

HNB records Rs 6.9 Bn PAT in Q1 2023

- Total operating income rises 22% YoY to Rs 34 Bn
- Net stage III ratio at 3.8%; one of the best in the industry
- Tier I and total capital ratios improve to 11.41% and 14.43% respectively
- Liquidity position remains strong with LAR at nearly 40%

Following a turbulent year marred by the country facing its most profound economic crisis post-independence, Hatton National Bank PLC made a resilient start to 2023, posting a PBT of Rs 10.7 Bn, up 80% YoY, while PAT stood at Rs 6.9 Bn in the first quarter, growing 42% YoY. The Group made a consolidated PBT and PAT of Rs 11.3 Bn and Rs 7.3 Bn respectively.

Commenting on the first quarter performance, Mrs Aruni Goonetilleke, Chairperson of Hatton National Bank PLC, stated that "Despite the country still reeling from last year's economic, social and political disruptions, the Bank recorded a solid performance for the first three months of 2023, reflecting our steadfast focus, prudent decision making and agility in the face of changes. Although uncertainties prevail, the positive developments on the country's macroeconomic front are encouraging, and I would like to reiterate our unwavering commitment to safeguarding the interest of our stakeholders and supporting the economic recovery."

Relatively high interest rates compared to Q1 2022, facilitated the Bank to report a net interest income of Rs 31.6 Bn during 1Q 2023, reflecting an 87% YoY growth. With higher card volumes coupled with an increased adoption of our digital services, net fee and commission income grew by 31% YoY to Rs 4.2 Bn.

The positive sentiments brought on by the IMF programme and the improved foreign exchange liquidity, gave way to a part relaxation of foreign exchange controls. This led to the appreciation of the Sri Lankan Rupee by approx. 10% during the 3 months up to March 2023. This resulted in the Bank recording a net exchange loss of approximately Rs 2 Bn for the quarter due to revaluation losses.

Despite vulnerabilities in the operating income, the Bank was able to maintain one of the best asset quality positions in the industry, with the net stage III loan ratio at 3.8% and stage III provision cover at 55.5% as at end March 2023. Having made significant provisions on account of impairment in 2022, the Bank made a total impairment of Rs 11.4 Bn for the quarter. This consisted of impairment on loans and advances and other off-balance sheet exposures of Rs 6.7 Bn, and impairment of Rs 4.7 Bn on foreign currency denominated government securities.

Operating expenses increased by 26% in 1Q 2023, driven largely by the impact of the higher inflation compared to corresponding period of 2022. However, growth in income outperformed that of cost, translating to a cost-to-income ratio of 26% for the first quarter of 2023.

Mr Jonathan Alles, Managing Director and Chief Executive Officer of Hatton National Bank PLC noted that, "Following an unprecedented year mired in challenges, with the banking sector wrestling with multiple headwinds, we are pleased to see HNB's performance in the first quarter of 2023. Securing the IMF Extended Fund Facility will bring in the much-needed credibility to restore investor confidence, allowing Sri Lanka to gradually regain access to

foreign capital markets. Moving forward, it is imperative that the debt restructuring framework is finalised, ensuring that the stability of the financial sector is safeguarded."

"In the current backdrop, our prime focus has been on managing asset quality, capital and liquidity levels. The success of our delivery is reflected in our above par indicators. We have continued to stand by our customers, supporting them through extremely difficult times to stay afloat and we look forward to supporting their growth, as the operating environment improves further. The pandemic led to a shift towards online channels and this enabled an exponential growth in our digital adoption levels. We expect to see further growth as we continue to add value to our digital banking platforms for our retail as well as wholesale banking clients."

"The foundation of HNB's success rests with our people and I am truly grateful to be part of a fantastic team with unwavering dedication. While the road ahead may not be smooth, we look forward to the opportunities that arise with optimism."

The effective tax rate for the quarter increased to 36% from 19% in Q1 2022 mainly due to the increase in corporate tax rate from 24% to 30% and introduction of social security contribution levy with effect from October 2022.

Since December 2022, the asset base grew to Rs 1.7 Trillion as at end 1Q 2023. As a result of low demand for credit due to high interest rates and a stronger Rupee, the Bank's gross loan book dropped by 4% to Rs 1.0 Trillion during the quarter. On the other hand, Bank deposits continued its growth trajectory, expanding by Rs 29 Bn to reach Rs 1.4 Trillion.

The Bank reported Tier I and Total Capital Adequacy Ratios of 11.41% and 14.43% against the minimum statutory requirements of 9.5% and 13.5% respectively. The Bank has provision to drawdown further up to 250bps on the capital conservation buffer under the concessions granted by the Central Bank of Sri Lanka. HNB's liquidity levels also continued to be strong and well above the regulatory minimum requirements, with Statutory Liquid Assets and all currency Liquidity Coverage ratios at 39.31% (vs. a 20% requirement) and 353.42% (vs. a 100% requirement) respectively.

HNB is rated A (lka) by Fitch Ratings and was awarded the esteemed title of 'Sri Lanka's Best Corporate Citizen' for 2022 by the Ceylon Chamber of Commerce. Other major accolades include being ranked among the Top 1,000 Banks in the World for six consecutive years by the acclaimed UK based "The Banker Magazine", being adjudged the 'Best Retail Bank in Sri Lanka' for the 13th occasion by the Asian Banker, as well as securing a Top 5 position on Business Today's Top 40 rankings for 2022.