

## HNB Group PBT in Q1 2015 tops Rs 3Bn

Hatton National Bank PLC continued its growth momentum with Group PBT increasing by 92% to Rs 3Bn and Group PAT increasing by 79% to Rs 2Bn in Q1 2015.

Commenting on the strong performance, Jonathan Alles, Managing Director / CEO of HNB PLC stated that "we are pleased with the robust growth recorded during the first quarter of 2015 amidst volatile market conditions. This strong overall performance, amply demonstrates the clear strategic focus of the Bank, delivering sustainable value to all stakeholders". He further stated that "our efforts on driving sales through dedicated teams, continuously improving process efficiency and innovations in digital banking have enabled the Bank to record superior performance".

The loan book grew by over Rs 12Bn during the first 3 months of 2015 with net loans and advances recording a growth of 13% YoY, despite a slowdown in overall demand for credit compared to what was witnessed during the latter part of 2014. This loan book expansion was funded through the deposit growth of over Rs 16.5Bn during the first quarter. The Bank's focus and efforts on mobilizing low cost deposits despite intense competition within the industry enabled the Bank to record a YoY growth of 29% in the rupee CASA base with the CASA ratio improving to 47%. The landmark long term loan facility of USD 100Mn obtained recently from ADB, will further supplement the deposit growth during the year, and would assist in funding infrastructure development in the Country, boosting economic growth.

Interest income of the Bank reduced by 11% during the period under consideration on account of the drop in interest rates while the interest expenses dropped at a faster pace due to the same and the shift towards low cost deposits as mentioned above. This enabled the Bank to cushion the impact on interest margins from drop in interest rates.

HNB's continued focus on growing fee and commission income from multiple sources resulted in the net fee and commission income improving by 11% to Rs 1.3 Bn during Q1 2015. The growth was mainly through, trade facilities, remittances and increased credit card volumes.

In Q1 2014, due to the drop in gold prices, the Bank incurred interest and capital losses on account of pawning. In the absence of same in the current period, the collective impairment reduced in Q1 2015 to Rs 407.8Mn.

The Bank's on-going initiatives on improving operational efficiency through centralization, automation and process improvements, continued to yield results as was seen last year, with the Bank containing the increase in operating expenses to 3% YoY. As a result the profit before tax of the Bank improved to Rs 2.7Bn while the profit after tax for the Bank grew to Rs 1.8Bn.

In addition to the other Group companies, the investment in Prime Grameen Microfinance Ltd., in November 2014 led to the sound growth in Group profits.

During the quarter, HNB was acknowledged by the prestigious 'Asian Banker' magazine as the 'Best Retail Bank in Sri Lanka' at the 'Excellence in Financial Services Awards' held in March 2015, for the 7th time. Furthermore Hatton National Bank (HNB) won the Gold Award in the Banking Category at the ACCA Sri Lanka Sustainability Reporting Awards held recently, solidifying its reputation as a bank with an unwavering commitment to

sustainability. HNB was also awarded as the 'Bank of the Year in Sri Lanka' for the year 2012 and 2013 by the Banker Magazine of UK. HNB became the first Sri Lankan bank to obtain an international credit rating and was assigned a foreign currency issuer rating of B1 on par with the sovereign rating by Moody's Investors Service, while it has a national long term rating of AA- (lka) by Fitch Ratings (Lanka) Ltd.

the lowest in the past few decades. It is significant that this NPA was achieved whilst attaining a loan growth of 26% and was a result of the proactive efforts and commitment of our recovery teams at Head Office and across the Country.”

He attributed the exceptional performance for 2015 entirely to the tireless efforts, commitment and dedication of staff at all levels. “Our staff remains our greatest asset in driving the Bank to greater heights. Also I wish to place on record my heartfelt appreciation to our valued customers for patronizing HNB and building lasting relationships to achieve sustainable growth” he continued.

The growth in advances was propelled by a 30% growth in Corporate Banking, 25% growth in SME, 65% growth in leasing and a 67% growth in personal loans. The Bank's CASA ratio also remained strong at 42%, despite the shift witnessed from low cost deposits towards higher yielding fixed deposits during the year.

These efforts resulted in Net Interest Income (NII) for the Bank growing by 5.8% to Rs 26.3 Bn, despite the banking sector margins continuing to drop during 2015. As at end 2015 the Bank maintained a net interest margin (NIM) of 4.5%. The Group witnessed a higher growth in NII of 14.3% to Rs 29.7 Bn as a result of the Bank's acquisition of Prime Grameen Micro Finance during the latter part of 2014, now rebranded as HNB Grameen. HNB Grameen has become a formidable force in the micro finance industry in Sri Lanka with the Company witnessing its loan book growing by 66% and deposits by 46.4% during 2015.

The Bank's commission income for 2015 grew by 18.4% to Rs 5.8 Bn with major contributions coming from merchant acquisitions, guarantees and trade business. Fee income generated from electronic channels too witnessed significant growth during 2015. The Group witnessed its fee income growing by 23.1% with the commission income from HNB Grameen and Acuity contributing significantly and complimenting the performance of the Bank on commission income.

During the year 2014, the Bank realised a capital gain of Rs 889 on account of the sale of shares held in Visa Inc and MasterCard. The absence of any realised capital gains from equity investments in 2015, resulted in lower net gain from financial investments for the period under review.

The volatility of exchange rates during the year and the significant depreciation of the Rupee, aided the Bank to record substantial growth in exchange income.

Accordingly, the Bank recorded a total operating income of Rs 34.8 Bn for 2015, while the Group recorded Rs 42.6 Bn with a growth of 12.7% for the same period.

The Bank's process improvement and cost optimization initiatives over the recent years, saw operating expenses contained to a marginal 3.9% increase. This is one of the lowest cost increases the Bank has witnessed during the recent past. It is pertinent to mention that this was achieved despite 2015 being a year for collective agreement where salaries of non executive staff were revised, continuing to retain HNB's superior rewards position in the market.

The cost increase reported by the Group is higher at Rs 22.5 Bn, which is a 13.8% increase from 2014. This is as a result of the additional cost that came about through the consolidation of HNB Grameen and due to the high claims ratio witnessed by HNB General Insurance for 2015.

The Bank improved its cost to income ratio to 45.95% in 2015 compared to 47.41% in 2014 which is a significant achievement during the year.

Improving asset quality through refinements in the loan origination and approval processes and risk management along with aggressive recovery efforts, stringent monitoring for early warning signals and conducting recovery camps have contributed towards the Bank achieving the lowest gross non performing ratio recorded in decades.

The Bank was successful in reducing the NPA ratio to 2.43% compared to 3.16% recorded in the previous year and 3.2% reported by the industry in 2015. As a result the impairment charges for the Bank reduced significantly by 62.6% to Rs 0.9 Bn.

The Bank's effective tax rate increased to 30.6% from 25.4% recorded in 2014. During 2014 the Bank received several tax credits resulting in the effective tax rate being low. In addition, the Bank paid Rs 2.1Bn as super gain tax resulting in a total tax charge of approximately Rs 9.5 Bn for 2015.

The Bank recorded a Return on Asset (ROA) of 1.6% and Return on Equity (ROE) of 16.6%.

HNB's reputation as a safe, secure, high performing Bank was evident in 2015 as the Bank was able to enter into long term funding agreements with reputed Development Financial Institutions and Multilateral Funding Agencies such as the ADB, DEG and Proparco. The Bank was able to supplement its deposit growth with USD 185 Bn in borrowings through these agreements. These funds raised have been mainly utilized towards financing SME and infrastructure development projects.

The significant growth in the loan book and the Super Gains Tax of Rs 2.1 Bn paid during 2015 resulted in the Bank's tier 1 and tier 2 ratios dropping by 162 bps and 2.13 bps to 10.53% and 12.70% respectively as at 31st December 2015.

Mr Jonathan Alles, Managing Director / CEO of HNB further stated that “Our rich 127 year heritage and strong brand promise of safety, stability and strength, have been a sound platform for market leadership and growth over the decades. As we look to serve generations of more customers, we will constantly re-evaluate what we do and how we do in the context of evolving landscapes. We will remain focused on the need to be nimble enough to respond to changing market needs, life styles and increasing competition, by developing relationships and continuing to adopt cutting edge technology”.

The Bank declared a final dividend of Rs 7.00 per share consisting of a cash dividend of Rs3.50 and scrip dividend of Rs 3.50 per share, while in December it made an interim dividend of Rs 1.50 per share. As such the total gross dividend on account of profits made in 2015 amounts to Rs 3.4 Bn.

The Group profit after tax also improved to Rs 11Bn by 10.2 %, driven by outstanding performance of newly acquired HNB Grameen Microfinance Ltd, while Sithma Development continued its steady growth, and Acuity Partners Ltd. contributed positively amidst lacklustre capital market conditions. Although life insurance business performed well, high claims ratio in general insurance resulted in a plunge in the overall performance of the insurance business.

During the year the Bank was bestowed with several awards and accolades including being recognized as the ‘Best Retail Bank in Sri Lanka’ for 2014 by the prestigious Asian Banker Magazine. The Bank was also ranked no 3 by the Business Today Magazine and was recognized as a ‘Top 10 Best Corporate Citizen’ at the Best Corporate Citizens Awards organized by the Ceylon Chamber of Commerce. Further, HNB MOMO won the ‘Marketing Campaign of the year’ award for ‘Excellence and Leadership in Branding and Marketing’ at the Golden Globe Tigers Summit Awards while the Bank was recognized as the HRM Gold Award winner at the HRM Awards 2015 organised by the Association of Human Resource Professionals. The Bank was also recognized at the National Productivity Awards 2014 as the only award winner in the 'Service Sector - Large' category.

HNB also is the first local Bank in Sri Lanka to have received an international credit rating from Moody’s Investors Service, which is on par with the sovereign, while maintaining its AA-(lka) credit rating from Fitch Ratings.