HNB Group PAT Rs 19.1 Bn

- PBT Rs 26.5 Bn
- Operating Profit Rs 33 Bn
- Tax charge Rs 14.2 Bn
- Cost to Income ratio improves by 400 bps

HNB Group recorded a Profit Before Tax of Rs 26.5 Bn and a Profit After Tax of Rs 19.1 Bn, posting a YoY growth of 14.6% and 14.4% respectively for the year ended 2018 in a clear demonstration of the resilience of the Group's robust business model despite an array of challenges faced by the industry.

Driven by sound loan book growth and improved margins, Interest Income at the Bank grew by 12.4% YoY to Rs 108.1 Bn. Interest expenses increased at a slower 7.1% YoY on account of zealous mobilisation of low cost CASA deposits. In the backdrop of an industry decline in the CASA ratio, this is an improvement of 11.1% during the 12 month period. The resultant Net Interest Income (NII) grew by 20.0% YoY to Rs 47.6 Bn.

The Bank's Net Fee and Commission income rose by 13.1% over 2017 to Rs 9.4 Bn. from strong growth in Commission income from Trade Finance, Credit Cards and Remittances supported by fees from digital banking, cash management and custodial services.

The industry witnessed the non performing advances ratio deteriorating by approx. 100 bps during the year and the Bank successfully managed its NPA ratio at 2.78% as at end of the year. The individual impairment for the year decreased by 10.4% to Rs 3.9 Bn. The collective and other impairment charges amounted to Rs 5.4 Bn for the year. 65% of this amount was the impact of the adoption of SLFRS 9 standard with effect from 1stJanuary 2018.

The multi-pronged centralisation and efficiency initiatives pursued by HNB continued to yield dividends with the Cost to Income ratio improving by 300 bps to 36.4% whilst this impact was also mirrored in the Group cost to income ratio of 43.0% - an improvement of over 400 bps.

The Group reported an 'Operating Profit' prior to taxes and levies of Rs 33 Bn, a considerable 16.4% YoY growth over the Rs 28.4 Bn achieved in the previous year. The Bank's Operating Profit amounted to Rs 29.3 Bn which is a growth of 8.3% YoY.

The Bank's PBT grew by 4.1% YoY to Rs 23.0 Bn. The introduction of Debt Repayment Levy effective from the fourth quarter of 2018 resulted in an increase in the total FSVAT for the Bank rising by 26.8% relative to the previous year. The new Inland Revenue Act mandating the abolishment of tax exemptions on specified investments also lead to an increase of 33.1% in the income tax charge for the Bank. The resultant total tax charge for the year to the Bank amounted to Rs 13.8 Bn with the PAT for the Bank at Rs 15.5 Bn for the year 2018.

Group PAT generated a Return on Assets (ROA) and Return on Equity (ROE) of 1.6% and 14% respectively.

Commenting on the 2018 performance, MD/CEO of HNB Mr. Jonathan Alles stated that “the year 2018 posed challenges to the banking sector on many fronts. The stressed market conditions and significant debt collection challenges resulted in a decline in asset quality industry wide, whilst the requirement to adopt SLFRS 9 reporting standards further exacerbated this position, requiring higher impairment charges. The recent downgrade of the sovereign rating, has increased the borrowing cost and triggered further impairment of investments in foreign currency government securities held by the sector.”

The sound loan book growth represented a 18.8% YoY increase in Bank’s Advances to Rs 772 Bn while the deposit base expanded by 14% YoY to reach the Rs 800 Bn mark. Total Assets grew by 13.8% YoY to Rs 1.1 Trillion.

HNB Assurance, the Group’s Insurance arm, performed well during 2018 to lead the performance of the subsidiaries. Acuity Partners the Investment Banking business and HNB Finance also performed strongly in their respective business spaces despite the effects of the non-conducive business climate being felt across spheres. The Group gross loan book grew by 19.2% YoY to Rs 795 Bn and was supported by the consolidated deposit base growing by nearly Rs 100 Bn during the 12 months to Rs 818 Bn. The Group’s asset base increased by 14.0% YoY to Rs 1,148.6 Bn (Rs 1.15 Trillion).

Notwithstanding the SLFRS 9 impact on reserves, the Bank and Group remains well capitalised even under the more stringent BASEL III regulations. Tier I Capital was reported at 12.80% for the Bank and 13.16% for the Group while Total Capital Ratio amounted to 15.22% and 15.41% for the Bank and Group respectively.

In 2018 HNB was placed first, in several diverse banking awarding forums including Retail, Forex, Payments, Cash Management, SME Banking, Digital Banking, Sustainable Reporting and Islamic Finance. The Bank was also recognised 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. In 2018 HNB had the distinction of becoming the No. 1 Bank in Sri Lanka in the Top1000 World Banks 2018 ranked by the ‘The Banker’ magazine of the UK and the No.1 Bank in ‘Business Today’ rankings for 2017/18.