovery, is expected to positively influence the demand for both life and general insurance policies.

6. Valuation and Recommendation:

- Share Price and Historical Performance:

As of recent trading, the share price of HNB Assurance PLC (HASU.N) has been around LKR 80.00.⁹⁴ The stock has traded within a 52-week range of LKR 54.70 to LKR 92.90¹, indicating a degree of price volatility but also a significant upside potential from its low point. Over the longer term, HNB Assurance has demonstrated strong share price appreciation, with gains of 37.87% over the past year, 97.50% over three years, and 138.19% over the last five years.¹ This historical performance suggests positive investor sentiment and potentially reflects strong underlying business growth over time.

- Valuation Ratios:

HNB Assurance PLC's Price-to-Earnings (P/E) ratio stands at approximately 6.0x.¹ This is notably lower than the average P/E ratio for the Sri Lankan market, which is around 9.4x.¹ When compared to its competitors, such as Softlogic Life Insurance with a P/E of 5.3x and Union Assurance with a P/E of 8.7x⁹⁵, HNB Assurance's valuation appears to be within a reasonable range, potentially indicating that the stock is relatively undervalued compared to the broader market. The company's Price-to-Sales (P/S) ratio is reported to be 0.4x.¹ A lower P/E ratio compared to the market average could present an attractive investment opportunity, provided that the company's fundamentals remain sound and its future growth prospects are positive.

- Dividend Yield and Track Record:

The dividend yield for HNB Assurance PLC is approximately 4.94%¹, which is an attractive return for income-seeking investors. However, it is worth noting that the company's dividend track record has been described as unstable.¹ While the current yield is appealing, investors should consider the historical volatility in dividend payouts as part of their overall investment decision.

- Investment Recommendation:

Based on the comprehensive analysis, the investment recommendation for HNB Assurance PLC (HASU.N) is a Buy. The company holds a strong position in the growing Sri Lankan insurance market and benefits significantly from its strategic alliance with its parent company, Hatton National Bank PLC. The robust long-term share price appreciation and a potentially undervalued P/E ratio compared to the market average further support a positive investment outlook. While the decrease in PAT for HNB Assurance PLC in Q1 2025 requires further investigation in the full interim financial report, the overall HNB Group's strong performance and the

anticipated growth in the Sri Lankan insurance sector provide a favorable backdrop for future expansion.

- **Key Table: Valuation and Performance Metrics (as of May 11, 2025):**

Metric	HNB Assurance PLC (HASU.N)	Softlogic Life Insurance PLC (AAIC.N0000)	Union Assurance PLC (UAL.N0000)
Market Cap (LKR Bn)	11.85	21.4	32.65
P/E Ratio (x)	6.0	5.3	8.7
P/S Ratio (x)	0.4	N/A	1.4
Dividend Yield (%)	4.94	6.5	9.0
Revenue Growth YoY (%)	N/A	N/A	N/A
PAT Growth YoY (%)	-9.2 (HNB Assurance PLC)	42.59 ¹	-0.61 ¹

Note: Revenue and PAT growth figures for the latest quarter for all companies need to be verified against official reports.

7. Conclusion:

In conclusion, HNB Assurance PLC stands as a significant player within the expanding Sri Lankan insurance market, benefiting from a strong parent company, strategic growth initiatives, and a favorable industry outlook. While the first quarter of 2025 presented a slight decrease in Profit After Tax for HNB Assurance PLC itself, the overall HNB Group, including its banking operations, demonstrated robust financial performance. Considering the company's established market position, ambitions for growth, and the potential of the Sri Lankan insurance sector, the investment recommendation for HNB Assurance PLC is **Buy**. Investors should, however, conduct their own thorough due diligence and carefully consider the identified risks, including macroeconomic uncertainties, competitive pressures, and the specific factors affecting HNB Assurance PLC's profitability in Q1 2025, along with their individual risk tolerance and investment objectives.

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