

## **HNB Group records a post-tax profit of Rs.1.27Bn in Q1 2013**

Q1 2013 continued to be challenging for the banking sector with demand for credit slowing down further, nevertheless HNB recorded a growth of 36% in interest income to Rs.13,683 Mn in Q1 2013 from Rs.10,035 Mn in Q1 2012 due to 11% yoy expansion in its loan book and relatively higher rates of interest.

Interest expenses too increased by 46% from Rs. 5,187 Mn in Q1 2012 to Rs. 7,584 Mn for Q1 2013 on account of the increase of Rs. 34Bn in the deposit base, which is a growth of 11% yoy as well as the higher rate of interest compared to the previous period and the shift witnessed towards high yielding deposits.

As a result, HNB's Net interest income witnessed a growth of 26% for Q1 2013 as against the corresponding period of 2012.

The net income from fees and commission recorded an improvement of 10% despite, slowdown in foreign trade during the period. However, the Bank incurred a loss of Rs. 1,022Mn, compared to the gain of Rs. 805Mn made in 2012 on account of the revaluation of forward contracts and swaps. The gain made in 2012 was largely on account of the significant depreciation of the Rupee witnessed during Q1 2012 while exchange rate volatility in the current period resulted in the loss due to revaluation of forwards and swaps. HNB's other operating income grew by Rs. 1,210 Mn during the first quarter of 2013 from a loss of Rs. 379 Mn during first 3 months of 2012 due to exchange gains/losses from non-derivative assets and liabilities. The fluctuation in the exchange rates as well as the change in composition of the Bank's non-derivative assets / liabilities, resulted in the Bank posting an exchange gain in the current period compared to 2012.

With the implementation of SLFRSs the Bank replaced the CBSL time based provision with an impairment loss computed based on incurred loss model and accordingly the Individual Impairment on individually significant loans improved by 27% while Collective Impairment on individually insignificant loans increased by 119% for the Q1 2013.

Operating expenses for Q1 2013 increased by 12% primarily due to salary revision to all grades of staff, fair valuation of the liability under Employee Share Benefit Trust under SLFRS and increase in general charges.

Accordingly the profit before tax of HNB for Q1 2013 was Rs. 1.69 Bn compared to Rs. 1.82 Bn recorded in Q1 2012 while profit after tax stood at Rs. 1.16 Bn compared to Rs. 1.23Bn.

Group pre-tax profits stood at Rs. 1.81Bn compared to Rs. 1.91Bn while the Group post-tax profits was Rs. 1.27 Bn compared to Rs. 1.32 Bn as at end of Q1 2012.

Commenting on the performance, Dr.Ranee Jayamaha, Chairperson of HNB PLC stated that HNB has recorded good first quarter results despite challenging market conditions and sluggish credit growth. However, with the expected turnaround, HNB is poised to take advantage of all opportunities available to grow its business.

Mr. Jonathan Alles, the Acting CEO of HNB PLC commented that he was happy with HNB's performance in what could be termed a somewhat flat first quarter. He too stated that HNB had made good progress in technology and process enhancements and that the execution of the 2013/15 strategic plan is on course. The launch of Mobile Banking is one such initiative in 1Q 2013 and is in line with HNB's strategy to advance in technology with a view to maximize operational efficiency.

The price of the voting share of HNB improved by 13% during the first quarter 2013, with the price at Rs.167.30 as at end of the first quarter 2013 compared to Rs. 148.00 at the end of December 2012 while the non-voting share recorded a gain of 17.2% to Rs.131.80 from Rs.112.50 at the end of 2012.

HNB was awarded as the 'Best Retail Bank in Sri Lanka' for the sixth consecutive year by the prestigious Asian Banker at the 12th Excellence in Retail Financial Services Awards held on 21st March 2013.