

## HNB records strong and stable performance

- Group PAT of Rs 20.1 Bn
- Bank PAT of Rs 17.3 Bn
- Total Deposits surpass Rs 1 Trillion during the year
- Gross Loans grow by Rs 114 Bn
- NPA ratio improves to 3.38%
- Capital and liquidity well above statutory limits

Hatton National Bank PLC (HNB) solidified its position as one of the most sustainable and strongest banks recording a well-rounded performance in 2021. Group Profit After Tax (PAT) increased to Rs 20Bn, representing a growth of 47% YoY while Bank PAT improved to Rs 17.3 Bn as economic activity picked up during the year.

The monetary policy loosening adopted to spur economic growth post the first wave of the COVID-19 pandemic in 2020 continued to be in place upto August 2021. Although the interest rates increased subsequent to the 50bps increase in policy rates in August, the average AWPLR for 2021 was approximately 160bps below the rate for 2020. This resulted in a decline of 5.1% in interest income to Rs 98.6 Bn, despite a strong loan growth in the second half of the year. Similarly interest expense reduced by 17.2% to Rs 49Bn, resulting in a Net Interest Income (NII) growth of 10.8% YoY to Rs 49.6 Bn.

Commenting on the performance during the year, Chairperson of HNB PLC Mrs. Aruni Goonetilleke stated that "2021 was a test of endurance and agility as the COVID-19 pandemic continued to disrupt lives and economic activity. During the tumultuous year, our colleagues around the Country, led by our Managing Director/CEO Jonathan Alles and the Management Team have focused on protecting the interests of shareholders, while ensuring the wellbeing of colleagues, supporting our customers and showing solidarity with our communities".

"I am pleased to note the overall robust performance of the HNB Group during 2021, delivered through sustainable growth and profitability, improved asset quality as well as strong capital and liquidity. The Group was also successful in driving digital adoption through future ready products and services. I wish to place on record my sincere appreciation of the entire Hatna family for their commitment and dedication during testing times, our valued customers for their continuous patronage, our investors and all other stakeholders for their trust and confidence".

Net Fee and Commission income of the Bank grew by 27.5% YoY to Rs 9.6 Bn driven by higher card and trade business volumes as economic activity rebounded. Other non-interest income grew by 61% to Rs 6.5Bn, largely due to the position revaluations on account of the depreciation of the LKR by 8% during 2021.

Improvements made with regard to credit underwriting standards, approval processes and recovery action has resulted in further improvements in asset quality reflected by the NPA ratio which improved to 3.38% from 4.31% in 2020 to record one of the best NPA ratios in the industry. The Net Stage III loans ratio also improved by 85 bps to 2.55% as at end of 2021. The

impairment charge for the year increased to Rs 18.8 Bn as significant management overlays were recognized on account of elevated risk industries and a provision of Rs 6.9Bn was made on account of foreign currency denominated government securities as the sovereign was downgraded to CC by Fitch Ratings.

Total operating expenses increased by only 2.3% YoY mainly due to a 6.1% reduction in personnel costs. The Bank continued its policy of not laying off or cutting salaries due to the pandemic and concluded a very successful collective agreement for the non-executive staff. However, the extension of retirement age to 60 years resulted in a reversal of Rs 2.3 Bn on provision for pension and retirement benefits which led to the drop in personnel expenses. Other operating expenses which account for 52% of total operating expenses increased by 11.4% YoY. However, this was still 3.9% below the pre-pandemic level.

The growth in Total Operating Income at a higher rate of 16.7%, resulted in the cost to income ratio improving considerably to 34.4% compared to 39.3% in 2020.

Commenting on the performance MD/CEO of HNB PLC Mr. Jonathan Alles stated that "Humanity has faced the crisis of a generation and HNB has demonstrated remarkable resilience against this backdrop. Our journey over the past 133 years has been through many peaks and troughs . We have continuously strengthened our risk management, compliance and governance, which has helped us overcome challenges. This is testament to our strong and stable performance".

"HNB has continued to extend support to revive livelihoods. We are pleased to note that many customers have been successful in getting back on their feet as moratoria extended has reduced from 40% of our loan book to 9% as at end of December 2021. Currently the moratoria outstanding is only in the tourism sector, with concessions extended to other sectors ending in 2021. The relaxation of travel restrictions by many countries and high vaccination rate in Sri Lanka augurs well for the tourism sector".

"Our focus on being future ready and the investments we have made over the past enabled us to support our customers to carry out their transactions seamlessly, through our digital platforms and payment solutions. With evolving customer needs and lifestyles as well as high digital adoption rates owing to the pandemic, we will continue our digital transformation journey to provide an enjoyable banking experience to our customers."

"Team HNB is at the heart of our business and enhancing the employee value proposition has been a core focus. As we move on, we will continue our efforts on strategic workforce planning, build a strong talent pipeline to operate in a future fit organization, develop future leaders through structured programmes and promote work life balance".

"The road ahead of us will be challenging as Sri Lanka is currently at a crucial juncture. However, we see great potential in many areas such as tourism, agriculture, education, healthcare, IT, KPO and BPO as sustainable avenues of foreign exchange earners for our nation, in addition to encouraging remittances from migrants. We believe that necessary steps would be taken to support these sectors to grow to their full potential. As a 'partner in progress' who has supported many micro, small and medium entrepreneurs to migrate to today's large corporates, we will continue our journey of partnering the progress of our nation and its people."

Profit Before Tax (PBT) amounted to Rs 19.8 Bn, a 31.5% YoY increase from the PBT reported in 2020. The total effective tax rate for 2021 was at 28.9% as the income tax rate reduced to 24% from 28% as well as due to reversals of excess provisions from previous years. Resulting PAT of Rs 17.3 Bn generated a ROA of 1.3% and a ROE of 12.1% respectively.

Robust growth in the last two quarters of 2021 led to a gross loan book growth of 14% during 2021, to Rs 929 Bn. On the funding side of the balance sheet deposits grew by 11.1% YoY to Rs 1.1 Trillion. CASA grew at a higher pace of 15% YoY improving the CASA ratio to 41.0%. Total Assets of the Bank improved to Rs 1.4 Trillion while the equity capital improved to Rs 152 Bn.

With industry leading Tier I and Total Capital Adequacy ratios of 14.53% and 18.16% respectively HNB is very well capitalized. Liquidity levels also remain strong with Liquid Asset Ratios at 28% and Liquidity Coverage Ratio at 208% against the regulatory requirements of 20% and 90% respectively.

All Group Subsidiaries complemented the Bank's results as the Group recorded a PBT of Rs 23.1 Bn, a 31.1% YoY increase compared to 2020. The Group PAT of Rs 20.1 Bn enabled a ROA of 1.42% while Profit Attributable to Shareholders, which rose by 45.3% YoY to Rs 19 Bn delivered a ROE of 11.50%. Total Group Assets improved to Rs 1.5 Trillion, recording a 6% YoY expansion.

The Board of Directors declared a final dividend of Rs 9.00 per share which is the highest dividend declared over the past few decades, consisting of a cash dividend of Rs 6.50 per share and a scrip dividend of Rs 2.50 per share.

HNB is rated AA- (lka) by Fitch Ratings and has been ranked among the Top 1000 Banks in the World over five consecutive years by the acclaimed UK based "The Banker Magazine". HNB was once again recognised among the Top 10 'Most Admired Corporates of Sri Lanka' at the CIMA/ICCSL awards, a recognition bestowed for the fourth successive year. HNB is also a 11 time winner of the 'Best Retail Bank in Sri Lanka' award by the Asian Banker Magazine and is ranked as a Top 10 company in Sri Lanka by the 'Business Today' Magazine.