

## **HNB Group records Rs 13.4 Bn in profit before taxes**

- Group PAT Rs 7.5 Bn
- Bank PBT exceeds Rs 10 Bn

HNB Group recorded a profit before VAT and Tax of Rs 13.4 Bn for the first six months of 2017 posting a year on year (yoy) growth of 13.8% while the Group PAT increased by 7.5% to Rs 7.5 Bn. The Bank posted a profit before VAT and tax of Rs 12.5Bn during the 1H of 2017 recording a growth of 15.8% yoy. The profit before tax for the Bank grew by 10.1% yoy to Rs 10 Bn while post-tax profits grew by 11.3% to Rs 7.1 Bn for the period.

The sound performance was driven by the core banking business with interest income, rising by 38.8% yoy to Rs 46.5 bn. This was supported by a 19.3% yoy growth in advances. The growth in CASA deposits to Rs 245.9 Bn in a high interest rate environment enabled HNB to maintain interest margins and record a 20.5% growth in net interest income to Rs 19.1Bn.

Fee and Commission income for the 1H 2017 was recorded at Rs 4.1 Bn representing an increase of 21.5% over the corresponding period of 2016. Fees from the credit card business, trade finance and bank guarantees remained the key contributors towards this growth.

The net loss from trading increased to Rs 889.3 Mn from a loss of Rs 523.3 Mn experienced during 1H 2016. This was mainly due to the relatively higher swap rates and the depreciation of the rupee during the period under review compared to the 1H of 2016. Conversely the positive impact on position revaluation was reported under 'other operating income' which improved to Rs 1.3 Bn from Rs 1.1 Bn in the corresponding period of 2016.

The extreme weather conditions coupled with the high interest rates saw a marginal deterioration in asset quality in line with the industry. As at end of 1H 2017, HNB's NPA ratio stood at 2.2% and continued to be better than the average of 2.7% recorded by the industry. Impairment on individually significant loans increased to Rs 591.3Mn from a reversal of Rs 31.2 Mn in the previous year, which included the impact of the recovery of few large loans in the corresponding period of 2016. The collective impairment for the period also increased to Rs 854.5 Mn from Rs 162.4 Mn in 2016.

The Bank successfully contained the increase in operating expenses to 9.4% through the relentless pursuit of operational excellence initiatives over a period of time. Accordingly, the cost to income ratio of the Bank improved to 41.4% yoy by 380 bps. This is a transformational improvement compared to the cost to income of 54.5% reported five years ago.

Charges for VAT and NBT increased significantly by 47.1% yoy mainly due to the upward revision of the VAT rate to 15% from the 11% which prevailed during the period up to June 2016.

The return on assets (ROA) for the period stood at 1.6% while return on equity (ROE) was at 17.7% for the six months ended June 2017.

Commenting on the performance, MD/CEO of HNB Mr. Jonathan Alles stated that "HNB has continued to record stable and sustainable overall performance in the first half of 2017 and we

are truly grateful to all our valued stakeholders for the continuous trust and confidence placed in us. Team HNB stays committed towards reaching greater heights and to this end we will be fine-tuning our systems and processes, while continuing to invest in best in class technology and strengthening our risk management framework further”.

The Bank’s loan book expanded to Rs 627.0 Bn, representing a growth exceeding Rs 100 Bn over the previous 12 month period. The growth in assets was supported by a strong growth of Rs 116 Bn in deposits during the same period.

The tier I capital adequacy ratio for the Bank as at end of 1H 2017 stood at 9.8% while the total capital adequacy ratio was at 13.1%. In July 2017, the Bank offered 56,029,966 voting shares and 14,093,547 non-voting shares to its existing voting and non-voting shareholders respectively by way of a rights issue with the objective of supporting balance sheet growth and meeting the stringent Basel III capital adequacy requirements. Mr. Jonathan Alles added that “we would like to convey our heartfelt gratitude to our valued shareholders for the overwhelming support extended”. The funds raised through the rights issue would enable the bank to improve its capital adequacy levels further as required by the Basel III guidelines which are effective from July 2017.

All group companies complimented the performance of the Bank, resulting in Group PBT growing by 7.5% yoy to Rs 10.8 Bn and the Group PAT attributable to equity holders increasing by 8.6% to Rs 7.2Bn.

During 2017 the Asian Banker adjudged HNB as the ‘Best Retail Bank in Sri Lanka’ for the 9th time while also recognizing as the ‘Best Micro finance Product in the Asia Pacific Region’. The ‘AsiaMoney Magazine’ awarded HNB as the ‘Best Bank for SME’ and the ‘Best Bank for CSR’ in the country’. Most recently, CFA Sri Lanka bestowed HNB with a ‘Bronze’ award for ‘Best Investor Relations’ while HNB’s Annual Report was adjudged to be among the top 10 integrated reports at the CMA Sri Lanka awards 2017. HNB’s leadership in technology was also recognized with the Bank’s ATM network being recognized as the ‘Best ATM Network of the Year’ at the Lanka Pay Technnovation Awards 2017.

HNB is the first local Bank in Sri Lanka to receive an international rating on par with the sovereign from Moody’s Investor Services while maintaining a national long term rating of AA - (Ika) from Fitch Ratings Lanka Ltd. HNB is also ranked amongst the top 1000 banks in the world by the prestigious Banker Magazine.