

## **HNB posts Group PBT of Rs 1.57 Bn for Q1 2014**

The challenging conditions encountered by the banking and financial services sector in 2013, continued in to 2014, with interest margins coming under further pressure, deteriorating asset quality and low gold prices continuing to impact profitability. In this backdrop, HNB recorded a profit after tax of Rs 1,019.6Mn in Q1 2014, compared to Rs 1,157.9Mn recorded in the corresponding period of 2013.

Despite the anticipation of demand for credit to accelerate, the industry witnessed a negative growth of 0.6% in loans and advances in Q1 2014, while HNB expanded its loan book by 3% during the same period and by 18% year on year, despite a gradual reduction in its pawning portfolio. However, low yields coupled with interest written off on account of pawning during Q1 2014, resulted in a 5% decline in interest income to Rs 13.0Bn. Current and savings account (CASA) deposits accounted for 45% of the total deposits mobilised during Q1 2014 while re-pricing of deposits at lower rates continued, thereby reducing interest expense to Rs 7,438Mn compared to the corresponding period of the previous year. As a result, the net interest income declined from Rs 6,103Mn to Rs 5,611Mn as at end of March 2014.

Dr Ranee Jayamaha, Chairperson of HNB PLC stated that "the Bank recorded an impressive growth in advances and in low cost deposits despite intense competition within the industry, which is a testimony to the trust and confidence placed on us by our valued customers".

The focus on improving fee based income enabled the Bank to record a robust growth of 19% in fee and commission income for the quarter compared to the corresponding period of the previous year, driven by higher card transaction volumes, trade business and guarantee commissions.

Overall the Bank's total operating income improved to Rs 7,195Mn for the first 3 months of 2014 from Rs 7,023Mn recorded in Q1 2013.

Impairment provision on individually significant portfolio reduced by 30% to Rs 96Mn, while the collective impairment increased by Rs 376Mn largely on account of provisioning on pawning.

Commenting on the performance Managing Director / CEO of HNB PLC, Jonathan Alles stated that "relatively lower gold prices compared to Q1 2013, have resulted in writing-off of interest receivables as well as providing for impairment on pawning. We are confident that the negative impact from pawning on our profitability will taper, as majority of the pawning advances granted at higher scale, had already matured or will be maturing in the near future".

Personnel expenses of the Bank recorded a drop of 9% for the period under consideration in comparison to Q1 2013. This was due to the provision made in Q1 2013, on account of the increase in fair value of the Employee Share Benefit Trust (ESBT) liability, (which was subsequently dissolved in Q2 2013) resulting in a higher personnel cost for the quarter ended March 2013, compared to the current period. The Bank was successful in containing its overheads through its strategic focus, while the increase in other expenses is largely attributable to the introduction of Nation Building Tax (NBT) and crop insurance levy with effect from 2014.

The performance of the Bank as well as its subsidiaries HNB Assurance PLC, Acuity Partners (Pvt) Ltd and Sithma Development Ltd., resulted in the Group posting a profit before tax of Rs 1,567.8Mn and a profit after tax of Rs 1,122.8Mn for the quarter ended 31st March 2014.

Jonathan Alles further added that "during the past 12 months, HNB has strengthened its IT and electronic banking platforms while being first in the market to launch several key product and service offerings such as HNB 'MOMO' the mobile POS, fully fledged mobile banking and 'HNB One', the NFC Combo card. The additional income lines from these initiatives along with our strategic focus on, optimizing cost, achieving operational excellence through business process re-engineering and our strong intent to become the best in class service provider will drive HNB to achieve the challenging goals set for itself with much success in the coming months".

HNB was recognized as the 'Bank of the year in Sri Lanka' by the prestigious Banker magazine during the last two consecutive years in acknowledgement of being a premier private sector bank in Sri Lanka.