HNB Stands Strong in Turbulent Times





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

Hatton National Bank posted a profit before tax of 12.4 billion rupees and a profit after tax of 10.5 billion rupees during the nine months, which ended September 2022, while the Group recorded a profit after tax of 11.6 billion rupees.

Aruni Goonetilleke, Chairperson of HNB, commented, “Our performance under extremely turbulent conditions demonstrates the confidence placed in us by our customers, the robustness of our business model, and the focus and expertise of our team in navigating through intensified uncertainties. I extend my sincere gratitude to our customers, the entire HNB team, shareholders, and all other stakeholders for their continuous support and reiterating our unwavering commitment to delivering long-term value.”

The Bank’s interest income grew by 86 percent to 134.9 billion rupees, primarily due to an increase of over 12 percentage points in average AWPLR during the period, in line with tight monetary policy measures adopted by the Central Bank. Accordingly, the Bank’s net interest income increased by 100 percent YoY to 71.1 billion rupees in the first nine months up to September 2022.

The net fee income recorded a growth of 65 percent YoY to 11.0 billion rupees, largely due to higher trade and card income, compared to a subdued 2021. In addition, the Rupee devaluation by over 80 percent during the period resulted in an exceptional exchange income of 16.8 billion rupees.

The 110 percent increase in total operating income to 99.7 billion rupees was negated by the 438 percent increase in a total impairment charge to 60.3 billion rupees for the nine months. This included an impairment charge of 41 billion rupees on account of the investments in foreign currency- denominated government securities held by the Bank. The net stage III ratio of the Bank increased to 3.34 percent from 2.55 percent as at end of December 2021 as a result of the stressed market conditions, and the Bank recognized an impairment of 19.3 billion rupees on account of loans and advances.

HNB managed to curtail the increase in operational expenses at 27 percent YoY in the backdrop of a 70 percent YoY inflation and an 80 percent depreciation in the Rupee. The cost-to-income ratio improved to 22.9 percent for the nine-month period, which is an improvement of 15 percentage points compared to the corresponding period of the previous year, supported by the significant growth in net income.

The Bank’s asset base expanded by 20.2 percent to 1.6 trillion rupees during the nine months up to September 2022, while gross loans and advances rose by 13.1 percent to 1.1 trillion. Total deposits recorded a growth of 25.1 percent to 1.3 trillion rupees during the nine months. HNB’s local currency deposits grew by 17.3% to Rs 993 Bn, while the significant devaluation of the currency partly impacted the overall balance sheet growth.

Bank’s Tier I capital ratio and total capital ratio stood at 11.31 percent and 14.36 percent, against the regulatory requirement of 9.50 percent and 13.50 percent,

respectively. CBSL has allowed flexibility for Banks to draw down the capital conservation buffer up to 250 bps from the minimum stipulated requirements. Considering the prevailing macro- economic challenges, the Bank has been able to maintain a strong liquidity position during the period, with a Statutory Liquid Asset Ratio (LAR) of 30.7 percent and all currency Liquidity Coverage Ratio (LCR) of 218.5 percent being well above the minimum regulatory requirements of 20 percent and 90 percent, respectively.

Jonathan Alles, MD/CEO of HNB, stated, “The country’s severe economic crisis today has resulted in a myriad of challenges for the entire banking sector. Foreign exchange liquidity constraints impacting our ability to support customers is a major challenge. The banking sector has continued to support customers in need by extending capital and interest moratoria since 2019. While we have witnessed many customers reviving their livelihoods, many customers are still in distress, resulting in increased pressure on asset quality. Stressed income levels, high-interest rates, inflation, and taxes continue to aggravate the situation as it hinders the repayment capacity of the customers. This has resulted in the need to make higher provisions for loan impairment. The impairments on investments in foreign currency denominated government securities is an additional burden on capital at a time not conducive for raising fresh capital. While macro-economic uncertainties continue, we note the progress made by Sri Lanka about its discussions with both public and private creditors. As the backbone of the economy, banking sector stability would be crucial to ensure the revival of Sri Lanka. As such, we strongly believe that the interest of the banking sector would be safeguarded to ensure that the country reaches its development goals under the IMF program. Despite the ongoing challenges, HNB has stood out regarding its capital, liquidity, asset quality, and efficiency levels. While we remain strong and stable, we will also ensure that our systems, processes, and people are future-ready to deliver an enjoyable customer experience.”

HNB Group recorded a PBT of 14.0 billion rupees, and the Bank accounted for 90 percent of the Group PAT of 11.6 billion rupees for the nine months. Group PAT saw a drop of 13.2 percent due to the significant increase in impairment charges on account of investments in foreign currency-denominated government securities and loans and advances. Group Assets increased by 19.5 percent to 1.7 trillion rupees as of September 2022.