

## HNB weathers a challenging year

- Posts Group PAT of Rs 15 Bn
- Total taxes of Rs 13.8 Bn including DRL Rs 2.8 Bn
- Best capitalized among peers
- Steady progress in Transformation

HNB PLC weathered external headwinds in 2019 to post Rs 15 Bn in Group Profit After Taxes (PAT) and Rs 14 Bn in Bank PAT and remains the best capitalized bank in the sector.

The sluggish economic conditions that prevailed resulted in a muted demand for credit, drop in margins due to the introduction of interest rate ceilings and the cautionary approach exercised by the Bank towards growth resulted in a subdued growth in Net Interest Income (NII). Accordingly, during the year, the NII grew by 3.4% to Rs 49.2 Bn for the Bank and by 5.1% to Rs 56.4 Bn for the Group.

The measures introduced to curtail import of motor vehicles and non-essential consumer goods, lower card and POS transactions due to drop in tourist arrivals resulted in the Bank's Net fee and Commission income dipping by 4.3% to Rs 9 Bn, for the year under review. At a Group level this gap narrowed to 1.2% due to contributions from Group companies. HNB Assurance recorded a modest growth of 12.6% in Net Insurance Premium income despite the challenging environment. The low volatility in the rupee during 2019 compared to 2018 and the slowdown in international trade resulted in the exchange income for the year being relatively low.

The impairment charges which rose significantly in 2018 with the implementation of the stringent SLFRS 9 standards increased by 3.9% YoY to Rs 9.7 Bn for the Bank. The greater level of stress in the micro finance segment resulted in the total impairment charge for the Group increasing to Rs 11.4 Bn for the year.

Operating expenses of the Bank increased by 7.6% YoY to Rs 23.8 Bn and the cost to income ratio slid to 39.7% from 36.4% in 2018, reflecting expenses incurred under the Bank's Transformation program and aggravated by the relatively low earnings growth in 2019. Increase in 'Benefits, Claims and Underwriting' expenses by 24.9% YoY to Rs 7.1 Bn, along with the increase in Bank expenses pushed Group operating costs up by 12.7% to Rs 36.4 Bn.

The taxes on financial services increased by 24.2% to Rs 7.9 Bn at Bank level while the Group reported an increase of 22.7% to Rs 8.4 Bn. However re-imposition of exemptions on interest

income derived from SLDB's with retrospective effect from April 2018 resulted in the corporate taxes for the group reducing to Rs 5.4 Bn by 26% YoY.

Retail Banking saw a strong growth of 11.4% in loans and advances despite the market conditions. Nevertheless, due to the slowdown in demand for corporate loans and the Bank's cautious approach towards stressed sectors, overall levels of loans and advances remained flat at Rs 772Bn. Furthermore, the Bank was successful in improving its CASA ratio to 35.2%, despite the industry witnessing a negative trend. The capital position of the Bank was augmented by the debenture issue of Rs 10Bn in 2019 and HNB remains among the best capitalized in the industry with a Tier I Capital Ratio of 14.57% and a Total Capital Adequacy Ratios of 18.28% respectively as at end 2019.

HNB declared a final dividend of Rs 7.00 per share consisting of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share, as a final dividend resulting in a total dividend of Rs 8.00 per share for the year 2019.

HNB was richly awarded in 2019, being adjudged as the Strongest Sri Lankan Bank by Balance Sheet by the prestigious Asian Banker Magazine. Euromoney Magazine bestowed upon HNB the honour of Best Bank in Sri Lanka, an award won for the third time in the Bank's history. Earlier in the year the Asian Banker Magazine bestowed upon HNB the award of 'Best Managed Bank in Sri Lanka'. Moreover, HNB was ranked no 1 in the Business Today Top 30 list for 2018-2019 and was amongst the Top Ten entities in the CIMA - ICCSL Most Admired Companies of Sri Lanka rankings for 2019. HNB's remarkable track record of excellence secured it the first place ranking ahead of all Sri Lankan banks included in the LMD Top 100 Club - a position which was evaluated based on its performance over the past 25 years. The Bank has additionally been recognized locally and internationally under diverse categories including business segments, human capital development, technology, corporate social responsibility, governance, corporate reporting and investor relations.

HNB is the first local Bank in Sri Lanka to receive an international rating on par with the sovereign from Moody's Investor Services and has a national long term rating of AA -(lka) from Fitch Ratings. The Bank is also ranked amongst the 'Top 1000 World banks' as published by the prestigious Banker Magazine UK, a recognition bestowed upon HNB since 2017.