



HNB Records Stable And Robust Performance





Aruni Goonetilleke,Chairperson, HNB. Jonathan Alles, MD/CEO, HNB.

Hatton National Bank (HNB) solidified its position as one of the most sustainable and robust banks recording a well-rounded performance in 2021.

Group Profit After Tax (PAT) increased to 20 billion rupees, representing a growth of 47 percent YoY, while Bank PAT improved to 17.3 billion rupees, as economic activity picked up during the year. The monetary policy loosening adopted to spur economic growth after the first wave of the COVID-19 pandemic in 2020 continued to be in place until August 2021. Although the interest rates increased after the 50bps increase in policy rates in August, the average AWPLR for 2021 was approximately 160bps below 2020, and this resulted in a decline of 5.1 percent in interest income to 98.6 billion rupees, despite a robust loan growth in the second half of the year. Similarly, interest expense reduced by 17.2 percent to 49 billion rupees, resulting in a Net Interest Income (NII) growth of 10.8 percent YoY to 49.6 billion rupees.

Commenting on the performance during the year, Aruni Goonetilleke, Chairperson of HNB, stated that “2021 was a test of endurance and agility as the COVID-19 pandemic continued to disrupt lives and economic activity. During the tumultuous year, our colleagues around the country, led by Jonathan Alles, Managing Director and Chief Executive Officer and the Management Team, have focused on protecting the interests of shareholders while ensuring the wellbeing of colleagues, supporting our customers, and showing solidarity with our communities”. “I am pleased to note the overall robust performance of the HNB Group during 2021, delivered through sustainable growth and profitability, improved asset quality, as well as strong capital and liquidity. The Group also successfully drove digital adoption through future-ready products and services. I wish to place on record my sincere appreciation for the entire Hatna family for their commitment and dedication during testing times, our valued customers for their continuous patronage, our investors and all other stakeholders for their trust and confidence”.

Net Fee and Commission income of the Bank grew by 27.5 percent YoY to 9.6 billion rupees driven by higher card and trade business volumes as economic activity rebounded. Other non-interest income grew by 61 percent to 6.5 billion rupees, mainly due to the position revaluations on account of the deprecation of the rupee

by eight percent during 2021.

Improvements regarding credit underwriting standards, approval processes, and recovery action have resulted in further improvements in asset quality reflected by the NPA ratio, which improved to 3.38 percent from 4.31 percent in 2020 to record one of the best NPA ratios in the industry. The Net Stage III loans ratio also improved by 85 bps to 2.55 percent at the end of 2021. The impairment charge for the year increased to 18.8 billion rupees, as significant management overlays were recognized on elevated risk industries. A provision of 6.9 billion rupees was made on foreign currency denominated government securities as the sovereign was downgraded to CC by Fitch Ratings.

Total operating expenses increased by only 2.3 percent YoY, mainly due to a 6.1 percent reduction in personnel costs.

Other operating expenses, which account for 52 percent of total operating expenses, increased by 11.4 percent YoY. However, this was still 3.9 percent below the pre-pandemic level. The growth in Total Operating Income at a higher rate of 16.7 percent resulted in the cost to income ratio improving considerably to 34.4 percent.

Commenting on the performance, Jonathan Alles, Managing Director and Chief Executive Officer of HNB, stated that “Humanity has faced the crisis of a generation, and HNB has demonstrated remarkable resilience against this backdrop. Over the past 133 years, our journey has been through many peaks and troughs. We have continuously strengthened our risk management, compliance, and governance, which has helped us overcome challenges. This is testament to our strong and stable performance”.

“HNB has continued to extend support to revive livelihoods. We are pleased to note that many customers have successfully gotten back on their feet as moratoria extended has reduced from 40 percent of our loan book to nine percent as of the end of December 2021. Currently, the moratoria outstanding is only in the tourism sector, with concessions extended to other sectors ending in 2021. The relaxation of travel restrictions by many countries and high vaccination rate in Sri Lanka augurs well for the tourism sector. Our focus on being future-ready and the investments we have made over the past enabled us to support our customers to carry out their transactions seamlessly, through our digital platforms and payment solutions. With evolving customer needs and lifestyles as well as high digital adoption rates owing

to the pandemic, we will continue our digital transformation journey to provide an enjoyable banking experience to our customers. Team HNB is at the heart of our business, and enhancing the employee value proposition has been a core focus. As we move on, we will continue our efforts on strategic workforce planning, build a strong talent pipeline to operate in a future-fit organization, develop future leaders through structured programs and promote work-life balance. The road ahead of us will be challenging as Sri Lanka is currently at a crucial juncture. However, we see great potential in many areas such as tourism, agriculture, education, healthcare, IT, KPO, and BPO as sustainable avenues of foreign exchange-earners for our nation and encouraging remittances from migrants. We believe that necessary steps would be taken to support these sectors to grow to their full potential. As a 'partner in progress' who has supported many micro, small and medium entrepreneurs to migrate to today's large corporates, we will continue our journey of partnering the progress of our nation and its people."

Profit Before Tax (PBT) amounted to 19.8 billion rupees, a 31.5 percent YoY increase from the PBT reported in 2020.

The total effective tax rate for 2021 was at 28.9 percent, as the income tax rate was reduced to 24 percent from 28 percent due to reversals of excess provisions from previous years. The resulting PAT of 17.3 billion rupees generated a ROA of 1.3 percent and an ROE of 12.1 percent, respectively.

Robust growth in the last two quarters of 2021 led to a gross loan book growth of 14 percent during 2021, to 929 billion rupees. On the funding side of the balance sheet, deposits grew by 11.1 percent YoY to 1.1 trillion rupees.

CASA grew at a higher pace of 15 percent YoY, improving the CASA ratio to 41.0 percent. Total Assets of the Bank improved to 1.4 trillion rupees while the equity capital was enhanced to 152 billion rupees.

With industry-leading Tier I and Total Capital Adequacy ratios of 14.53 percent and 18.16 percent, respectively, HNB is very well-capitalized. Liquidity levels also remain strong, with Liquid Asset Ratios at 28 percent and Liquidity Coverage Ratio at 208 percent against the regulatory requirements of 20 percent and 90 percent, respectively.

All Group Subsidiaries complemented the Bank's results as the Group recorded a Profit Before Tax of 23.1 billion rupees, a 31.1 percent YoY increase compared to

2020.

The Group PAT of 20.1 billion rupees enabled a ROA of 1.42 percent, while Profit Attributable to Shareholders, which rose by 45.3 percent YoY to 19 billion rupees, delivered an ROE of 11.50 percent.

Total Group Assets improved to 1.5 trillion rupees, recording a six percent YoY expansion.

The Board of Directors declared a final dividend of nine rupees per share, the highest dividend declared over the past few decades, consisting of a cash dividend of 6.50 rupees per share and a scrip dividend of 2.50 rupees per share.

HNB is ranked among Business Today TOP 40 2020-2021.