

## HNB Group posts Rs. 8.8Bn in PAT during first nine months of 2020

- *Bank PAT of Rs. 7.7Bn*
- *Deposit growth of over Rs. 112Bn*
- *Demonstrates stability and resilience with capital and liquidity well above statutory minimum levels*
- *Over Rs. 24Bn in working capital loans under Saubhagya scheme as a D-SIB*
- *USD 60 Mn long term funding from PROPARCO France, to support SMEs*

Hatton National Bank PLC (HNB) reported Profit After Taxes (PAT) of Rs. 7.7Bn for the first nine months of 2020, while the Group recorded a PAT for Rs. 8.8Bn for the same period.

Commenting on the performance, Dinesh Weerakkody, Chairman of HNB stated that “Sri Lanka managed the first wave of the pandemic commendably. However, as the situation continues to evolve globally, we as a nation are currently at a crucial juncture once again. Despite the significant challenges brought about by the pandemic, HNB continued to demonstrate strength, stability and resilience. The recent unprecedented two notch downgrade of the Sovereign rating by Moody’s has been a further setback. In this backdrop, I’m happy to note that HNB was able to conclude a long term loan agreement of USD 60Mn with the French Development Financing Institution, Proparco to support the SME sector of Sri Lanka”.

The monetary easing adopted post the pandemic has led to a 400bps drop in AWPLR since the beginning of the year. The Interest Income of the Bank declined in line with the drop in interest rates to Rs. 79.6 Bn, by 8.7% YoY in comparison to the corresponding period of 2019. Interest Expenses of Rs. 45.8 Bn represented a 7.3% YoY drop from last year, resulting in a Net Interest Income (NII) of Rs. 33.8 Bn which was 10.6% lower compared to the first nine months of the previous year.

The impact of COVID-19 continued to hamper the Net Fee and Commission income which declined by 18.9% YoY to Rs. 5.4 Bn as a result of the restrictions placed on imports, low volume of foreign card transactions, removal of certain charges as part of CBSL initiated COVID relief scheme and low level of economic activity etc. However, the Bank witnessed an encouraging increase in income from digital products and platforms with customers shifting to digital channels under social distancing and health guidelines.

Expressing his views on the performance of the Bank, Jonathan Alles, Managing Director / CEO of HNB stated that “our country was moving in a positive trajectory over the last few months, until the second wave struck us, however, this has been a common phenomenon across the world. Therefore, it is important to provide the necessary support to drive grass root revival and adapt to the ‘new normal’. As of September, HNB has provided moratoriums to over 85,000 customers and processed working capital finance amounting to over Rs. 24Bn to COVID affected businesses under the CBSL Saubhagya schemes. Over the past two years, the banking sector of Sri Lanka, has stepped in to support distressed sectors, providing necessary financial assistance as our country underwent, multiple shocks. At this critical point in time as a responsible D-SIB, HNB will once again stand by its loyal customers, to ensure

that they come out of this crisis successfully. We strongly believe that the authorities will introduce sustainable, long term solutions and more stable alternate funding options to support the most vulnerable segments of our economy”.

He added that “we are cognizant of the tough road ahead of us, however we remain optimistic of the revival of our economy and the time taken for recovery would depend on how successful we are as a nation in managing the crisis. At HNB, we will continue to drive transformational change in our systems, processes and people operating within the new normal, and play a meaningful role in the resurgence of Sri Lanka.”

The NPA ratio of the Bank increased to 6.51% compared to 5.91% as at end of December 2019 and 6.4% as at 30<sup>th</sup> June 2020. However, an exposure of Rs. 11.5 Bn to a State Owned Enterprise, which was classified as NPA in December 2019, was regularized in October 2020. Accordingly, after adjusting for this recovery, the NPA ratio for the Bank would have decreased to 5.06% from the NPA ratio of 6.51% reported for September 2020. The impairment charge for the period increased by 45.6% YoY over the nine-month period to Rs. 11.8Bn. Although the Bank’s policy is to account for impairment for foreign currency denominated government securities based on the ratings published by Fitch Ratings, the Bank recognized a provision of Rs 427 Mn during 3Q 2020, on account of the sovereign downgrade by Moody’s in September 2020, in addition to the provision made in 1Q 2020 due to the sovereign downgrade by Fitch Ratings.

The Bank’s focus on optimizing costs under challenging conditions, enabled a Rs. 1.3Bn decline in Operating expenses with cost to income ratio maintained at 40%, similar to the levels recorded in September 2019.

Accordingly, the Bank recorded a Profit Before Tax (PBT) of Rs. 10.3Bn for the nine-month period, which is a decline of 23.1% YoY compared to the corresponding period of 2019. The removal of Nations Building Tax and Debt Repayment Levy proved to be extremely vital to maintain the stability of the banking sector, especially in the current context. Accordingly, the Profit After Tax (PAT) of Rs. 7.7 Bn represented a drop of 3.8% YoY.

Gross loans grew marginally by Rs. 11.9Bn to Rs. 783.9Bn, in the backdrop of low demand for credit, while the deposit base grew by an impressive Rs. 112.4Bn recording a growth of 13.9% during the year 2020. The CASA base saw a faster growth of 24.8% during the nine months growing by Rs. 70.6Bn to Rs. 355.4 Bn as at end of September 2020. This has contributed to HNB being able to maintain a strong liquidity position during the period with Statutory Liquid Asset (SLAR) and Liquidity Coverage Ratio (LCR) being well above regulatory minimum requirements. Bank’s total asset base expanded to Rs. 1,248.1Bn by 10.9% from December 2019 to September 2020. The Bank also continues to be among the best capitalized banks in the industry with Tier I and Total Capital Adequacy Ratios of 14.69% and 18.33% respectively.

The Group’s Insurance and Investment Banking businesses performed admirably as the HNB Group made PBT of Rs. 12 Bn during the first nine months, which is a 18% YoY drop while Group PAT

increased by a marginal 1.2% YoY to Rs. 8.8 Bn. Group level assets rose by Rs. 128 Bn since the end of last year, a 10.7% growth to Rs. 1.3 Trillion.

In recognition of HNB's efforts with regard to managing the impact of COVID, covering assistance to customers and community; driving transactions through digital platforms; intensified focus on managing risks and upgrading and enhancing digital and technological platforms, the Asian Banker, recently adjudged HNB as the 'Best Managed Bank in Sri Lanka during COVID-19', under its awards programme for the year 2020.

Jonathan Alles added that "I would like to extend my sincere appreciation to the management and staff of HNB for braving many obstacles to ensure continuous service to our loyal clientele amidst the pandemic. Also, I wish to place on record my deepest gratitude to our valued customers, investors and all other stakeholders, for continuously placing their trust and confidence in us during these testing times".

In early 2020 HNB was bestowed with the 'Best Retail Bank in Sri Lanka' award by the Asian Banker Magazine, for the 11th time. HNB is also the No. 1 Company in Sri Lanka in the latest Business Today Top 30 Company rankings and is listed amongst the Top 1,000 World Banks as published by the prestigious Banker magazine of UK.