

HNB Group records a Rs 9.8 Bn PAT in first six months of 2023

- Bank PAT improves to Rs 8.6Bn
- Impairment charge of Rs 28 Bn in 1H
- Deposits grow by nearly Rs 70 Bn in 6 months
- Tier I and total capital ratios improve to 12.48% and 15.58% respectively

Hatton National Bank PLC continued its steady performance in Q2 2023, posting a 1H 2023 PBT of Rs 13.6 Bn, while 1H 2023 PAT stood at Rs 8.6 Bn, growing 56% YoY. Meanwhile, the Group made a consolidated PBT and PAT of Rs 15.2 Bn and Rs 9.8 Bn respectively.

Commenting on the performance, Mr Nihal Jayawardene, Chairman of Hatton National Bank PLC, stated that "This quarter underscored the Sri Lankan economy displaying signs of normalisation, with inflation moderating, interest rates gradually pulling down, and the Rupee appreciating. Moreover, the announcement of the much-awaited Domestic Debt Optimisation (DDO) plan and the resulting clarity, marked a significant step towards settling the qualms surrounding the debt restructuring programme and its potential impact on the banking sector."

Although interest rates tapered off towards the latter part of Q2 2023, 1H 2023 rates still remained relatively higher when compared with the corresponding period in 2022, enabling the Bank to report a net interest income of Rs 59.3 Bn in 1H 2023, up 48% YoY. Additionally, net fee and commission income grew by 12% YoY to Rs 8.0 Bn, driven by increased activity in cards, remittances, trade and digital platforms.

On the back of improved foreign inflows and the consequent rising dollars in circulation, the Rupee appreciated by approx. 15% YoY in the first six months of 2023. Currency volatility caused the Bank to record a net exchange loss of Rs 3.8 Bn for 1H 2023, primarily stemming from revaluation losses of FCBU retained earnings.

Despite the challenges, the Bank continued to prioritise asset quality, with the net stage III loan ratio at 4.77% and stage III provision cover at 51.4% as at end June 2023. In terms of impairment provisions, the Bank recorded a cumulative impairment of Rs 28.3 Bn in 1H 2023 which included impairment on loans and advances as well as on investments in foreign currency denominated government securities.

The Bank's 1H 2023 operating expenses increased by 19% YoY, to Rs 17.6 Bn driven largely by inflation. Nevertheless, the Bank maintained an efficient cost-to-income ratio of 27% for the first half of 2023.

Mr Jonathan Alles, Managing Director and Chief Executive Officer of Hatton National Bank PLC stated that, "We are pleased to see the positive developments on the country's macroeconomic front and HNB's solid performance in the first six months of this year. We commend the government's DDO plan – which insulated the banking sector from any reprofiling of Treasury Bills or Bonds. This in turn enables banks, inundated with mounting credit impairment and higher taxes, to use much needed capacity in supporting the revival of key sectors and the broader economy."

"Going forward, we will step up efforts to expand support to those who have been adversely impacted over the past few years, with a particular focus on the micro and SME sector. Our role towards developing SMEs goes beyond that of a traditional financial partner, as we provide assistance on capacity building and technical know-how through strategic partnerships with key multilateral agencies and international stakeholders.

"While we will continue to enhance our digital offerings and infrastructure, we will also explore capitalising on emerging digital technologies to improve our service delivery and workplace productivity. Our consistent performance notwithstanding extremely volatile conditions, is a testament to the untiring efforts of the HNB Team. Creating a culture of learning and development is vital to the success of any organisation, and HNB reiterates its commitment towards investing in our employees' growth and wellbeing."

"As Sri Lanka charts a new course towards its economic recovery, we at HNB remain undeterred in supporting that journey, as we continue to raise the bar as the country's premier corporate citizen"

Due to the increase in the corporate tax rate from 24% to 30% coupled with the introduction of the social security contribution levy w.e.f. October 2022, the Bank's total effective tax rate for 1H 2023 increased to 53%.

Since March 2023, the asset base marginally grew to Rs 1.8 Trillion as at end June 2023. Moreover, given the tight credit conditions and exchange rate volatility prevailing for a majority of the June quarter, the Bank's gross loan book dropped to Rs 986 Bn as at end of 1H 2023. Meanwhile, as deposits remained attractive to customers, the Bank's deposit base reached closer to Rs 1.5 Trillion at the end of June 2023.

Compared to Q1 2023, the Bank recorded stronger Tier I and Total Capital Adequacy Ratios of 12.48% and 15.58% against the minimum statutory requirements of 9.5% and 13.5% respectively, with the provision to drawdown a further 250bps from the Capital Conservation Buffer. HNB's liquidity levels also continued to be strong and well above the regulatory minimum requirements, with Statutory Liquid Assets ratio around 40% (vs. a 20% requirement) and all currency Liquidity Coverage ratio at 341.5% (vs. a 100% requirement).

HNB is rated A (lka) by Fitch Ratings and was awarded the esteemed title of "Sri Lanka's Best Corporate Citizen" for 2022 by the Ceylon Chamber of Commerce. Other major accolades include being ranked among the Top 1,000 Banks in the World for six consecutive years by the acclaimed UK based "The Banker Magazine", being adjudged the "Best Retail Bank in Sri Lanka" for the 13th occasion by the Asian Banker, being declared the "Best SME Bank" by Asiamoney Magazine, as well as securing a Top 5 position on Business Today's Top 40 rankings for 2022.