

# Stability And Sustainability Underpin Q1 Results For HNB



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HNB recorded a Profit After Tax (PAT) of 4.7 billion rupees during the first quarter of 2021, while Profit Before Income Tax (PBT) amounted to 5.5 billion rupees. PBT and PAT at the Group level were at 5.9 billion rupees and 4.8 billion rupees, respectively. The substantial monetary loosening adopted to revive the pandemic hit economy resulted in AWPLR dropping by nearly 400 bps over the past 12 months. This resulted in the interest income decreasing by 13 percent YoY to 23.7 billion rupees. Interest expenses too exhibited a decline of 17.2 percent YoY to 13.1 billion rupees driven by strong CASA (current accounts and savings accounts) mobilization. The CASA ratio improved from 36.2 percent in March 2020 to 39.7 percent by the end of Q1 2021 as the CASA base grew by 30 percent YoY to 395 billion rupees. As a result, the Bank's Net Interest Income (NII) for the first three months of 2021 decreased by 7.2 percent YoY to 10.6 billion rupees.

Jonathan Alles, Managing Director/CEO, HNB, stated: "HNB has demonstrated resilience, strength, and stability during a year of unprecedented disruption. We are grateful for the complete trust and support of our customers, investors, and other stakeholders throughout this time. I also wish to place on record my deepest appreciation for the unwavering dedication of our staff in continuing to serve our clientele through multiple waves of the pandemic, despite Stability and Sustainability Underpin Q1 Results for HNB the inherent risks involved. Our top priority during this time was to ensure their safety while supporting customers affected by the pandemic. We provided moratoria under three phases while

granting working capital finance out of CBSL schemes and our funds. In addition to the financial assistance provided during the last year, we enhanced our digital proposition to ensure that customers could securely and reliably access all of our services while staying safe from the pandemic. This included introducing many new features on SOLO our digital payment platform, and the launch of our new Digital Banking App and e-commerce capabilities for SME clients, among many others. We are currently in the process of further refining these powerful new services, which will undoubtedly provide greater convenience for all HNB customers in the future.”

Net Fee and Commission income for the first quarter grew by 10.2 percent YoY to 2.3 billion rupees as business activity rebounded during the period. The Credit Cards business, Trade, and Remittances, which constitute a significant share of fees, performed well despite restrictions on imports continuing to be in place. Other fee sources, which also encompass digital business lines, rose by 24.4 percent YoY. During the period, exchange rate volatility and movements led to substantial revaluation gains on swaps and forward agreements. Swap costs were also lower relative to the corresponding quarter of 2020 as swap premiums declined in line with Dollar interest rates. Accordingly, the Bank recorded a net exchange gain of 1.9 billion rupees, a 53 percent YoY improvement compared to Q1 2020. The total dividend income from investments for Q1 2021 was 421 million rupees compared to 13 million rupees in the corresponding period of 2020. As dividends were declared for the financial year 2019, they were paid only in Q2 2020 due to the pandemic.

NPA Ratio of the Bank improved marginally to 4.28 percent as at the end of Q1 2021 compared to 4.31 percent as at end December 2020, as the majority of customers who were previously under moratorium commenced repayments since October 2020.

The impairment charge for the quarter ended 31st March 2021 was 2.7 billion rupees compared to 4.7 billion rupees recorded for Q1 2020. The impairment for Q1 2020 included 708 million rupees on account of sovereign bonds, mainly due to the sovereign downgrade that was effected in April 2020. “More than a year after the pandemic, it is unfortunate that we are now seeing the most severe rise in COVID-19 cases to date. All of the lessons that we have learned over the past year will be put to the test. While the progress made in terms of vaccinations, the economic impact of this latest wave of COVID-19 infections will hinge on how

effectively we as a nation can rally together to control the spread of the virus. In this crucial moment, as a responsible domestic systemically important bank, as always, we will continue to support our valued customers and play a meaningful role as an essential service provider. We have already enabled all our digital channels and are also fully geared to support the business revival and help rebuild our nation. We request the public to remain calm, adhere to all health and safety guidelines provided, and act with responsibility and compassion towards one another. We also urge the authorities to expand the vaccination program and, in particular, seek their support to make vaccination a priority for front line and critical staff across the banking industry," Alles stated.

The zealous focus on cost optimization facilitated a marginal one percent YoY dip in Operating costs to 5.8 billion. Hence, the cost to Income was improved by a commendable 170 bps relative to the comparative period in 2020 to 38 percent for Q1 2021. Profit Before Taxes (PBT) amounted to 5.5 billion rupees and was subjected to the reduced income tax charge of 24 percent compared to the 28 percent tax charge that was applicable previously. Accordingly, the profit after tax for the Bank improved to 4.7 billion rupees by 78 percent during Q1 2021. The Bank's assets crossed 1.3 trillion rupees at quarter-end, with the gross loan book at 808.3 billion rupees. Total deposits grew to 996.1 billion rupees recording an impressive 155 billion rupees growth (18.4 percent YoY) over the 12month period since March 2020. As one of the best capitalized banks in the industry, Bank reported Tier I and Total Capital Adequacy Ratios of 14.82 percent and 17.88 percent, respectively. Similarly, HNB's liquidity levels continued to be strong and well ahead of minimum regulatory requirements with Statutory Liquid Assets and all currency Liquidity Coverage ratios at 39.98 percent (against a 20 percent requirement) and 271.79 percent (against a 100 percent requirement), respectively. HNB Group recorded a PBT of 5.9 billion and a PAT of 4.8 billion rupees for the quarter ended March 2021, recording a growth of 35.7 percent YoY and 46.7 percent YoY, respectively. Total assets of the Group increased to 1,388 billion rupees as of March 31, 2021.