

HNB Group Records Rs 5.84 Billion Post-tax Profit for the 9 Months Ended September 2013

HNB recorded a 15% growth in post-tax profits to Rs 5.34 billion during the 9 months ended September 2013, compared to Rs 4.63 billion during the corresponding period in 2012, while the Group post-tax profits improved by 17% to Rs 5.84 billion over the corresponding period in 2012.

During the period under review, Interest income of the Bank grew by 24% to Rs 42.05 billion compared to the 9 months ended September 2012 due to a 14% yoy expansion in its loan book while Interest expense recorded an increase of 31% from Rs 17.98 billion to Rs 23.49 billion largely on account of the yoy growth in its deposit base by 11% and increased average interest cost with the shift witnessed towards high yielding deposits. As a result, the Net interest income of the Bank recorded a healthy growth of 17% from Rs 15.91 billion in the 9 months ended September 2012 to Rs 18.55 billion in the 9 months ended September 2013.

Commenting on the performance during the period under review, Dr Ranees Jayamaha the Chairperson of Hatton National Bank PLC stated that "despite sluggish market conditions that prevailed during the year, the Bank was successful in recording an impressive growth in NII not with standing a drop in net interest margins. The confidence placed by our valued customers helped the Bank to achieve improved performance" she said.

Mr. Jonathan Alles Managing Director / CEO of HNB PLC added that "Although the demand for credit continued to remain low during the period, we are pleased to note that HNB has been successful in recording an 11% growth compared to the 5% growth recorded by the industry during the 9 months ended September 2013, through its diversified product portfolio and reach".

Net fee and commission income of the Bank increased to Rs 3.14 billion recording a growth of 15% during the period under review, driven by higher credit card volumes and guarantee commissions, despite slow-down in foreign trade compared to 2012.

Net losses from trading which mainly represent the revaluation of off-balance sheet swap position taken to hedge the on-balance sheet open positions created by some of the foreign borrowings over the last 20 months increased to Rs 988 million compared to Rs 649 million for the corresponding period of 2012. Although the appreciation of the rupee resulted in these swaps showing a loss in the first quarter of 2013, the depreciation of the local currency during the second and third quarters reflected gains. The corresponding impact of the exchange rate fluctuations on the on-balance sheet position is recorded in other operating income.

The Bank recorded a 43% growth under Net gain/loss from financial investments due to higher dividends received from the Bank's equity investments during the 9 months ended September

2013 compared to the previous year. Overall, the Bank recorded a 12% growth in its total operating income as at end of Q3 2013.

As at end of September 2013, HNB's impairment provision on individually significant portfolio improved by 37%, while the collective impairment provision on individually insignificant loans increased by 190% compared to corresponding period of 2012 due to higher provision on account of pawning. The gross NPA ratio stood at 4.6% as at end of Q3 2013 compared to 5.2% for the industry. The Bank continued with its prudent policy of providing 100% on all individually insignificant loans which are overdue for more than 180 days under collective impairment.

Operating expenses of the Bank, which stood at Rs 10.51 billion during the 9 months ended September 2012 decreased to Rs 10.22 billion in the current period, recording a decrease of Rs 287 million (3%). This decline in operating expenses was largely due to the winding up of the Employee Share Benefit Trust (ESBT) scheme as per directions of the Colombo Stock Exchange during the second quarter. Cost to Income ratio of the Bank improved to 46.7% for the period. However, after adjusting for the reversal of ESBT provision and for the additional provision made during the year on account of the ESOP allocations, the cost to income ratio as at end September 2013 stood at 52.5%, which is an improvement of 150bps, against the cost to income ratio of 54% during the corresponding period of 2012.

The pre-tax profits for the Bank improved by 12% to Rs 7.47 billion from Rs 6.64 billion recorded as at end of Q3 2012, while the pre-tax profits for the Group grew by 13% to Rs 8.01 billion compared to Rs 7.06 billion during the corresponding period of 2012. The Group companies, HNB Assurance PLC, Acuity Partner (Pvt) Ltd and Sithma Development Ltd also contributed towards this growth.

Overall, as a result of the performance during the 9 months, Bank's Earnings Per Share (EPS) grew by 15% to Rs 13.41, while the EPS for the Group grew by 17% to Rs 14.47 compared with the previous year.

The Bank's core capital and total capital adequacy ratio remained strong at 12.58% and 16.37% respectively as at 30th September 2013, as against the statutory minimum of 5% and 10%. The subordinated debenture of Rs 4 billion issued in June 2013 resulted in improving the total capital adequacy position further.

During the third quarter, HNB launched mobile Point of Sale (POS) technology for the first time in Sri Lanka which is a revolutionary low cost solution. Mr. Jonathan Alles stated that "going forward we will focus on leveraging on our advanced IT platform to deliver faster and superior service to our valued clients while improving processes efficiency through re-engineering".