HNB Sails Skilfully Through the Turbulent First Half of 2022

HNB made a positive, strong growth during the first half of 2022



Aruni Goonetilleke, Chairperson, HNB.



Jonathan Alles, MD/CEO, HNB.

HNB Group recorded a Profit Before Tax (PBT) of 6.7 billion rupees and a Profit After Tax (PAT) of 6.1 billion rupees during the first six months of 2022 amid a highly challenging operating environment.

Aruni Goonetilleke, Chairperson of HNB, said “The extraordinary market conditions have created a set of new challenges for the entire banking sector. As external factors continue to be volatile, it is important to take necessary steps to minimize the negative impact of the risk factors. At the same time, we must be open to opportunities that arise even during a crisis. Our performance during the first half reflects this meticulous and prudent approach as we focus on delivering long-term value to our stakeholders”. Bank’s gross income back grew by 71 percent YoY to 97.1 billion rupees driven by a 53 percent growth in interest income, 61 percent growth in fee income, and 349 percent in exchange income. The exceptional growth in net interest income from 23.2 billion rupees to 40.2 billion rupees was primarily due to the increase in average AWPLR by approximately 16 percentage points in line with the tight monetary policy adopted by the Central Bank of Sri Lanka. The Fee income also recorded a steady growth increasing to 7.3 billion rupees for the six months mainly because of improved trade and card income. The total exchange income improved to 15.3 billion rupees from 3.4 billion rupees during the first half of 2021, as the rupee depreciated by over 80 percent. Accordingly total operating income improved to 63.3 billion rupees recording a 100 percent YoY growth.

The Bank made a total impairment of 40.1 billion rupees for the first six months of the year. The total impairment charge for the period included an impairment of 27.3 billion rupees on account of the foreign currency-denominated government securities held by the Bank according to the suspension of external debt repayment by the Government of Sri Lanka and the sovereign downgrade. Considering the volatilities and the economic factors, the Bank recognized an impairment of 22.7 billion rupees on account of loans and advances for 1H 2022 compared to the provision of 6.2 billion rupees made in the corresponding period of 2021. An amount totaling to 10.8 billion rupees relating to the exchange impact on impairment of foreign currency loans and investments was set off against the exchange income for the period.

The net stage III ratio of the Bank improved to 2.46 percent from 2.55 percent at the end of December 2021, while the provision coverage on stage III loans improved from 56 percent to 63 percent, maintaining the position as one of the best in terms

of asset quality among peers. The Bank recorded a PBT of 6.0 billion rupees and a PAT of 5.5 billion rupees for the six months ended June 2022, compared to 10.9 billion rupees and 9.1 billion rupees in the corresponding period of 2021. Jonathan Alles, Managing Director/Chief Executive Officer, stated that “Since 2019, HNB has been supporting its customers to revive their livelihoods by extending capital and interest moratoria. With such assistance coming to an end and debilitating economic conditions impacting the repayment capacity of customers, we have conservatively recognized substantial impairment on our loans and advances. Furthermore, ahead of the finalization of the debt restructuring program with the IMF, we have prudently made a significant impairment on our investments in Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds during the first half of 2022. This resulted in the exceptional growth in total operating income being absorbed greatly. Recently, a banking consortium, which included HNB and seven other banks, appointed a Singapore-based legal firm to act as the common legal counsel to protect the interest of these banks in terms of their holding in international sovereign bonds. Given that the banking sector is the economy’s lifeline, we strongly believe that the authorities will decide on a mutually agreeable solution to safeguard the interest of the banking sector. Notwithstanding the external challenges, we will continue our journey on ensuring an enjoyable experience to our customers through unparalleled service, digitalization, and process re-engineering while continuously developing our human capital to be ready to serve and support post-crisis Sri Lanka and Sri Lankans”. The Bank’s asset base expanded by 239 billion rupees to 1.6 Trillion rupees during the first six months, with loans and advances growing by 138 billion rupees to 1.1 trillion rupees.

Total Deposits of the Bank grew to 1.3 trillion rupees by 217 billion during 1H 2022. The balance sheet growth was partly supported by the devaluation of the rupee during the period. The Bank reported Tier I and Total Capital Adequacy Ratios of 11.39 percent and 14.54 percent, respectively, against the minimum requirement of 9.5 percent and 13.5 percent, respectively. The Central Bank also permitted licensed commercial banks to draw up to 250 bps on the capital conservation buffer lowering the requirement to 7 percent and 11 percent, respectively. Furthermore, the Bank’s liquidity position continued to be strong, with liquid asset ratio and all currency liquidity coverage ratio at 23.9 percent and 210.3 percent, against the statutory requirements of 20 percent and 90 percent, respectively.