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The Board of Directors
Hatton National Bank PLC
No. 479, T B Jaya Mawatha
Colombo 10

16 February 2016

Accountants' report Hatton National Bank PLC

Dear Sirs/Madams

Introduction

This report has been prepared for the purpose of prospectus issued in connection with the issuance of Subordinate, Unsecured, Redeemable, Rated Debentures of LKR 4,000,000,000/- (4Bn) with an option to increase by LKR 2,000,000,000/- (2Bn) in the event of an oversubscription of the initial issue and to raise another LKR 1,000,000,000/- (1Bn) in the event of an oversubscription of the each tranche in order to raise LKR 7,000,000,000/- (7Bn) in total debentures at a Par value of LKR 100/-.

We have examined the financial statements of Hatton National Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group") for the years ended 31 December 2010 to 31 December 2014, and report as follows.

1. Incorporation

The Bank is a public quoted company incorporated on 05 March 1970 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No.30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No.07 of 2007 under the registration number PQ 82. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The registered office of the Bank is situated at No. 479, T B Jaya Mawatha, Colombo 10. The principal activities of the Bank continues to be banking and related activities such as accepting deposits, corporate and retail banking, personnel financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, dealing in government securities, leasing and Islamic banking.

2. Financial Information

2.1 Five Year Summary of Audited Financial Statements

A summary of Statements of Financial Position, Income Statements, Statements of Changes in Equity and Statements of Cash Flows of the Bank and a summary of Consolidated Statements of Financial Position, Income Statements, Statements of Changes in Equity and Statements of Cash Flows of the Group for the financial years ended 31 December 2010 to 31 December 2014, based on the audited financial statements are set out on Annexure 01 of the Accountants' Report.

Financial Statements for the years ended 31 December 2010 to 31 December 2013 have been audited by another auditor ("Messrs. KPMG").

2.2 Audited Financial Statements for the year ended 31 December 2014

Our audit report on the Financial Statements for the year ended 31 December 2014 together with such Financial Statements comprising Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows along with the accounting policies and notes thereon is available on the websites of the Bank and CSE, www.cse.lk, where the management is responsible for the electronic presentation of the financial report and to ensure the electronic version of the audited financial report and the auditor's report on the website is identical to the final signed hard copy version.

2.3 Unaudited Financial Statements for the year ended 30 Sep 2015

The Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended September 30, 2015 is available on the websites of the Bank and CSE, www.cse.lk.

2.4 Audit Reports

The Separate and Consolidated Financial Statements of the Bank for the years ended 31 December 2010 to 31 December 2013, have been audited by Messrs. KPMG. We have audited the Separate and Consolidated Financial Statements of the Bank for the year ended 31 December 2014. Unmodified audit opinions have been issued for the said financial years by such auditors' reports dated 18 February 2011, 21 February 2012, 21 February 2013, 21 February 2014 and 20 February 2015 respectively.

2.5 Accounting Policies

The Separate and Consolidated Financial Statements of the Bank for the years ended 31 December 2010 to 31 December 2014, indicate that such Financial Statements comply with Sri Lanka Accounting Standards. Financial Statements for the years ended 31 December 2010 to 31 December 2013 have been audited by another auditor ("Messrs. KPMG"). The accounting policies of the Bank are stated in detail in the audited Financial Statements of Hatton National Bank PLC for the year ended 31 December 2014.

Changes in Accounting Policies as a Result of First-time adoption of Sri Lanka Accounting Standards ("SLFRS/LKAS")

For all periods up to and including the year ended 31 December 2011, the Bank has prepared its financial statements in accordance with previous Sri Lanka Accounting Standards (SLASs). The Financial statements, for the year ended 31 December 2012 are the first Bank has prepared in accordance with revised Sri Lanka Accounting Standards ("SLFRS/LKAS") effective for the period beginning on or after 1 January 2012. There were no material changes in the accounting policies of the bank, except for the adoption of revised Sri Lanka Accounting Standards.

Change in Accounting Policies as a Result of adoption of LKAS 19-Employee benefits

The Bank adopted Sri Lanka Accounting Standard LKAS 19-Employee benefits with effect from 1st January 2013. As a result of the change, the Bank determined the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. Previously the Bank determined interest income on plan assets based on the long term rate of expected return.

2.6 Dividends

The Bank has declared and paid dividends in respect of Ordinary Shares for the years ended 31 December 2010 to 31 December 2014 in the following manner.

Year	Dividend Paid (Rs. Bn)	Dividend per Share (Rs.)
2010	1,650	7.00
2011*	2,914	7.50
2012	3,378	8.50
2013	3,400	8.50
2014	3,421	8.50

* Final dividend of Rs 6.00 per share consists of Rs 3.00 per share in cash and Rs 3.00 in the form of a scrip dividend.

2.7 Events after Reporting Date

No material events have taken place since 31 December 2014 that require disclosure or/and adjustments in the financial statements other than the following.

A Super Gains Tax was imposed by the Finance Bill passed in Parliament on 20th October 2015, where by Super Gains Tax is payable by every Company or individual whose profit before income tax as per the audited financial statements for the year of assessment 2013/2014 exceeds Rs. 2 Bn, at the rate of 25% on its taxable profits for the said year of assessment. SGT payments are to be made in three equal installments on 30th October 2015, 30th November 2015 and 31st December 2015. The Bill became legally effective from 30th October 2015. The impact for the Group from Super Gains Tax amounts to Rs 2,105 Mn. The first installment in respect of SGT was payable on 30th October 2015 and the Group paid Rs 702 Mn on such date.

2.8 Restriction on Use

This report is made solely for the purpose of the Board of Directors of Hatton National Bank Plc in usage in the application for the purpose of issuance of Subordinate, Unsecured, Redeemable, Rated Debentures of LKR 4,000,000,000/- (4Bn) with an option to increase by LKR 2,000,000,000/- (2Bn) in the event of an oversubscription of the initial issue and to raise another LKR 1,000,000,000/- (1Bn) in the event of an oversubscription of the each tranche in order to raise LKR 7,000,000,000/- (7Bn) debentures at a Par value of Rs.100/-. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the addressee, for our audit work, for the report, or for the opinion we have formed. This report should not be used, circulated, quoted or otherwise referred to any other purpose.

Yours faithfully

Ranath + Co

