

Stability and Sustainability underpin Q1 Results for HNB

- Strong CASA growth, improved NPA, enables resilient Q1 performance
- Fully geared to support economic and businesses revival efforts
- Urges authorities to make vaccinations available to all, especially frontline bank staff
- Requests public to stay calm and act responsibly and compassionately to each other

HNB recorded a Profit After Tax (PAT) of Rs 4.7 Bn during the first quarter of 2021 while Profit Before income Tax (PBT) amounted to Rs 5.5 Bn. At Group level PBT and PAT were at Rs 5.9 Bn and Rs 4.8 Bn respectively.

The substantial monetary loosening adopted to revive the pandemic hit economy resulted in AWPLR dropping by nearly 400 bps over the past 12 months. This resulted in the interest income decreasing by 13% YoY to Rs 23.7 Bn. Interest expenses too exhibited a decline of 17.2% YoY to Rs 13.1 Bn driven by strong CASA (current accounts and savings accounts) mobilization. The CASA ratio improved from 36.2% in March 2020 to 39.7% by the end of Q1 2021 as the CASA base grew by 30% YoY to Rs 395 Bn. As a result, the Bank's Net Interest Income (NII) for the first three months 2021 decreased by 7.2% YoY to Rs 10.6 Bn.

Commenting on the Bank's results Managing Director / CEO of HNB Jonathan Alles stated: "HNB has demonstrated resilience, strength and stability during a year of unprecedented disruption. We are grateful for the complete trust and support of our customers, investors and other stakeholders throughout this time. I also wish to place on record my deepest appreciation for the unwavering dedication of our staff in continuing to serve our clientele through multiple waves of the pandemic, despite the inherent risks involved. Our top priority during this time was to ensure their safety while supporting customers affected by the pandemic.

"We provided moratoria under three phases while granting working capital finance out of CBSL schemes and our own funds. In addition to the financial assistance provided during the last year, we enhanced our digital proposition to ensure that customers could securely and reliably access all of our services while staying safe from the pandemic. This included introducing many new features on SOLO – our digital payment platform, and the launch of our new Digital Banking App and e-commerce capabilities for SME clients among many others. We are currently in the process of further refining these powerful new services, which will undoubtedly provide greater convenience for all HNB customers in the future."

Net Fee and Commission income for the first quarter grew by 10.2% YoY to Rs 2.3 Bn as business activity rebounded during the period. The Credit Cards business, Trade and Remittances which constitute a major share of fees performed well despite restrictions on imports continuing to be in place. Other fee sources, which also encompass digital business lines rose by 24.4% YoY.

Exchange rate volatility and movements during the period, led to substantial revaluation gains on swaps and forward agreements. Swap costs were also lower relative to the corresponding quarter of 2020 as swap premiums declined in line with Dollar interest rates. Accordingly, the Bank recorded a net

exchange gain of Rs 1.9 Bn which was a 53% YoY improvement compared to Q1 2020. The total dividend income from investments for Q1 2021 was Rs 421Mn compared to Rs 13Mn in the corresponding period of 2020, as dividends declared for the financial year 2019 were paid only in Q2 2020 due to the pandemic.

NPA ratio of the Bank improved marginally to 4.28% as at end of Q1 2021 compared to 4.31% as at end December 2020, as majority of customers who were previously under moratorium commenced repayments since October 2020. The impairment charge for the quarter ended 31st March 2021 was Rs 2.7Bn in comparison to Rs 4.7Bn recorded for Q1 2020. The impairment for Q1 2020 included a charge of Rs 708Mn on account of sovereign bonds mainly as a result of the sovereign downgrade that was effected in April 2020.

“More than a year after the pandemic, it is unfortunate that we are now seeing the most severe rise in COVID-19 cases to date. All of the lessons that we have learned over the past year will be put to the test. While progress has been made in terms of vaccinations, the economic impact of this latest wave of COVID-19 infections will hinge on how effectively we as a nation are able to rally together to control the spread of the virus.

In this crucial moment, as a responsible domestic systemically important bank, as always, we will continue to support our valued customers and play a meaningful role as an essential service provider. We have already enabled all our digital channels, and are also fully geared to support business revival and help rebuild our nation. We request the public to remain calm, adhering to all health and safety guidelines provided and to act with responsibility and compassion towards one another. We also urge the authorities to expand the vaccination programme and in particular seek their support to make vaccination a priority for front line and critical staff across the banking industry,” Alles stated.

The zealous focus on cost optimization facilitated a marginal 1% YoY dip in Operating costs to Rs 5.8 Bn. Cost to Income was hence improved by a commendable 170 bps relative to the comparative period in 2020 to 38% for Q1 2021.

Profit Before Taxes (PBT) amounted to Rs. 5.5 Bn and was subjected to the reduced income tax charge of 24% in comparison to the 28% tax charge that was applicable previously. Accordingly, the profit after tax for the Bank improved to Rs 4.7 Bn by 78% during Q1 2021.

The Bank’s assets crossed Rs 1.3 Trillion as at quarter end with the gross loan book at Rs 808.3 Bn. Total deposits grew to Rs 996.1 Bn recording an impressive Rs 155 Bn growth (18.4% YoY) over the 12month period since March 2020.

As one of the best capitalized banks in the industry, Bank reported Tier I and Total Capital Adequacy Ratios of 14.82% and 17.88% respectively. Similarly, HNB’s liquidity levels continued to be strong and well ahead of regulatory minimum requirements with Statutory Liquid Asset and all currency Liquidity Coverage ratios at 39.98% (against a 20% requirement) and 271.79% (against a 100% requirement) respectively.

HNB Group recorded a PBT of Rs 5.9 Bn and a PAT of Rs 4.8 Bn for the quarter ended March 2021 recording a growth of 35.7% YoY and 46.7% YoY respectively. Total assets of the Group increased to Rs 1,388 Bn as at 31st March 2021.

HNB is among the Top 1000 Banks in the world as per the prestigious Banker Magazine UK and is rated AA- (lka) by Fitch Ratings. The Bank is an 11 time winner of the Best Retail Bank award bestowed by the Asian Banker Magazine and was recently recognized among the Top 10 most Admired Corporates for the Third consecutive year at the 'Most Admired Corporates of Sri Lanka' awards organized by CIMA, ICCSL and Daily FT. Further, the Ceylon Chamber of Commerce once again adjudged HNB to be among the Top 10 Best Corporate Citizens in Sri Lanka at its Best Corporate Citizens Sustainability Awards 2020.