

Digital and Customer Service Excellence propel HNB Group PAT to Rs 16.7 Bn in 2017

- **Bank PAT Rs 16.5 Bn**
- **Lowest recorded cost to income ratio of 39.4%**
- **Group Assets cross Rs 1 Trillion**
- **Deposits surpass Rs 700 Bn**
- **Strong capital position with a CAR of 17%**

HNB successfully weathered the challenges that arose in 2017 while leveraging upon new growth opportunities to post a profit after tax (PAT) of Rs 16.5 Bn reflecting growth of 16.4% Year-on-Year (YoY). Group PAT improved to Rs 16.7 Bn while the Group's asset base crossed the Rs 1 trillion milestone, during the year.

In 2017 HNB was recognized domestically and internationally for its outstanding performance and was crowned the 'Best Bank in Sri Lanka' by the coveted Banker Magazine UK.

CASA growth of Rs 23.4 Bn during the year was a key achievement given the industry wide decline in CASA ratios as high interest rates attracted funds into fixed deposits. Nevertheless through concerted efforts HNB successfully maintained its CASA ratio while focusing on profitable business segments. As a result the Bank's Net Interest Margins (NIM) increased from 4.80% in 2016 to 4.87% in 2017.

The bank's Fee & Commission income grew by 18% YoY in 2017, strongly supported by rapid growth in digital payments and channels in addition to the growth in Trade Finance. During the period under review, the revenue from digital payment platforms and channels accounted for 30% of the total Net Fee & Commission income of the Bank. This included fees associated with cards, ATM and electronic banking transactions.

Net losses from trading doubled in 2017 to Rs 3.7 Bn on account of higher swap costs. This loss was however offset by balance sheet translation gains, which together with foreign exchange income amounted to Rs 3.2 Bn and reflected under 'other operating income'. Further supported by an increase in dividends from group companies, other operating income grew by 58.3% YoY to Rs 5.2 Bn during 2017.

The NPA ratio increased marginally to 2.28% compared to 1.8% reported as at end of 2016, however it was an improvement from 2.64% reported as at third quarter of 2017. The impairment charge for 2017 also increased to Rs 3 Bn from a very low base of Rs 237.2 Mn in 2016 which was a year where several large overdue loans were recovered.

HNB leads the industry with the lowest cost to income ratio among peers which improved further to 39.4% in 2017 from 42.5% in 2016 as the bank was able to reap the benefits of the extensive business process re-engineering, lean and digitization efforts undertaken over the past few years. The ratio has improved by more than 13 percentage points since 2012.

HNB's profit before taxes and financial VAT was reported at Rs 27.1 Bn amounting to growth of 10.5% YoY while total tax charge for the Bank and the group stood at Rs 10.6 Bn and Rs 11.8 Bn respectively. The Bank's ROA remained at 1.8% while the ROE declined to 17.8% for 2017 due to the increase in equity through the rights issue.

Meanwhile, HNB's total assets grew by 11.2% YoY to Rs 954.9 Bn while loans and advances grew by 9.4% YoY to Rs 639 Bn. The Bank consciously maintained low growth in advances in order to focus on profitable balance sheet growth and portfolio quality. HNB's deposit base grew by 12.5% YoY and exceeded the Rs 700 Bn mark with the Bank's CASA growth of 10.4% YoY outpacing industry average.

HNB's Capital adequacy ratios were bolstered significantly in 2017 with the Rs 14.5 Bn rights issue to fund growth enabling the Bank to keep well abreast of more stringent capital requirements under the Basel III regime. HNB's Tier I and Total Capital Adequacy ratios were computed at 13.7% and 17% respectively as at the end of 2017 against the regulatory requirements of 6 % and 11.75%.

All group companies reported profits during the period in review, and contributed towards a total group PAT of Rs 16.7 Bn which reflected growth of 6.9% YoY. Group ROA and ROE were recorded at 1.75% and 14.95% respectively.

The bank's ability to innovate garnered numerous accolades, including Best Retail Bank in Sri Lanka by the Asian Banker Magazine which also recognized HNB for the Best Micro Finance Product in Asia Pacific. Similarly, Asiamoney awarded HNB as the Best Bank for SME and CSR while the Bank's Islamic Banking business was recognized with multiple awards at both Islamic Finance Forum South Asia and the Sri Lanka Islamic Banking and Finance Awards.

These remarkable achievements were reflected in HNB's move to No. 3 in the LMD Top 100 Companies ranking and to the second position in Business Today top 30 rankings, which places HNB as the highest ranked bank in Sri Lanka in both categories. The bank won significant recognition at the Best Corporate Citizens awards organized by the Ceylon Chamber of Commerce where HNB bagged five awards including the Overall - Runner up award and the Banking Sector Gold Award.

HNB's leadership in technology was further validated by being awarded the 'Best ATM Network of the Year' at the Lanka Pay Technovation Awards 2017 while the HNB Fit account was recognized at the Emerging Technologies Led Innovation award organized by Infosys India. CFA Sri Lanka bestowed HNB with a 'Bronze' award for Investor Relations while HNB's Annual Report was adjudged to be among the top 10 integrated reports at the CMA Sri Lanka awards 2017. CA Sri Lanka recognized HNB's Annual Report with a Banking Sector Silver award and a Bronze award in Corporate Governance.

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 - (Ika) from Fitch Ratings Lanka Ltd. HNB is also ranked amongst the top 1,000 banks in the world by the Banker.