

Sri Lanka's Best Corporate Citizen continues to records sustainable performance

- Group assets cross Rs 2 Trillion
- Deposits cross Rs 1.5 Trillion
- Advances of over Rs 1 Trillion
- Provides over Rs 40 Bn for impairment
- Rs 22.5 Bn in taxes

Hatton National Bank PLC (HNB) showcased strong and sustainable performance in 2023, in all aspects namely liquidity, asset quality, capital, efficiency and profitability amidst global and local economic uncertainties.

Commenting on the performance, Mr Nihal Jayawardene, Chairman of Hatton National Bank PLC, stated that "we commenced the year with optimism, hoping that the worst of the financial crisis was behind us. However, we remained cautious about the uncertainties that prevailed. The Board continued to maintain focus on key risk areas and the opportunities, to navigate through the uncertainty in the operating environment. This enabled us to record robust performance overall"

He added that "The Board joins me in commending the CEO/Managing Director Jonathan Alles for the leadership provided to steer ahead during the most difficult times in the history. I express my sincere gratitude to the HATNA team for their commitment and our customers who have been HNB's strongest champions".

The Bank's interest income experienced a YoY growth of 37.2%, reaching Rs 284.1 Bn despite the decline in AWPLR by approx. eight percentage points during the last two quarters of the year, in line with Central Bank's expansionary monetary policy. Although deposits rates also declined in line, the 12.2% growth in deposits and the term deposits mobilized at higher interests resulted in Interest expense increasing by 72.6% to Rs 179.8 Bn. The resultant net interest income expanded by 1.4% YoY to Rs 104.3 Bn.

The Bank's net fee and commission income saw a YoY increase of 4.4%, rising from Rs 15.2 Bn to Rs 15.8 Bn, primarily fueled by higher volumes in credit cards, improved remittances and an increased adoption of our digital banking services. Increased SWAP volumes and the revaluation of on-balance sheet assets with the appreciation of Sri Lankan Rupee during the year as opposed to the significant depreciation experienced in the previous year, resulted in the Bank recording a net exchange loss for the period.

Having provided Rs 73 Bn on investments in foreign currency denominated government securities up to 2022, the Bank increased its impairment cover up to 52% from 35% on a prudent basis, with an additional provision of Rs 38 Bn during the year. With economic conditions improving especially during the second half, asset quality which has been under pressure indicated signs of recovery. Nevertheless, the Bank continues to maintain a prudent approach to provisioning due to the relatively high levels of uncertainty that prevails with the global and local economy, maintaining its provision cover at 57.5%. Accordingly, net stage 3 ratio improved to 3.76% from 4.90% in September 2023 and remains well above the industry level. HNB's total operating expenses increased to Rs 35.5 Bn from Rs 30.4 Bn on inflationary pressure in the economy, resulting in a cost to income ratio of 29.9% compared to 22.0%, recorded in the previous year.

The Bank's total effective tax rate increased to 52.5%, reflecting the full year's impact of the increase in corporate tax rate from 24% to 30% and the introduction of the social security contribution levy of 2.5%, which took effect from October 2022.

The Bank recorded a profit after tax of Rs 20.35 Bn compared to Rs 14.0 Bn recorded in 2022 while the Group recorded a PAT of Rs 23.6 Bn compared to Rs 15.7 Bn in the previous year. The Board of Directors

has proposed a final dividend of Rs 8.00 per share, which consist of a cash dividend of Rs 4.00 per share and a scrip dividend of Rs 4.00 per share, for both voting and non-voting shares.

Commenting on the performance, Jonathan Alles, Managing Director / Chief Executive Officer of HNB PLC. stated that "During these most challenging and uncertain times the Bank has focused on sustainable growth ensuring the safety of depositors, facilitating access to finance and business revival for customers, providing fair rewards and recognition for employees, and offering investors a reasonable return for the assumed risk."

He added that "Inspiring our customers to move forward with optimism is key to growth and we set out to understand and address customer pain points. We also supported our customers through the pandemic, the financial crisis and its aftermath, keeping businesses afloat by restructuring loans, offering moratoria and even grants for micro entrepreneurs. HNB has established a robust support system for our clients, catering to their financial services requirements across their entire value chain through the Bank and other Group companies."

"HNB has always aligned its strategy to the country's needs and is committed to charting a course that delivers shared prosperity to Sri Lankans and supporting the Country's transition to a low carbon economy. Areas identified for growth include tourism, exports, renewable energy, healthcare, education, information technology, local manufacture and agriculture. We are excited about inspiring farming communities to adopt green agricultural practices to strengthen the country's food security. We also want to groom the next generation of entrepreneurs through dedicated programmes and working with educational institutions at different levels. Simultaneously we will work to attract greatly needed foreign direct investments to optimise the infrastructure in place."

He further stated that, "growth must be resilient, built on solid foundations of disciplined financial management and sound corporate governance. It is the need of the hour at individual, entity and government levels as we stand up not just for our rights but to honour our obligations as well."

The Bank's asset base expanded at 14.4% YoY to Rs 1.9 Trillion as at end of December 2023. However, the Bank witnessed a contraction in gross loan book of 1.8% due to sluggish demand for credit and the cautious approach adopted during the first half with interest being relatively high. On the other hand, the total deposits of the Bank continued its growth trajectory, expanding by 12.2% YoY to Rs 1.6 Trillion.

The Bank reported strong Tier 1 and Total Capital Adequacy ratios of 13.66% and 17.13% against the minimum statutory requirements of 9.5% and 13.5% respectively, with the provision to drawdown a further 250 bps from the Capital Conservation Buffer. The Bank has continued to maintain a strong liquidity position with a Statutory Liquid Asset Ratio of 48.2% and an all currency Liquidity Coverage Ratio of 445.9%, which are both well above regulatory minimum requirements of 20% and 100% 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 adjudged the "Best Retail Bank in Sri Lanka" for the 13th occasion by the Asian Banker, being declared the "Best SME Bank" by Asiamoney Magazine, as well as securing a Top 5 position on Business Today's Top 40 rankings for 2023. HNB was ranked among Sri Lanka's Top 10 Most Admired companies in 2022 by the American Institute of Certified Public Accountants and Chartered Institute of Management Accountants and the International Chamber of Commerce Sri Lanka.