

## **HNB Group PAT records 7% growth**

HNB Group Post-tax profits grew to Rs 6.23Bn while the Bank recorded a PAT of Rs 5.69 Bn during the 9 months ended September 2014. It is commendable that this performance was achieved despite declining margins and lower loan growth witnessed in the early part of the year.

Commenting on the performance over the period, Dr Ranee Jayamaha, Chairperson of HNB PLC stated that "the industry witnessed the much anticipated acceleration in credit growth during the third quarter and HNB too recorded a strong growth reinforcing its lead position". Third quarter saw net loans and advances of HNB increasing by Rs 14.7Bn driven by concerted sales efforts in corporate, SME and retail segments. On a year on year basis, net loans and advances of the Bank recorded a 9.3% growth surpassing the industry growth rate for the period, in spite of a drop of Rs 24Bn in the pawning portfolio of the Bank.

During the 9 months period HNB also successfully improved its Current and Savings Account (CASA) ratio to approximately 44% from 40% as at end of December 2013 through a focused approach on mobilizing low cost deposits.

The Bank recorded an 8% increase in total operating income to Rs 23.9Bn for the 9 months ended September 2014, despite a marginal drop of 3% in net interest income as a result of interest margins coming under pressure. The increase was achieved by a commendable growth of 17% in fee income, a healthy growth in exchange income and capital gains from fixed income and equity investments.

Aggressive recovery efforts initiated by the Bank coupled with provision reversals made on account of pawning during the period, resulted in an improvement in the provision for impairment to Rs 2.6 Bn from Rs 3.1Bn for the corresponding period last year. This impairment provision also included the interest written off on pawning which was netted off against the interest income during earlier reporting.

The focus on recoveries also resulted in the NPA ratio as at end of September 2014 improving to 3.71% in comparison to 4.06% recorded in June 2014 with industry NPA levels remaining to be high at 5.3%. The Bank was successful in recovering approximately Rs 1.2 Bn during Q3 from a hotel project in Maldives, which was in NPA for couple of years. This was the second large recovery of NPA done during the year from Maldives.

Operating expenses of the Bank witnessed an increase of 13% to Rs 11.4Bn compared to the corresponding period of 2013. The increase was largely on account of personnel expenses being exceptionally low in 2013 as a result of the reversal of provision amounting to Rs. 1.5Bn for Employee Share Benefit Trust (ESBT). Furthermore the Bank was successful in reducing the non-staff related expenses by 2.5% during the period.

Mr. Jonathan Alles Managing Director / CEO of HNB PLC stated that "through our strategic intent on enhancing fee income and operational efficiency we successfully improved our cost to income ratio to 48% during the period under review, notwithstanding a drop in interest margins. Going forward, we believe that the investments made to upgrade technology and to improve the

electronic banking platform as well our continuous focus on streamlining processes would result in realising greater benefits and together with the expectation of credit growth to pick up in the coming months, we would be able to record far superior results".

The Bank and the Group recorded an improvement of 12% in operating profit before VAT and NBT to Rs. 9.9Bn and Rs 10.3Bn respectively for the 9 months ended September 2014. The introduction of NBT on financial services with effect from January 2014 and the changes to VAT regulations in Q3 2014 resulted in the total effective tax rate increasing to 42.6% from 39.4% for the period under consideration. The Group companies, HNB Assurance PLC, Acuity Partner (Pvt) Ltd and Sithma Development Ltd also contributed towards the growth in profits.

In November 2014, subsequent to obtaining regulatory clearance, HNB acquired a 51% stake in voting rights of Prime Grameen Micro Finance Ltd at a purchase consideration of Rs 660Mn and this investment is expected to contribute towards strengthening the Group performance further.

Hatton National Bank has been awarded by the Asian Banker Magazine as the 'Best Retail Bank in Sri Lanka' for six consecutive years for its performance from 2007 to 2012 and named as the 'Bank of the Year in Sri Lanka' for the year 2012 & 2013 by the Banker Magazine of UK. In 2012 HNB became the first Sri Lankan bank to obtain an international credit rating and was assigned a foreign currency issuer rating of B1 on par with the sovereign rating by Moody's Investors Service, while it has a national long term rating of AA- (lka) by Fitch Ratings (Lanka) Ltd.