HNB surpasses Rs 500Bn in assets; Rs 10Bn in PBT

The year 2013 was one of the most challenging years faced by the financial services industry with demand for credit remaining low, margins coming under pressure, asset quality continuing to deteriorate and declining gold prices affecting the pawning business. In this backdrop, HNB has successfully weathered the challenges as demonstrated by its credit growth of 16.8% which is well over the industry growth of 8.8%, above industry interest margins, NPA ratio of 3.6% compared to 5.6% for the Banking sector and pawning NPA of 1.1% for the Bank against the industry average of 12.7%.

Commenting on the performance of the year 2013 Dr Ranee Jayamaha, Chairperson of Hatton National Bank PLC stated that "year 2013 has been one in which our sustainable business model and the collective skills of our team have been put to test on many fronts. The results speak for themselves and is a testimony of the resilience of the Bank and the collective strength in responding to change and remaining focused".

Interest income which is by far the largest contributor to the Bank's total revenue grew by 18% to Rs. 55.7 Bn driven by the aggressive credit growth achieved by the Bank. While the high interest rates witnessed during major part of 2013 also contributed towards the growth in interest income, the interest write-offs from pawning advances had an adverse impact. Interest expenses increased at a faster pace of 24% during the year, thereby compressing margins. The growth of 13%, in deposits coupled with higher interest rates resulted in the surge in interest cost during the year. Despite the drop in margins the Bank posted a 11% growth in net interest income to achieve Rs 24.3 Bn as a result of the strong balance sheet growth.

Fee and commission income witnessed a 16% yoy growth, driven by fees from card acquisitions, remittances, guarantees and trade income despite overall slow down in international trade during the year. In addition several initiatives in electronic and mobile banking rolled out in 2013 will drive the Bank's fee income in the medium term.

The revaluation loss on swaps that were obtained to hedge exchange risk created due to foreign borrowings increased by 11% to Rs 1.8 Bn. This is a reflection of higher swap costs during 2013 compared to 2012.

Net gain from financial investments of the Bank increased by Rs 159 Mn due to higher dividends received during the year from its equity investments in the available for sale category.

Other income of the Bank mainly reflects exchange gains from customer transactions and revaluation of foreign currency borrowings. The higher depreciation of the Rupee in 2012 compared to 2013, resulted in a lower revaluation gain, resulting in a decline of 24% in other income compared to the previous year.

The total operating income of the Bank stood at Rs 28.6 Bn for 2013, reflecting a growth of 9% over 2012.

The Bank was successful in marginally improving its NPA ratio to 3.64%, by end of 2013 compared to 2012, despite adverse conditions experienced by the industry. The provisions increased to Rs 3.2 Bn largely due to the decline in gold prices, which in turn has resulted in maintaining a healthy provisioning cover of 62.5%. Accordingly, the net NPA for 2013 improved to 1.37% compared to 1.82% in the previous year. The NPA calculations are based on time based provisioning method as per CBSL guidelines.

The overall operating expenses dropped by 1% due to an18.5% reduction in personnel expenses largely on account of the reversal made with regard to the Employee Share Benefit Trust. Other expenses increased by 14.5% mainly due to higher investments made to upgrade technology. Accordingly, the cost to income ratio for 2013 reduced to 47.8% indicating an improvement, compared to 53.0% in the previous year.

The financial VAT increased by 33% to Rs 1.7 Bn in 2013 whereas the corporate tax expense increased by 28% to Rs 3 Bn. Accordingly, the effective rate for VAT & corporate tax increased to 40% from 32% in 2012. In 2012, the Bank had a substantial amount of tax reversals which resulted in the effective tax rate been substantially low compared to 2013.

The Bank's Profit before VAT & Tax grew by 5% to Rs 11.7 Bn while net profit after tax recorded a decline of 7% to stand at Rs 7 Bn for the year.

Mr. Jonathan Alles, Managing Director / CEO of HNB stated that "during the year 2013 we crossed the Rs 500 Bn mark in assets and achieved a PBT of Rs 10 Bn notwithstanding the challenging conditions experienced. In 2013, HNB embarked on a journey united in purpose as one team, towards being the best in class service provider. We made significant investments in technology, enhanced our service delivery through electronic channels and commenced a Business process re- engineering initiative to drive sales by optimising the business operating model. Going forward, the Bank will leverage on these initiatives to reach greater heights".

Other group companies including HNB Assurance PLC, Acuity Partners and Sithma Development (Pvt) Ltd performed very well during the year with profit growth of 11%, 169% and 37% respectively. Accordingly the Group posted a net profit of Rs 7.8 Bn for the year 2013.

The Bank proposes a final cash dividend of Rs 7.00 per share in addition to the interim dividend of Rs 1.50 per share declared in December 2013 resulting in a total cash dividend of Rs 8.50 per share for the year.

The Capital adequacy of the Bank remained strong with the tier I capital ratio at 12.95% and total capital adequacy ratio at 16.52% through internally generated funds and tier II capital raised through subordinated debenture issue.