HNB Group records PBT of Rs 14.1 Bn in 1H 2018

- Bank Cost to Income ratio improves to 37.7%
- Group pays total taxes of Rs 7.6 Bn
- Bank records PBT of Rs 12.6 Bn and PAT of Rs 8.6 Bn.

HNB Group recorded Rs 14.1 Bn in Profit Before Taxes (PBT) for the first six months of 2018, representing a 30.7% Year-on-Year (YoY) growth over the first half of 2017 while Group Profit After Taxes (PAT) rose 26.9% YoY to Rs 9.6 Bn. At a Bank level, HNB’s PAT improved by 20.6% YoY to Rs 8.6 Bn for the six months period to June 2018.

The Bank’s interest income grew by 9.6% YoY, outpacing the 5.6% growth reported in interest expenses resulting in a 15.3% YoY increase in NII to Rs 22.0 Bn for the period under review.

Net Fee and Commission income continues to supplement core banking, contributing 15.9% of the Total Operating Income, increasing by 8.8% YoY to Rs 4.4 Bn largely driven by the growth in the Credit Card income and Trade Finance. Net losses on trading increased by 61.7% YoY to Rs 1.4 Bn during the first half of 2018 on account of higher depreciation of the LKR against USD compared to the corresponding period of 2017. However, the positive impact on revaluation propelled Other Operating Income to Rs 2.7 Bn which is a 103.6% YoY increase.

The banking industry is witnessing a sharp increase in NPAs with significant collection and debt recovery difficulties experienced across the country. The agriculture sector continues to underperform due to adverse weather conditions while the construction sector is saddled with long delays in payments. In this backdrop, HNB’s NPA ratio increased to 2.91% as at the end of June 2018 albeit remaining below the industry average which deteriorated to 3.3% for the period. Accordingly, the total impairment charge increased to Rs 1.9 Bn for 1H 2018, principally on account of the increase in collective impairment charge to Rs 1.6 Bn. The impairment cost on individually significant loans however, declined by 42.1% YoY to Rs 342.3 Mn.

The continuous focus on operational excellence, process reengineering and digitalization efforts to improve productivity enabled the continuing improvement in the cost to income ratio to 37.7%, compared to 41.4% reported during 1H 2017.
The Bank’s PBT grew by 25.2% YoY to Rs 12.6 Bn during 1H 2018 as compared to the 1H 2017. The impact of the changes effected in the new Inland Revenue Act resulted in an increase of 36.7% in income tax for the period with the total effective tax rate, including financial VAT and NBT increasing to 44.4% for the period. The resulting PAT of Rs 8.6 Bn represented a ROA of 1.76% and ROE of 15.54% for 1H 2018. The Group recorded a ROA of 1.85%, compared to 1.61% recorded in the commensurate period of 2017.

The Bank’s asset base grew by 4.8% during the first six months of the year to cross the Rs One Trillion mark. A robust 8.9% growth in the loan book since December 2017 boosted net loans to Rs 695.7 Bn, while deposits grew by 5.7% to Rs 741.2 Bn. The Bank’s Tier I Capital Ratio and Total Capital Ratios remained strong at 12.48% and 15.22% respectively, well ahead of the required regulatory minimums of 8.875% and 12.875%.

Commenting on HNB’s performance, MD/CEO Jonathan Alles stated: “We are pleased with our performance during the first half of 2018 in what has been an extremely challenging environment and are humbled by the recognition as the highest ranked bank in Sri Lanka by the prestigious Banker Magazine’s Global Top 1,000 Banks rankings. The passion, commitment and dedication of our team and their relentless drive towards service excellence supported by the on-going automation efforts continues to remain the driving force underpinning our success.” Alles added that: “as we move in to the second half of 2018, we are fully cognizant of the macro-economic challenges, slow-down in economic growth and market liquidity constraints. These primary challenges and the need for additional capital to meet the enhanced regulatory requirements and taxes, continue to hamper growth in the banking sector. As such, we remain optimistic of sustained policy consistency towards conducive environment for growth to enable the banking sector to be the prime catalyst for economic growth. We look forward to opportunities to support national development and to stimulate micro, small and medium sector enterprises and to play a pivotal role in the revival of exports across all sectors.”

In 2018, HNB was adjudged as the Best Retail Bank in Sri Lanka for the 10th time while also being recognized as the Best Forex Bank, the Best Payments Bank and the Best Cash Management Bank in Sri Lanka. The Asiamoney magazine also bestowed HNB with awards for Best SME Bank, Best Digital Bank and the Best Cash Management Bank in Sri Lanka for the year 2018. HNB was also recognised with the Gold Award in the Banking category.
and Overall Runner-up award at the Association of Chartered Certified Accountants (ACCA) Sri Lanka Sustainability Reporting Awards. The Bank’s Islamic Finance unit was adjudged the Islamic Finance Entity of the Year at the Sri Lanka Islamic Banking & Finance Industry (SLIBFI) awards while being recognised as the ‘Best Shariah compliant window’ by the Banker Magazine. HNB was also awarded as the ‘Best private sector organization for promoting women in the workplace’ at the Women in Management, Top 50 Professional & Career Women Awards 2018.

HNB is the first local Bank in Sri Lanka to receive an international rating on par with the sovereign from Moody’s Investor Services while maintaining a national long term rating of AA -(lka) from Fitch Ratings Lanka Ltd. In 2018, HNB had the distinction of becoming the No. 1 Bank in Sri Lanka in the Top 1000 World Banks 2018, ranked by the UK’s ‘The Banker’ magazine.