

HNB yet again delivers sustainable business performance

- Best capitalized among peers
- Asset quality remains best among industry; Net NPA 0.64%
- Deposits surpass Rs 1 Trillion
- Group PBT Rs 12 Bn; Bank Rs 10.9 Bn
- Group PAT Rs 9.8 Bn; Bank Rs 9.1 Bn
- Ranked among Top 1000 World Banks

Hatton National Bank (HNB PLC) continued to demonstrate resilience amidst volatile conditions, posting a Profit Before Tax (PBT) of Rs 10.9 Bn and a Profit After Tax (PAT) of Rs 9.1 Bn. The Group profits also improved in line, with PBT and PAT at Rs 12 Bn and Rs 9.8 Bn respectively.

The loan book recorded a growth of 8.6% over the past 12 months to June 2021. Despite same, the reduction of over 280 bps in AWPLR over the same period resulted in a 10.6% YoY drop in 1H interest income, to Rs 48.1 Bn. Strong CASA mobilization efforts led to a 27.1% YoY growth in the CASA base which improved to Rs 405.5 Bn as at end of June 2021. This growth together with the low deposit rates, contributed to a 20.4% YoY drop in interest expenses to Rs 25 Bn. Accordingly, Net Interest Income for the first half 2021 exhibited a 3.2% YoY growth to Rs 23.2 Bn.

Fee and Commission income continued its uptrend in 2021 increasing to Rs 4.4 Bn, a 27.7% YoY growth over the corresponding six months in 2020, a period in which considerable disruption to business activities were witnessed. Card and Trade businesses were key contributors towards this growth, while fees from digital banking also improved significantly driven by higher level of adoption.

Mr. Nilanth De Silva Chairman of HNB PLC commented that “The operating environment has continued to be uncertain with a multitude of challenges for the Nation and the Industry for almost two years. The re-emergence of higher numbers of COVID positive patients and the fast spread of the Delta variant, threaten macro fundamentals and industry dynamics. We greatly appreciate the efforts expended by the authorities in rapidly rolling out the vaccinations across the country which is the most sustainable solution in winning the war against COVID. In this backdrop I would like to place on record my sincere appreciation to all our stakeholders for their continued patronage and especially our staff for their untiring efforts and unwavering commitment in serving our valuable clients”.

Bank recorded an exchange gain of Rs 3.4 Bn during 1H 2021 relative to Rs 1.5 Bn in the first six months of 2020 due to the depreciation of the Rupee and lower swap volumes.

The Gross NPA ratio of the Bank improved during the first six months of 2021 to 4.25% in comparison to a deterioration of nearly 50 bps witnessed during 1H 2020. The Bank made an impairment charge of Rs 6.3 Bn for the 1H 2021 compared to the impairment of Rs 9.1 Bn in the corresponding period of 2020. The higher impairment charge in the previous year was largely on account of the rising NPAs and the Sovereign downgrade in April 2020. The Bank reassessed the uncertainties in the operating environment, and continued to improve the Management Overlay in the impairment provisions for this period. HNB’s total impairment against the NPA base remained over 100% as at end of 1H 2021.

The Bank was successful in containing the increase in Operating Expenses to 5.2% YoY, despite the Operating Expenses for 1H 2020 being 6% below the corresponding period of 2019. This together with the healthy growth of

13.3% YoY in Total Operating Income resulted in an improvement of 289 bps in Cost to Income ratio which stood at 37.4% as at end of June 2021.

Commenting on the overall performance, Mr. Jonathan Alles, Managing Director /CEO of HNB PLC stated that “HNB has yet again demonstrated resilience, stability and strength in a highly volatile environment. We are proud to have crossed the Rs 1 Trillion landmark in deposits which clearly demonstrates the continued trust and confidence placed in us by our customers. We remain the best capitalized bank among domestic systemically important banks, which has been further bolstered by the Basel III compliant debenture issue which was over-subscribed on day one. Our asset quality continues to be ahead of the industry while our liquidity levels are well above the statutory levels.

This has been possible through our relentless focus on ensuring that we remain on a solid foundation built on strong governance, risk management and compliance, which has enabled us to intensify our transformation efforts on Digitalization, Process Efficiency and People Development in our pursuit to be future ready.”

“As a responsible D-SIB, supporting revival and sustainability of our customers, has also been a key priority for us. We have continued to grant moratoriums to customers under stress over the past two years and have provided necessary working capital financing through CBSL schemes and our own funds. We extended grants to 200 microfinance clients to support recovery of their business operations.”

Mr. Alles further commented that “Sri Lanka is at a crucial juncture and a national level action plan is the need of the hour to revive the economy. As a true ‘partner in progress’ for the Nation and its people, HNB has supported National development over a century by financing micro and SME clients, funding infrastructure development projects, facilitating international trade and remittances and having stood by our customers during most challenging times, HNB remains committed to play a pivotal role in rebuilding Sri Lanka.”

In line with the reduction in Corporate Tax Rate to 24% from 28%, the current tax liability and the deferred tax asset as at end 2020 were reassessed. Accordingly, the effective tax rate for the period improved compared to the corresponding period of 2020. PAT of Rs 9.1 Bn translated to a Return on Assets of 1.4% and a Return on Equity of 13.2%.

Strong second quarter growth facilitated a 3% expansion in the loan book during the first half to Rs 839 Bn. Total deposits increased to Rs 1.032 Trillion as at end of 1H 2021 recording a growth of 6.7%. The Bank is also among the best capitalized and most liquid in the industry as demonstrated by a Tier I Capital Adequacy Ratio of 15.31%, Total Capital Adequacy Ratio of 18.42%, a Liquid Coverage Ratio of 273.7%, and a Loan to Deposit ratio 81.2%. The CASA ratio also stood at 39.3% as at end of 1H 2021. Total assets expanded by 3.5% in the six months ended June 2021 to Rs 1.337 Trillion, while Group assets grew to Rs 1.417 Trillion.

All Group companies complemented the Bank in enabling the Group to post a PAT of Rs 9.8 Bn and a profit attributable to shareholders of Rs 9.5 Bn. Accordingly, the Group recorded a ROA and ROE of 1.4% and 12% respectively.

HNB is rated AA-(LKA) by Fitch Ratings and was recently ranked among the Top 1000 Banks in the World for the fourth successive year by the acclaimed ‘The Banker Magazine’ UK. HNB is also recognized as the ‘Best Retail Bank in Sri Lanka’ by the ‘Asian Banker magazine’, on eleven occasions and is ranked amongst the Top 3 Companies in Sri Lanka by Business Today.