HNB Group records Rs 3.4 billion PAT for H1 2013

During the first half of 2013, post tax profit of the Bank improved by 12% to Rs 3.14 billion, compared to Rs 2.8 billion during the corresponding period in 2012, while the Group post-tax profit improved by 15% to Rs 3.4 billion.

Commenting on the performance, Dr. Ranee Jayamaha, Chairperson of HNB PLC stated that "the market challenges that prevailed in the first quarter continued into the second quarter as well. Nevertheless we were able to record strong performance for the first six months of this year. We believe that the market conditions would improve in the second half".

The interest income recorded a growth of 31% during the first 6 months of 2013, compared to 2012 due to 13% year on year expansion in its loan book and relatively higher rates of interest. Interest expenses too increased by 40% from Rs11,211million in H1 2012 to Rs15,700million for H1 2013 largely facilitated by the increased deposit base by Rs32 billion which is a growth of 10% year on year as well as the higher rate of interest compared to the previous period and the shift witnessed towards high yielding deposits. As a result, HNB's net interest income witnessed a growth of 22% for H1 2013 as against the corresponding period of 2012. Higher amount of Swaps during the year also has contributed towards this growth in NII.

Net fee and commission income of the Bank increased to Rs 2,002million recording a growth of 9% during the first half of 2013. The growth in fee income was achieved despite a drop in trade business in the Country with both exports and imports witnessing a negative growth compared to the previous year. Credit card fees and remittances were seen as the main drivers of fee income during the period under consideration.

Net gains/ losses from trading mainly represent the revaluation of off balance sheet swap position which was taken to hedge the on balance sheet open positions created by some of the foreign borrowing over the last 15 months. The appreciation of the rupee resulted in these swaps showing a loss in the first quarter while it reflected a gain during the second quarter due to the local currency depreciating. The corresponding impact on the on balance sheet position is reflected in other operating income.

At the Bank level, as stated above, other operating income reflects the revaluation of the on-balance sheet position as well as exchange gains from customer transactions. At the Group level other operating income also consist of insurance premium by HNB Assurance, fees earned by Acuity Partners Ltd, which represents the investment banking cluster and the higher rental income earned by Sithma Development Ltd.

Higher dividends received from the Bank's equity investments during the first six months of this year resulted in a 42% growth in gains from financial investments compared to the previous year. Overall the Bank managed a 13% growth in its total operating income while the growth in operating income for the Group was marginally higher at 14%.

During first half of 2013 HNBs individual impairment provision improved marginally while the Collective Impairment provision on individually insignificant loans increased by 186% for the H1 2013. While the increase in collective provisions are reflective of higher NPA of 4.55% (though it has improved from 4.8% in 1Q 2013), the conservative provisioning policy adopted by HNB of providing 100% for all impaired loans which are considered to be individually insignificant (irrespective of collateral value) has resulted in a provision figure which is significantly larger than what is required by the regulatory guidelines. The overall provisioning cover of the Bank has improved to 69.1% from 67.6% in December 2012. (provision cover on impaired loans improved to 77.6% from 74% in December 2012).

Operating expenses for 1H 2013 decreased by 11% to Rs 6,237 million largely due to the winding up of the Employee Share Benefit Trust (ESBT) scheme as per directions of the Colombo Stock Exchange (CSE) Rule 5.6.10. As required by SLFRS, the Bank maintained a provision of Rs 1.5Bn for the ESBT which was reversed during the second quarter of this year with the decision to winding up same. Cost to income ratio of the Bank improved to 43% from 54% last year. However, after adjusting for the reversal of ESBT provision and for the additional provision made during the year on account of the ESOP allocated during Q2, the cost to income ratio stood at 51.8%, which is still an improvement from the previous year.

Mr. Jonathan Alles Managing Director /CEO added that "The investments we made in the past to enhance technology in terms of a new credit origination system, mobile banking, asset and liability management system, anti-money laundering system, leasing system and various other system upgrades will undoubtedly pay off in the coming months in improving our productivity"

The effective tax rate (including the financial VAT) stood at 43% which is marginally higher than what was reflected in the corresponding period last year. Overall HNB managed to grow its diluted group EPS by 10% to Rs. 8.54 compared to the previous year.

Recently Moody's Investor Services affirmed HNB's foreign currency issuer rating of B1 on par with the sovereign with a stable outlook.