

## **HNB emerges the most profitable private sector banking group; achieves Rs 22.5 Bn in Group PBT**

- **Group Assets surpass Rs 900 Bn**
- **Group PAT at Rs 15.67 Bn**
- **Total Tax for the Group exceeds Rs 11.6 Bn**
- **Bank NPA down to 1.8%**
- **Bank Cost to Income improves to 42.5%**

An outstanding performance throughout 2016 on every front culminated in the HNB Group posting the best financial results in its history. Group Profit Before VAT, NBT and Taxes grew by 41.3% to Rs 27.1 Bn while Profit Before Tax (PBT) reached Rs 22.5 Bn with a 39.2% growth. Group Profit After Tax (PAT) witnessed an exceptional growth of 41.2% to be recorded at Rs 15.7 Bn. Group assets grew by 19.0% to cross the Rs 900 Bn mark, representing yet another historical milestone for HNB.

The remarkable performance by the Bank was the main contributor towards this exceptional performance by the Group. The Profit Before VAT, NBT and corporate taxes of the Bank increased by 37.1% to Rs 24.5 Bn while the PBT improved to Rs 20.1 Bn by 33.9% from Rs 15.1 Bn recorded in 2015, amidst a 54.7% increase in VAT and NBT charge due to the increase in the rate of VAT from 11% to 15%. The PAT for the Bank also recorded an outstanding growth of 35.4% to Rs 14.1 Bn for the year.

Prudent Asset and Liability Management practices coupled with the timely repricing of the Bank's loan book and a simultaneous healthy growth of 17.3% in net advances enabled a strong growth in income from Core Banking. Net Interest Income (NII) for the year grew by 30.5% to Rs 34.4 Bn, which is a substantial improvement over the 5.8% growth reported in 2015 while the Net Interest Margin for the Bank also improved to 4.8% for the year.

Growth in net interest income was well complemented by a strong performance in Fee and Commission income which grew by 22.0% to exceed Rs 7 Bn. Credit Cards along with Trade Finance, Guarantees and Remittances continued to be the main contributors towards this growth. HNB's strategic focus on offering ultimate convenience and new experience to its clientele through a comprehensive digital banking proposition proved to be successful as the Bank witnessed strong growth in fees from digital banking products and services.

The Bank reported a net trading loss of Rs 1.8 Bn due to higher swap cost incurred during the year on swaps taken to hedge foreign currency borrowings. The corresponding impact on on-balance sheet open positions as well as a significant growth in exchange income contributed to the other operating income of Rs 3.3 Bn recorded for the year.

Portfolio quality which has been considered a strategic imperative by the Bank, saw HNB adopting many initiatives such as the centralisation of Retail and SME credit evaluation, intense training on credit underwriting and rigorous focus on recoveries. The efforts have

yielded rich dividends as the Bank's NPA ratio has improved to 1.8%, well below the industry average of 2.6%. The ratio as at the end of 2016 represents a 63 bps improvement during the year and a quantum improvement of 186 bps over a four year period.

The Bank's total operating expenses increased by 14.5% to Rs 18.3 Bn for the year. Containing of controllable expenses enabled through the lean transformation journey embarked upon by the Bank through initiatives such as the centralisation of credit and target operating model for branches, resulted in the cost to income ratio improving by 344 bps to 42.51% in 2016 and by more than 10 percentage points since 2012.

The Bank's total tax allocation for the year amounted to Rs 10.4 Bn which is a significant increase of 39.5% from 2015 (excluding the one off super gains tax paid in 2015) and the highest among the private sector commercial banks.

The growth of PAT in excess of 35% to Rs 14.1 Bn enabled to record a Return on Assets (ROA) of 1.79% and Return on Equity (ROE) of 19.91% which is a significant improvement from 1.61% and 16.59% posted during 2015.

Growth of 18.4% in the Bank's Balance Sheet to Rs 859.8 Bn easily eclipsed the industry growth of 12%. The instilling of a service culture universally while strengthening sales teams allowed HNB to rebound strongly from a subdued first few months to reach Rs 584.4 Bn in advances which is a growth of 17.3% yoy. HNB during the year has played a key role in driving the economy's engine of growth through disbursing over Rs 105 Bn to SME and micro finance customers in addition to serving the grass-root micro customers through its subsidiary HNB Grameen.

Deposits growth of 18.3% during the year outperformed the 16.5% growth in the industry to achieve Rs 623.5 Bn. Despite the shift into higher yielding deposits seen across the industry HNB managed to grow its CASA base to Rs 225.5 Bn. A particularly spectacular achievement was the growth in the minor deposit base by Rs 900 Mn during the month of October alone.

During 2016 the Bank also raised Rs 13 Bn in Subordinated Debentures through two separate issues of Rs 7 Bn and Rs 6 Bn. Further, the Bank also raised US\$ 100 Mn as long term debt from a foreign bank to support its balance sheet growth.

HNB Grameen yet again performed well to contribute strongly to Group results along with HNB Assurance and the Joint Venture Investment Bank, Acuity Partners, also reporting results far superior to those recorded in the previous year. Group ROA and ROE were recorded at 1.89% and 17.69% respectively and similar to the Bank represented a marked increase from the levels of 1.64% in ROA and 14.71% in ROE achieved in 2015.

Commenting on the exceptional performance, Mr Jonathan Alles, Managing Director / CEO of HNB PLC stated that "we are extremely delighted with HNB's outstanding performance in 2016 on all fronts. The adoption of dynamic strategies, focusing on delivering an

unparalleled customer experience, relentless focus on operational excellence and commitment to a high level of asset quality woven around a robust business model has been pivotal to HNB's remarkable performance in 2016. Our digital drive towards becoming the most future ready bank also contributed immensely towards this great success". He further added that "the strong and dedicated HNB team are the owners of these achievements as it is their untiring commitment and shared passion towards realising the vision of the Bank that has enabled this ground breaking success. We at HNB continue to invest in our most valuable asset 'People' through well designed talent development programmes. During the year we also went one step further by appointing an Employee Experience Officer to act as a liaison between employees and management, which would aid us in further developing and retaining the best talent in the market."

HNB continued to remain one of the best capitalized Banks in the country with tier I capital adequacy ratio at 11.22% and the total capital adequacy ratio improving to 15.27% against the regulatory minimum of 5% and 10% respectively.

The Bank declared a final dividend of Rs 7.00 per both ordinary voting share and ordinary non-voting share consisting of a cash dividend of Rs 3.50 per share and a scrip dividend of Rs 3.50 per share in addition to the interim dividend of Rs 1.50 per share declared in December 2016. Accordingly the total Dividends for the year 2016 amounted to Rs 3.5 Bn.

HNB was recognized by many renowned international and local institutions last year for excellence in diverse business and support functions. In early 2016 HNB was recognized by the prestigious 'Asian Banker Magazine' as the 'Best Retail Bank in Sri Lanka' for the 8th time. HNB was also ranked third by the Business Today Magazine. The Bank's Islamic Finance arm was bestowed upon the 'Deal of the Year' Silver Award and the 'Entity of the Year' Bronze Award at the Islamic Finance Forum of South Asia organized by UTO EDU Consult. HNB also won the 'Asia's Best Employer Brand Award for Best HR Strategy in line with Business 2016' and the 'Asia Excellence in Training & Development Award 2016' for the 5th consecutive year. The Bank was also recognized as the 'Silver Award' winner at the CFA Sri Lanka Capital Market Awards 2016 for 'Best Investor Relations'. The National Productivity Secretariat adjudged HNB as the winner of the 'National Productivity Award 2015'. The Bank was ranked third with first and second place not being awarded.

HNB is the first local Bank in Sri Lanka to receive an international rating on par with the sovereign from Moody's Investor Services while maintaining a national long term rating of AA - (lka) from Fitch Ratings Lanka Ltd.