

HNB Group demonstrates resilience, strength and stability

- Group PAT Rs 13.7Bn
- Total deposits grow by Rs 158 Bn
- CASA grows by Rs 99Bn recording a 35% increase
- NPA ratio improves to 4.3%
- Among the most liquid and best capitalized banks
- Supports economic revival through extensive financial support

Hatton National Bank PLC (HNB) demonstrated resilience and an unwavering focus on sustainable business performance as it posted Rs 13.7 Bn in Group Profit After Tax during 2020, a year laden with unprecedented circumstances and challenges. Bank level Profit After Taxes amounted to Rs 11.5 Bn

Commenting on the performance, Chairman of HNB Dinesh Weerakkody stated that "2020 has been a year unlike any other in recent memory as the COVID-19 Pandemic transformed the socioeconomic landscape dramatically, elevating uncertainty and risks at every level, both locally and globally. We proved our ability to adjust rapidly as we leveraged technology and adapted to the new normal, sharing the responsibility to stay safe as well as keep our communities safe and empowered. "

He added that "even before the onset of the pandemic, our economy was adversely affected due to the Easter Sunday bombings of 2019. The onset of the pandemic aggravated our economic woes, straining cash flows, at Individual, Entity and National levels while paving the way for a disruptive transformation that vaulted us to a new era of exciting possibilities. At HNB, we have reset our agenda and will continue to do so going forward, embedding the new-found speed and agility into our ways of working and identify the best ways to respond, making sure we sustain such best practices in our operations. Unlike ever before, we, as a leading bank, have a crucial role to play in the task of restoring and supporting the livelihoods of our communities."

Jonathan Alles, Managing Director/CEO of the Bank commenting on the performance stated that "in the wake of the COVID-19 pandemic, we reprioritised our focus to ensure that we navigate the uncertainties and risks effectively to safeguard the interests of all our stakeholders. Health and safety, business sustainability and supporting the customers in need were at the core."

He added that "our dedicated team of 4,800+ members rallied around together to provide the much needed financial relief and banking needs despite lockdowns. During the first phase we provided debt moratoria to customers covering approximately 40% of our loan book. With lockdowns being limited to few localities during the second wave of the pandemic and most industries recommencing their operations, the moratoria extended under the second phase has reduced to approximately 15% of the loan book which is a positive sign for the economy. We also extended working capital finance of over Rs 24Bn to affected sectors at concessionary interest rates under the CBSL relief scheme and set up a

Rs 5Bn fund through our own funds to support SMEs. A microfinance grant of Rs 20Mn was also distributed among 200 needy customers. Apart from financial relief we facilitated customer transactions without any disruption, through our branches, digital channels and payment solutions such as SOLO, MOMO, IPG and Appigo."

The accommodative monetary policy adopted by the CBSL to drive economic growth saw AWPLR dropping sharply by over 400bps during the year. Nevertheless, the demand for credit did not pick up as anticipated due to prevailing uncertainty. As a result, the Bank's interest income declined by 10% YoY to Rs 103.9 Bn. The outstanding growth of approx. Rs 99 Bn in CASA deposits during the year coupled with low interest rates eased pressure on interest costs to a certain extent. However, Net Interest Income of the Bank dropped by 9% YoY to Rs 44.7 Bn.

Net fee income declined more steeply by 16% YoY to Rs 7.5 Bn as Import restrictions, depressed demand in export markets, lower card spends, particularly during the first wave of COVID, the slow-down in economic activity as well the directions imposed by CBSL to waive off certain fees until September 2020 collectively impacted this channel of income.

Lower swap costs and volumes along with exchange rate movements during the year lead to an improvement of Rs 2.2 Bn in net trading gains compared to 2019. The Bank also recorded a capital gain of Rs 1.1 Bn through disposal of government securities during the final quarter of 2020.

A facility of over Rs 11.5Bn to an SOE which was classified as NPA in 2019 was regularized during the last quarter of 2020. This together with the Bank's concerted efforts on improving asset quality enabled HNB to record a marked improvement in its NPA ratio to 4.3% from 5.9% reported as at end of 2019 despite the stressed market conditions. Nevertheless, the Bank made prudent provisions taking in to consideration factors such as elevated risks in certain sectors and the deterioration in economic conditions. Furthermore, the Bank recognised substantial impairment charges on account of its investments in dollar denominated government securities due to the sovereign downgrade by rating agencies. These factors resulted in provisions increasing by 58% to Rs 15.3Bn for the year ended December 2020.

Given the negative impact on the top line the Bank focused on cost optimization opportunities. This enabled the Bank to record a drop of Rs 1.6 Bn in total operating expenses compared to the previous year. Accordingly, the Cost to Income ratio improved to 39.3% despite the drop in operating income, without any downsizing or compromise on staff salaries.

The removal of debt repayment levy and NBT proved to be timely as the banking sector stepped into support the economic revival. Profit Before Tax (PBT) amounted to Rs 15.1 Bn while the PAT of Rs 11.5 Bn was 18.3% YoY lower than that reported in 2019.

The Bank's asset base expanded by Rs 167 Bn to Rs 1.3 trillion while the loan book recorded a moderate growth of 5.5%. The CASA ratio improved to 40% from 35% recorded a year ago,

as CASA deposits grew by 35% to Rs 384Bn. The funding side of the balance sheet was also bolstered by the USD 60 Mn long term loan from PROPARCO, the French Development Agency. This borrowing will be utilized to fund SME growth in 2021. Despite the substantial moratoria granted, the liquidity levels remained strong with LAR at 39.6% and LCR at 290.3% against the regulatory requirement of 20% and 90% respectively. HNB is also among the best capitalized banks with Tier I and Total Capital Adequacy Ratios of 14.73% and 17.98% respectively well above the statutory requirement.

Insurance and Investment Banking led contributions from subsidiaries as the HNB Group made Profit Before Taxes of Rs 17.6 Bn. Total Group assets rose by 14.5% YoY to Rs 1.4 Trillion

The Bank declared a final dividend of Rs 8.00 per share consisting of a cash dividend of Rs 4.50 and a scrip dividend of Rs 3.50 per share.

Jonathan Alles further stated that "through our strategic refocus we were able to demonstrate resilience, strength and stability in a year that posed unprecedented challenges. I would like to extend my heartfelt gratitude to the entire team for their untiring efforts and dedication in an extremely difficult year and to all other stakeholders for continuing to place their trust and confidence in us."

He added that, "with vaccines being administered among the general public currently we look at the future with hope and optimism. As the 'partner in progress' for generations of Sri Lankans, and our roots in serving micro, small and medium enterprises, we have strengthened our structures, systems and processes internally to play a catalytic role in the resurgence of our nation."

HNB continues to be recognized locally and internationally and is ranked among the Banker Magazine UK Top 1000 Banks of the year for the fourth consecutive year. HNB was also awarded as the Best Retail Bank in Sri Lanka by the Asian Banker Magazine in 2020, making it the 11th occasion it has been bestowed with the honour. The Asian Banker also adjudged HNB as the Best Managed Bank during COVID 19 and chose MD/CEO of the Bank Mr. Jonathan Alles as the Best CEO during the pandemic. Locally the Bank was ranked among the Top 10 most Admired Corporates of the country by CIMA/ICCSL/DailyFT while the "Business Today" ranked HNB among the Top Three Corporates in the Country.

HNB has 252 branches Island wide and a Credit Rating of AA- (lka) assigned by Fitch Ratings.