

HNB sails skillfully through turbulent 1H

- Total Operating income doubles to Rs LKR 63.3 Bn
- Impairment for 1H exceeds Rs 40 Bn
- Net Stage III loan ratio improves to 2.46%
- Tier I capital ratio at 11.39% and total capital ratio at 14.54%
- Liquid Coverage ratio at 210% well above statutory minimum of 90%

HNB Group recorded a Profit Before Tax of Rs 6.7 Bn and a Profit After Tax of Rs 6.1 Bn during the first six months of 2022 amid extremely challenging operating environment. Commenting on the first half, Aruni Goonetilleke Chairperson of HNB PLC stated that "the extraordinary market conditions have created a set of new challenges for the entire banking sector. As the external factors continue to be volatile it is important to take necessary steps to minimize the negative impact due to the risk factors. At the same time, we must be open to opportunities that arise even during a crisis situation. Our performance during the first half reflects this meticulous and prudent approach as we stay focused on delivering long term value to our stakeholders".

The gross income of the Bank grew by 71% YoY to Rs 97.1 Bn driven by a 53% growth in interest income, 61% growth in fee income and 349% growth in exchange income. The exceptional growth in net interest income from Rs 23.2 Bn to Rs 40.2 Bn was primarily due to the increase in average AWPLR by approximately 16 percentage points in line with the tight monetary policy adopted by the Central Bank of Sri Lanka.

The Fee income also recorded a steady growth increasing to Rs 7.3 Bn for the 6 months mainly on account of improved trade and card income. The total exchange income improved to Rs 15.3 Bn from Rs 3.4 Bn during the first half of 2021, as the rupee depreciated by over 80% during the period. Accordingly, the total operating income improved to Rs 63.3 Bn recording a 100% YoY growth.

The Bank made a total impairment of Rs 40.1 Bn for the first six months of the year compared to a charge of Rs 6.3 Bn in the previous year. The total impairment charge for the period included an impairment of Rs 27.3 Bn on account of the foreign currency denominated government securities held by the Bank pursuant to the suspension of external debt repayment by the Government of Sri Lanka and the sovereign downgrade. Considering the volatilities and the economic factors, the Bank recognized an impairment of Rs 22.7 Bn on account of loans and advances for 1H 2022 compared to the provision of Rs 6.2 Bn made in the corresponding period of 2021. An amount totaling to Rs 10.8Bn relating to the exchange impact on impairment of foreign currency loans and investments was set off against the exchange income for the period. The net stage III ratio of the Bank improved to 2.46% from 2.55% as at end of December 2021 while the provision coverage on stage III loans improved from 56% to 63% maintaining the position as one of the best in terms of asset quality among peers.

The operating expenses for the 1H of 2022, increased by 26% to Rs 14.9 Bn mainly due to devaluation of the currency, higher energy costs and increase in staff expenses subsequent to salary revisions effected at the beginning of the year. Nevertheless, the cost to income ratio of the Bank improved by approximately 14 percentage points to 23.5% as total operating income recorded a higher growth during the period.

The Bank recorded a Profit Before Tax of Rs 6.0 Bn and Profit After Tax of Rs 5.5 Bn for the six months ended June 2022 compared Rs 10.9 Bn and Rs 9.1 Bn in the corresponding period of 2021.

Commenting on the performance of HNB during the first six months of 2022, Jonathan Alles, Managing Director / CEO stated that "having identified the need to be prudent under the current operating environment, we recognized a substantial impairment charge for the first half. This resulted in the exceptional growth in total operating income being absorbed to a great extent."

"Recently a banking consortium which included HNB and seven other banks appointed a Singapore based legal firm to act as the common legal counsel to protect the interest of these banks in terms of their holding in international sovereign bonds. We as the banking sector will work together with the relevant authorities to agree on a mutually agreeable solution to ensure that the banking sector remains strong to support the economic revival of our country"

The Bank's asset base expanded by Rs 239 Bn to Rs 1.6 Trillion during the first six months, with loans and advances growing by Rs 138 Bn to Rs 1.1 Trillion. Total Deposits of the Bank grew to Rs 1.3 Trillion by Rs 217 Bn during 1H 2022. The balance sheet growth was partly supported by the devaluation of the rupee during the period.

The Bank reported Tier I and Total Capital Adequacy Ratios of 11.39% and 14.54% respectively against the minimum requirement of 9.5% and 13.5% respectively. The Central Bank also permitted licensed commercial banks to drawdown up to 250 bps on the capital conservation buffer lowering the requirement to 7% and 11% respectively. Furthermore, the Bank's liquidity position continued to be strong with liquid asset ratio and all currency liquidity coverage ratio at 23.9% and 210.3%, against the statutory requirements of 20% and 90%, respectively.

Under extremely stressful market conditions all group companies contributed positively towards the first half performance of the Group.

HNB was ranked among the Top 1,000 Banks in the World for the sixth consecutive years by the acclaimed UK based 'The Banker Magazine' while being adjudged the 'Best Retail Bank in Sri Lanka' by the Asian Banker Magazine for the 12th time.