

## HNB posts Rs 5.5 Bn 1H Group PAT

- Bank PAT of Rs 4.5 Bn
- Total Deposits grow by Rs 55 Bn
- Supports over 80,000 COVID affected customers as a responsible D-SIB
- Maintains stability with CAR at 19% and LAR at 34%

HNB posted resilient financial results during the 1H 2020 amid the unprecedented disruptions of COVID-19 pandemic with Group PAT for 1H increasing by 6.8 % YoY to Rs 5.5 Bn while Bank level PAT declined by 7% YoY to Rs 4.5 Bn.

“Sri Lanka’s performance in managing the transmission of COVID-19 has been outstanding. The health impact has been largely contained and the economic impact of the pandemic will remain a challenge in the near term, given the depressed global conditions it has spawned. To address these economic challenges, the Government has taken bold steps to support the affected by relaxing Monetary Policy in an effective way to revive economic activity, and extending debt moratoriums to those affected - measures that may need further support from the Government given that the recovery will most likely be a protracted one across most sectors, both locally and globally. Consequently, the medium term economic recovery will be closely correlated with the pace at which the COVID 19 pandemic is managed globally.” HNB Chairman, Dinesh Weerakkody said.

As a consequence of the low interest rate regime, the prime lending rate (AWPLR) reduced by 130 bps from December 2019, compounded by low demand for credit. This in turn impacted 1H interest income which declined 8.8% YoY to Rs 53.8 Bn. Interest expenses also declined by 5.2% YoY to Rs 31.4 Bn leading to a drop in Net Interest Income (NII) by 13.3% YoY to Rs 22.4 Bn.

The restrictions on non-essential imports, overall decline in exports and marked drop in Card spends due to lifestyle changes resulting from the pandemic, drove Net Fee Income down by 22.2% YoY to Rs 3.5 Bn. However, a strong surge in demand for digital banking services enabled an increase in fees from digital channels.

Meanwhile, exchange rate movements during the year in tandem with a decline in swap volumes and premiums facilitated an exchange gain of Rs 1.5 Bn as opposed to a loss of Rs 577.2 Mn recorded during 1H 2019.

“With the outbreak of COVID-19, we had to move rapidly to reassess our priorities and restructure operations in alignment with the ‘new normal’. Accordingly, our key focus has been to support customers in need, while ensuring maximum health and safety measures for our Staff and Customers, as well as maintaining stability of the Bank and intensifying our pursuit of digital and technological transformation. As a responsible domestic systemically important bank (D-SIB) we

have supported over 80,000 customers who were affected economically during the pandemic by way of moratoriums on loan repayments during the past few months. The Bank has also provided working capital financing under the CBSL relief schemes as well as through the Rs. 5Bn fund set up by HNB to assist affected SMEs.

During the lock-down period, we supported both customers as well as merchants to carry out transactions through our digital payment channels including SOLO, MoMo and IPG. We moved a further step forward by launching AppiGo in May 2020 to support businesses to rapidly set up their own e-commerce presence. Our breakthrough Payments App, HNB SOLO was enhanced with added features and this continues to be an ongoing process. In August, we also upgraded our core-banking system to the latest version of Finacle, enabling us to provide a far superior experience to our customers,” HNB MD/CEO Jonathan Alles said.

“HNB continues to display resilience even in the face of unprecedented volatility. In that regard, I wish to thank our valued customers for placing their trust and confidence in us as well as our staff for their unwavering commitment and dedication. As always our primary focus continues to be delivery of long term sustainable value to all our stakeholders, and we remain committed towards our goal” he added.

In line with constrained operating conditions, the non-performing loans ratio increased to 6.4% compared to 5.9% in December 2019. Impairment charges mirrored the NPA increase, rising by 45.3% YoY to Rs 9.1Bn for 1H 2020.

With effective cost management being a key focus area under the ‘new normal’, the Bank was successful in recording a decline of 6% YoY in Total Operating Expenses to Rs 11.2 Bn in 1H 2020. The tax benefits provided to the banking sector since end of last year, such as removal of debt repayment levy and Nation Building Tax as well as tax exemption on revenue from investments in Sri Lanka Development Bonds proved to be paramount in maintaining stability of the banking sector. Accordingly, the total tax charge for 1H 2020 declined by 57.1% YoY to Rs 3.1 Bn while the Bank recorded a PAT of Rs 4.5 Bn, representing a decline of 7% YoY.

Gross loans remained flat when compared against December 2019 at Rs 772.5 Bn. Notwithstanding the unprecedented circumstances during the year, HNB’s total deposits grew by Rs 55.3 Bn to Rs 865.3 Bn while the low cost CASA base grew by an impressive Rs 34.4 Bn to Rs 319.1 Bn during 1H 2020.

Despite moratoriums offered to the affected customers, the Bank was successful in maintaining a strong liquidity position, through deposit mobilization and prudent asset and liability management measures. Accordingly, the Liquid Asset Ratio for the Bank stood at 34% well above the statutory requirement of 20%.

Total Assets of the Bank grew by 4% to Rs 1.17 Trillion, during 1H 2020 and HNB continued to remain among the best capitalized in the industry, with Tier I Capital and Total Capital Adequacy ratios at 15.25% and 19.07% respectively.

HNB Group recorded a PAT of Rs 5.5 Bn for the period. The YoY growth of 6.8% in Group profits was driven largely by the robust performance of the primary dealership arm of the investment bank, Acuity Partners and HNB Assurance PLC.

Notably, during the period under review, HNB was bestowed with the honour of being the highest ranked privately owned commercial bank in Sri Lanka by the prestigious Banker Magazine Top 1000 global rankings released in July. This marked the fourth successive year in which HNB has been included in the rankings.

The Bank was also recognized by the Asian Banker Magazine as the Best Retail Bank in Sri Lanka for the eleventh occasion. HNB was also the first local bank to obtain an international credit rating and is rated on par with the Sovereign by Moody's Investors Service. Further, the National Long Term Rating of HNB by Fitch Ratings Lanka Ltd. was recently revised upwards, by two notches to AA+(Ika).