

HNB Group records a PBT of Rs 3.4 Bn in 1Q 2019

- Core Banking generates Rs 13 Bn in NII as compared with Rs 10.6 Bn last year
- Effective tax rate increases to 58.6% as compared with 43.6% last year

Amidst challenging market conditions, Hatton National Bank posted a profit before tax of Rs 3.3 Bn and a profit after tax of Rs 2 Bn for the first quarter of 2019.

HNB Chairman Dinesh Weerakkody Commenting on the performance noted that “amidst macroeconomic gains, Sri Lanka’s economic growth trajectory remains underwhelming and meandering below 4%. This has occurred due to a combination of tepid domestic demand, reduced government expenditure towards managing its deficit, tightening monetary policy, the political upheaval during the final quarter of 2018 and the overwhelming debt burden. Most of all this continues to exert enormous pressure on the performance of the Financial Sector”

During the 12 month period ended 31st March 2019, advances and deposits of the Bank grew by 11.4% to Rs 749.8 Bn and 11% to Rs 799.7 Bn respectively. The Bank was also successful in maintaining a CASA base of Rs 279.6 Bn enabling the Bank to record a 22.1% growth in Net Interest Income (NII) of Rs 13 Bn for the period.

Net Fee income amounted to Rs 2.2 Bn for the first quarter and constituted 14.9% of Total Operating Income. Income from credit cards and guarantee commission which are key contributors to fee income, demonstrated robust growth.

Commenting on the performance Mr Jonathan Alles, Managing Director CEO of Hatton National Bank stated that “the slowdown in economic growth, collection difficulties experienced by many industries as well as the impact from the extreme weather conditions experienced in previous years, has resulted in higher non-performing assets in the banking industry and it continues to affect the current portfolio. In addition, the introduction of the stringent SLFRS 9 requirements on impairment on performing loans as well as on investments in other financial instruments has contributed to an increase in impairment charges for the period”.

Accordingly, impairment charges for the Bank, amounted to Rs 4.2 Bn for the three months ended March 2019.

Total Operating Expenses increased by 17.9% YoY to Rs 5.9 Bn and the Bank reported a cost to income ratio of 39.6% for the period.

The introduction of the debt repayment levy in 4Q 2018 as well as the removal of certain exemptions on income from investments with effect from April 2018, resulted in

an increase in the total effective tax rate to a significant 58.6%. Accordingly, the Bank's total tax charge was at Rs 2.9 Bn for the period.

All Group companies contributed to Group Total Operating Income of Rs 18.7 Bn for the first quarter, recording a 9.6% YoY growth. HNB Group made a profit before tax of Rs 3.4 Bn and a profit after tax of Rs 2 Bn during the first three months of 2019.

Mr Alles added that, “the prevalent uncertainty in the market, rising debt collection challenges, the resultant negative impact on many industries led by tourism, in particular following the tragic events of 21st April, the knock-on effect on value chain business - supply, distributor and related as well as unfavourable taxation policies could inhibit growth of the banking sector. In our 130 year history, HNB has gone through multiple such cycles and has always demonstrated resilience and emerged stronger. We remain committed and confident as always to drive the transformational journey that HNB has embarked upon and to support the revival of the wider fortunes of our motherland.”

During the first quarter of 2019, HNB was awarded as the Best Bank for SME in Sri Lanka by the Asian Banker Magazine while Asiamoney recognised HNB as ‘the Best Bank’ in SME, Cash Management, Trade Finance and Corporate Social Responsibility.

HNB is the first local Bank in Sri Lanka to receive an international rating on par with the sovereign from Moody's Investor Services and has a national long term rating of AA -(lka) from Fitch Ratings. HNB is the No. 1 Bank in Sri Lanka in the Top 1000 World Banks ranking by the prestigious UK based ‘The Banker’ magazine.