

PROSPECTUS
Debenture Issue
2019



YOUR PARTNER IN PROGRESS

HATTON NATIONAL BANK PLC



AN INITIAL ISSUE OF FIFTY MILLION (50,000,000) BASEL III COMPLIANT-TIER 2, LISTED RATED
UNSECURED SUBORDINATED REDEEMABLE DEBENTURES WITH
A NON-VIABILITY CONVERSION (“DEBENTURES”), AT THE PAR VALUE OF LKR 100/- EACH TO RAISE
SRI LANKAN RUPEES
FIVE BILLION (LKR 5,000,000,000/-)
WITH AN OPTION TO ISSUE UPTO A FURTHER TWENTY MILLION (20,000,000) OF SAID DEBENTURES TO
RAISE UP TO SRI LANKAN RUPEES TWO BILLION (LKR 2,000,000,000/-),
AT THE DISCRETION OF THE BANK IN THE EVENT OF AN OVERSUBSCRIPTION OF THE INITIAL ISSUE,
AND WITH A FURTHER OPTION TO ISSUE UPTO A FURTHER THIRTY MILLION (30,000,000)
OF SAID DEBENTURES TO RAISE UP TO SRI LANKAN RUPEES THREE BILLION (LKR 3,000,000,000/-)
IN THE EVENT THE FIRST TWO TRANCHES ARE OVERSUBSCRIBED.

MAXIMUM ISSUE WILL NOT EXCEED HUNDRED MILLION (100,000,000) OF SAID DEBENTURES OF A
VALUE OF NOT EXCEEDING SRI LANKAN RUPEES TEN BILLION (LKR 10,000,000,000/-)

TO BE LISTED ON THE
COLOMBO STOCK EXCHANGE

Rated 'A+ (Ika)' by Fitch Ratings Lanka Limited

ISSUE OPENS ON
10th September 2019

ISSUE IS LIMITED FOR ‘QUALIFIED INVESTORS’ AS DEFINED HEREIN

Joint Managers and Placement Agents to the Issue



The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Bank since the date of this Prospectus. If any material change in the affairs of the Bank occurs subsequent to the Prospectus date and before the Issue opening, same will be notified by way of a market disclosure / an addendum.

By acquiring any Debenture, each Debenture Holder irrevocably consents to the Principal Amount of the Debenture and any accrued and unpaid interest thereon being deemed paid in full by the issuance of Ordinary Voting Shares upon occurrence of a Trigger Event and the resulting Non-Viability Conversion required to be effected by the Bank.

Upon a Non-Viability Conversion;

- i. The Trustees shall not be required to take any further directions from holders/beneficial owners of the Debentures under the Trust Deed and
- ii. The Trust Deed shall impose no duties upon the Trustees whatsoever with respect to conversion of the Debentures into Ordinary Voting Shares upon a Trigger Event
- iii. Upon the occurrence of a Trigger Event, each outstanding Debenture of this Issue will be converted, on a full and permanent basis

We advise you to read the content of the Prospectus carefully prior to investment.

This investment instrument is riskier than a bank deposit.

These Debentures are complex products and have provision for loss absorption in the form of Non-Viability Conversion as set out in the Prospectus. This means that following the occurrence of a Trigger Event as may be determined by the Central Bank of Sri Lanka, the Bank will convert the Debentures into Ordinary Voting Shares. An investor will be deemed paid in full the principal plus accrued and unpaid interest due on the Debentures, upon such conversion. The number and value of Ordinary Shares to be received on a Non-Viability Conversion may be worth significantly less than the Par Value of the Debentures and can be variable.

Please refer to the “Risk Factors Section” of the Prospectus for further details.

Each potential investor in these Debentures must determine the suitability of investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether the investor:

- i. Has sufficient knowledge and experience to make a meaningful evaluation of these Debentures, the merits and risks of investing in the Debentures and the information contained or incorporated by reference in this Prospectus;
- ii. Has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in these Debentures and the impact the Debentures will have on its overall investment portfolio;
- iii. Has sufficient financial resources and liquidity to bear all of the risks of an investment in these Debentures;
- iv. Understands thoroughly the terms of these Debentures, including the provisions relating to the Non-Viability Conversion of the Debentures, and is familiar with the behaviour of financial markets; and
- v. Is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in these Debentures unless the investor has the expertise (either alone or with its financial and other professional advisors) to evaluate how the Debentures will perform under changing conditions, the resulting effects on the value of the Debentures and the impact this investment will have on the potential investor’s overall investment portfolio.

This Prospectus is dated 02nd September 2019

Responsibility for the Content of the Prospectus

This Prospectus has been prepared with available information.

The Directors of the Hatton National Bank PLC (the Bank) have seen and approved this Prospectus and collectively and individually, accept full responsibility for the accuracy of the information given and confirm that after making all reasonable inquiries and to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading or inaccurate.

Where representations regarding the future performance of the Bank have been given in this Prospectus, such representations have been made after due and careful enquiry of the information available to the Bank and making assumptions that are considered to be reasonable at the present point in time in their best judgment.

The Bank accepts responsibility for the information contained in this Prospectus. While the Bank has taken reasonable care to ensure full and fair disclosure of pertinent information, it does not assume responsibility for any investment decisions made by the investors based on the information contained herein. In making such investment decisions, prospective investors are advised to read the Prospectus and rely on their own examination and assessment of the Bank and the terms of the Debentures issued including the risks associated.

FOR ENQUIRIES PLEASE CONTACT JOINT MANAGERS AND PLACEMENT AGENTS TO THE ISSUE

The Colombo Stock Exchange (CSE) has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, CSE assumes no responsibility for accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of Debentures which is decided solely by the Issuer.

Registration of the Prospectus

A copy of the Prospectus has been delivered to the Registrar of Companies for registration in compliance with the provisions of section 40 of the Companies Act No.7 of 2007. The following are the documents attached to the copy of the Prospectus delivered to the Registrar of Companies for registration pursuant to section 40(1) of the Companies Act.

- a) The written consent of the Auditors and Reporting Accountants for the inclusion of their name in the Prospectus as Auditors and Reporting Accountants to the Issue and to the Bank.
- b) The written consent of the Rating Agency for the inclusion of their name in the Prospectus as Rating Agency to the Issue and to the Bank.
- c) The written consent of the Trustee to the Issue for the inclusion of their name in the Prospectus as Trustee to the Issue.
- d) The written consent of the Bankers to the Issue for the inclusion of their name in the Prospectus as Bankers to the Issue.
- e) The written consent of the Company Secretary of the Bank for the inclusion of the name in the Prospectus as Company Secretary to the Bank.
- f) The written consent of the Registrars to the Issue for the inclusion of their name in the Prospectus as Registrars to the Issue.
- g) The written consent of the Lawyers to the Issue for the inclusion of their name in the Prospectus as Lawyers to the Issue.

- h) The written consent of the Joint Managers and Placement Agents to the Issue for the inclusion of their names in the Prospectus as Joint Managers and Placement Agents to the Issue.
- i) The declaration made and subscribed to, by each of the Directors of the Bank herein named as a Director, jointly and severally confirming that each of them have read the provisions of the Companies Act and the CSE Listing Rules relating to the Issue of the Prospectus and that those provisions have been complied with.

The said Auditors and Reporting Accountants to the Issue and to the Bank, Trustee to the Issue, Bankers to the Issue, Company Secretary, Joint Managers and Placement Agents to the Issue, Registrars to the Issue, Lawyers to the Issue, Rating Agency have not, before the delivery of a copy of the Prospectus for registration with the Registrar of Companies in Sri Lanka withdrawn such consent.

Registration of the Prospectus in Jurisdictions Outside of Sri Lanka

This Prospectus has not been registered with any authority outside of Sri Lanka. Non-Resident investors may be affected by the laws of the jurisdiction of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making the investment.

Representation

The Debentures are issued solely on the basis of the information contained and representations made in this Prospectus. No dealer, sales person, individual or any other outside party has been authorized to give any information or to make any representation in this connection with the Issue other than the information and representations contained in this Prospectus and if given or made such information or representations must not be relied upon as having been authorized by the Bank.

Forward Looking Statements

Any Statements included in this Prospectus that are not statements of historical fact constitute "Forward Looking Statements". These can be identified by the use of forward looking terms such as "expect", "anticipate", "intend", "may", "plan to", "believe", "could" and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all or any statements pertaining to expected financial position, business strategy, plans and prospects of the Bank are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Bank operates and its ability to respond to them, the Bank's ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, interest rate volatilities, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Bank.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future.

Given the risk and uncertainties that may cause the Bank's actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking statements in this Prospectus, investors are advised not to place sole reliance on such statements.

Presentation of Currency Information and Other Numerical Data

The financial statements of the Bank and currency values of economic data or industry data in a local context will be expressed in Sri Lankan Rupees. References in the Prospectus to “LKR”, “Rupees” or “Rs.” is the lawful currency of Sri Lanka.

Certain numerical figures in the Prospectus have been subject to rounding adjustments, accordingly numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

All numerical figures given under Section 7.0 of the Prospectus are audited figures unless otherwise stated.

IMPORTANT

All Qualified Investors should indicate in the Application for Debentures, their Central Depository Systems (Private) Limited (CDS) account number.

In the event the name, address or NIC number/passport number/company number of the Qualified Investor mentioned in the Application Form differs from the name, address or NIC number/passport number/company number as per the CDS records, the name, address or NIC number/passport number/company number as per the CDS records will prevail and be considered as the name, address or NIC number/passport number/company number of such Qualified Investor. Therefore, Qualified Investors are advised to ensure that the name, address or NIC number/passport number/company number mentioned in the Application Form tally with the name, address or NIC number/passport number/company number given in the CDS account as mentioned in the Application Form.

As per the directive of the Securities and Exchange Commission made under Circular No.08/2010 dated 22nd November 2010 and Circular No.13/2010 issued by the CDS dated 30th November 2010, all Debentures are required to be directly deposited in to the CDS. To facilitate compliance with this directive, all Qualified Investors are required to indicate their CDS account number.

In line with this directive, THE DEBENTURES ALLOTTED TO A QUALIFIED INVESTOR WILL BE DIRECTLY DEPOSITED IN THE CDS ACCOUNT OF SUCH QUALIFIED INVESTOR, the details of which is indicated in their Application Form. If the CDS account number indicated in the Application Form is found to be inaccurate /incorrect or there is no CDS number indicated, the Application will be rejected and no allotments will be made. The Bank may require a Qualified Investor to provide such documentation as is reasonably necessary to satisfy itself that the investor is a Qualified Investor.

PLEASE NOTE THAT DEBENTURE CERTIFICATES WILL NOT BE ISSUED.

Qualified Investors, who wish to open a CDS account, may do so through a Member/Trading Member of the CSE as set out in Annexure II or through any Custodian Bank as set out in Annexure III of this Prospectus.

ISSUE AT A GLANCE

Issuer	HATTON NATIONAL BANK PLC					
Instrument	Basel III compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5 and 7 year Debentures (2019/24 and 2019/26) with a Non-Viability Conversion.					
Listing	The Debentures will be listed on the Colombo Stock Exchange					
Number of Debentures to be Issued	An initial Issue of Fifty Million (50,000,000) Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5 and 7 year Debentures (2019/24 and 2019/26) with a Non-Viability Conversion, with an option to issue up to a further Twenty Million (20,000,000) of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue and with a further option to issue up to a further Thirty Million (30,000,000) of said Debentures at the discretion of the Bank in the event the first two tranches are oversubscribed.					
Amount to be Raised	A sum of up to Sri Lankan Rupees Five Billion (LKR 5,000,000,000/-) with an option to issue up to a further Sri Lankan Rupees Two Billion (LKR 2,000,000,000/-) at the discretion of the Bank in the event of an over subscription of the initial issue and with a further option to issue up to a further Sri Lankan Rupees Three Billion (LKR 3,000,000,000/-) at the discretion of the Bank in the event the first two tranches are oversubscribed.					
Entity Rating	“AA- (lka)/stable” Fitch Ratings Lanka Limited					
Issue Rating	“A+ (lka)” by Fitch Ratings Lanka Limited for Type A and Type B Debentures					
Issue Price	LKR 100/- per each Debenture					
Par Value	LKR 100/- per each Debenture					
Details of Debentures	Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable 5 and 7 year Debentures (2019/24 and 2019/26) with a Non-Viability Conversion, as described below.					
	Type	Type of Interest	Tenure	Interest Rate	Annual Effective Rate (AER)	Interest Payment frequency
	Type A	Fixed Rate	5 years	12.30% p.a.	12.30%	Annual
	Type B	Fixed Rate	7 years	12.80% p.a.	12.80%	Annual
Number of Debentures to be Subscribed	<p>Applicants are allowed to invest in either;</p> <ul style="list-style-type: none"> ▪ Debentures of Type A; and/or ▪ Debentures of Type B <p>Subject to the minimum subscription under each type as given below.</p> <p>The minimum subscription requirement applicable for a Qualified Investor applying for debt Securities shall be Rupees Ten Thousand (LKR 10,000/-).</p>					

	<p>Provided however, the minimum subscription requirement applicable for an individual investor applying for Basel III Compliant Debt Securities shall be Rupees Five Million (LKR 5,000,000/-).</p> <p>Any Application in excess of the minimum subscription requirement shall be in multiples of Rupees Ten Thousand (LKR 10,000/-).</p>
Interest Payment Date(s)	<p>The dates on which payment of interest in respect of the Debentures shall fall due, which shall be twelve months from the Date of Allotment and every twelve months therefrom of each year from the Date of Allotment until the Date of Redemption and includes the Date of Redemption.</p> <p>Interest would be paid not later than three (03) Working Days from each Interest Payment Date.</p> <p>The Final interest payment will be paid together with the Principal Sum within three (03) Working Days from the Date of Redemption.</p>
Mode of Payment of Principal Sum and Interest	<p>Through an electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as SLIPS and RTGS where accurate bank account details are provided by the Debenture Holders subject to the prevalent limitation with regard to SLIPS and RTGS or by cheque marked "Account Payee Only".</p>
Issue Opening Date	10 th September 2019
Date of Allotment	The date on which the Debentures will be allotted by the Bank to Applicants subscribing thereto.
Closure Date of the Subscription List	<p>Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 10th September 2019 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 30th September 2019.</p> <p>However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following:</p> <ul style="list-style-type: none"> - The maximum of 100,000,000 Debentures being fully subscribed; or - The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed or the initial issue of 50,000,000 Debentures and second tranche of 20,000,000 Debentures becoming fully subscribed. <p>In the event the Board of Directors of the Bank decides to exercise the option to issue the second tranche of up to 20,000,000 Debentures (having subscribed the initial Issue of 50,000,000 Debentures) or the third tranche of up to 30,000,000 Debentures (having subscribed the initial issue of 50,000,000 Debentures and the second tranche of 20,000,000 Debentures) but subsequently decides to close the subscription list upon part of either second tranche or third tranche becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.</p> <p>In the event the Board of Directors of the Company decides to close the Debenture Issue without the full subscription of the initial Fifty Million (50,000,000) Debentures, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm. (refer Section 5.2 of this Prospectus).</p>

Basis of Allotment	<p>In the event of an over subscription, the Board of Directors of the Bank will endeavour to decide the basis of allotment of the Debentures in a fair manner within seven (07) Market Days from the closure of the Issue.</p> <p>The Board however shall reserve the right to allocate up to a maximum of 75% of the Number of Debentures to be allotted under this Prospectus on a preferential basis, to identified institutional investor/s of strategic importance with whom the Bank might have mutually beneficial relationships in the future as future investors, who are Prospectus.</p> <p>Number of Debentures to be allotted to identified institutional investor/s of strategic and operational importance, on a preferential basis or otherwise will not exceed 75% of the total number of debentures to be issued under this Prospectus under any circumstances, unless there is an under subscription from the other investors (investors that do not fall under preferential category).</p>
Non-Viability Conversion	<p>In the event of an occurrence of a Trigger Event as determined at the sole discretion of the Central Bank of Sri Lanka, there would be a conversion of Debentures to Ordinary Voting Shares by the Bank without any requirement of approval by the Debenture Holders, in compliance with Basel III requirements.</p> <p>Upon the occurrence of a Trigger Event, the outstanding balance of the Debentures including the total Par Value of the Debentures and the Debenture Interest accrued and unpaid as at that date will be permanently converted to Ordinary Voting Shares at the Conversion Price. In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Voting Share on such issuance and allotment, the Bank shall settle such sums in cash, based on the issue price of such share.</p>
Conversion Price	<p>The price based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.</p>
Volume Weighted Average Price (VWAP)	<p>The daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share as published by the Colombo Stock Exchange.</p>
Trigger Event	<p>Means a point at which the Monetary Board of the Central Bank of Sri Lanka determines (a) that the Bank would become non-viable without a write down in terms of item 10(iii)(a) of the Web Based Return Code 20.2.3.1.1.1 of the Banking Act Direction No. 1 of 2016 dated 29th December 2016 (as may be amended from time to time); or (b) to make a public sector injection of capital or equivalent support without which the Bank would have become non-viable in terms of item 10 (iii)(b) of the said Direction.</p>

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1.0 CORPORATE INFORMATION

Name of the Company (Bank)	Hatton National Bank PLC
Legal Status	A public limited Company incorporated on 5 th March 1970 under the Laws of the Republic of Sri Lanka. The Bank was re-registered under the Companies Act No 7 of 2007 on 27 th September 2007. It is a Licensed Commercial Bank under the Banking Act No. 30 of 1988
Company Number	PQ 82
Place of Incorporation	Colombo, Sri Lanka
Registered Address	Hatton National Bank PLC No. 479, T B Jayah Mawatha Colombo 10
Company Secretary	Ms. K. A. L. Thushari Ranaweera “HNB Towers” No. 479, T B Jayah Mawatha Colombo 10 Tel : +94 11 2 661804 Fax :+94 11 2 662825
Rating Agency	Fitch Ratings Lanka Limited No.15-04, East Tower World Trade Centre Colombo 01
Auditors to the Company	M/s Ernst & Young Chartered Accountants 201, De Saram Place Colombo 10
Board of Directors	Mr. D. S. Weerakkody (Chairman- Non Executive, Independent Director) Mr. A. J. Alles (Managing Director / Chief Executive Officer, Executive Director) Dr. L. R. Karunaratne (Non-Executive, Independent Director) Mr. R. S. Captain (Non-Executive, Non Independent Director) Mr. P. R. Saldin (Alternate Director to Mr. R. S. Captain) Mr. D. A. Cabraal (Non-Executive, Non Independent Director) Mr. P.S.C. Pelpola (Non-Executive, Independent Director) Mr. E.D.P. Soosaipillai (Non-Executive, Independent Director) Mr. A.H.D.A.N. De Silva (Non-Executive, Independent Director) Mr. L. U. D. Fernando (Non-Executive, Non Independent Director) Dr. T. K. D. A. P. Samarasinghe (Alternate Director to Mr. L. U. D. Fernando) Mr. W. M. M. D. Ratnayake (Non-Executive, Independent Director) Mr. H. A. Peiris (Non-Executive, Independent Director)

2.0 RELEVANT PARTIES TO THE ISSUE

Joint Managers and Placement Agents to the Issue	<p>NDB Investment Bank Limited Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha Colombo 04 Tel: + 94 11 2 300 385-90 Fax: +94 11 2 300 393</p> <p>Acuity Partners (Private) Limited Acuity House No. 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 Fax: +94 11 2 437 149</p>
Lawyers to the Issue	<p>Ms. Shiromi Halloluwa Head of Legal Legal Department “HNB Towers” No. 479, T B Jayah Mawatha Colombo 10 Tel: +94 11 2 661 856, +94 11 4 764 764 Fax: +94 11 2 662 831</p>
Registrars to the Issue	<p>SSP Corporate Services (Pvt) Limited No. 101 Inner Flower Road Colombo 03 Tel: +94 11 2 573 894 Fax: +94 11 2 573 609</p>
Trustee to the Issue	<p>Bank of Ceylon Investment Banking Division Head Office – BOC Square No. 01 Bank of Ceylon Mawatha Colombo 01 Tel: +94 11 2 446 790</p>
Company Secretary	<p>Ms. K. A. L. Thushari Ranaweera “HNB Towers” No. 479, T B Jayah Mawatha, Colombo 10 Tel : +94 11 2 661 804 Fax :+94 11 2 662 825</p>
Rating Agency to the Issue	<p>Fitch Ratings Lanka Limited No.15-04, East Tower World Trade Centre Colombo 01 Tel: +94 11 2 541 900 Fax: +94 11 2 541 903</p>

Bankers to the Issue	Hatton National Bank PLC No. 479, T B Jayah Mawatha Colombo 10 Tel: +94 11 2 664 664, +94 11 2 662 772, +94 11 4 764 764 Fax:+94 11 2 662 832
Auditors and Reporting Accountants to the Issue	M/s Ernst & Young Chartered Accountants 201, De Saram Place Colombo 10 Tel: +94 11 2 463 500 Fax: +94 11 2 697 369

3.0 LIST OF ABBREVIATIONS

AER	Annual Effective Rate
AWPLR	Average Weighted Prime Lending Rate
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Pvt) Limited
CSE	Colombo Stock Exchange
HNB/Issuer/Bank/Company	Hatton National Bank PLC
IIA	Inward Investment Account
NIC	National Identity Card
POA	Power of Attorney
RTGS	Real Time Gross Settlement
SEC	Securities & Exchange Commission of Sri Lanka

4.0 GLOSSARY OF TERMS RELATED TO THE ISSUE

Applicant	Any person who submits an Application Form under this Prospectus.
Application Form/Application	The Application Form that constitutes part of this Prospectus through which an Applicant may apply for the Debenture in Issue.
Closure Date	<p>Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 10th September 2019 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 30th September 2019.</p> <p>However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following:</p> <ul style="list-style-type: none"> - The maximum of 100,000,000 Debentures being fully subscribed; or - The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed or the initial issue of 50,000,000 Debentures and second tranche of 20,000,000 Debentures becoming fully subscribed. <p>In the event the Board of Directors of the Bank decides to exercise the option to issue the second tranche of up to 20,000,000 Debentures (having subscribed the initial Issue of 50,000,000 Debentures) or the third tranche of up to 30,000,000 Debentures (having subscribed the initial issue of 50,000,000 Debentures and the second tranche of 20,000,000 Debentures) but subsequently decides to close the subscription list upon part of either second tranche or third tranche becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.</p> <p>In the event the Board of Directors of the Company decides to close the Debenture Issue without the full subscription of the initial Fifty Million (50,000,000) Debentures, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm. (refer Section 5.2 of this Prospectus).</p>
Bank/ Issuer	Hatton National Bank PLC
Basel III	A Global Regulatory Framework for More Resilient Banks and Banking System, issued by the Basel Committee on Banking Supervision of the Bank for International Settlement in December 2010 (Revised in June 2011).
Tier 2	Tier 2 Capital includes qualifying Tier 2 capital instruments, revaluation gains approved by CBSL and general loan loss provision of the Bank.
Conversion Price	The price based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share during the three months (03) period, immediately preceding the date of the Trigger Event.
Date of Allotment	The date on which the Debentures will be allotted by the Bank to Applicants subscribing thereto.

Date of Redemption	The date on which Redemption of the Debentures will take place as referred to in Section 5.7 of this Prospectus.
Debentures	Basel III compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debenture Issue with a Non- Viability Conversion, to be issued pursuant to this Prospectus.
Debenture Holder(s)	Any person who is for the time being the holder of the Debentures and includes his/her respective successors in title.
Entitlement Date	The Market Day immediately preceding the respective Interest Payment Date or Date of Redemption, in the event a trigger event does not occur.
Interest Payment Date(s)	<p>The dates on which payment of interest in respect of the Debentures shall fall due, which shall be twelve (12) months from the Date of Allotment and every twelve (12) months therefrom of each year from the Date of Allotment until the Date of Redemption and includes the Date of Redemption.</p> <p>Interest would be paid not later than three (03) Working Days from each Interest Payment Date.</p>
Interest Period	<p><u>Debentures of Type A and B</u></p> <p>The twelve month period from the date immediately succeeding a particular Interest Payment Date and ending on the next Interest Payment Date (inclusive of the aforementioned commencement date and end date) and will include the period commencing from the Date of Allotment and ending on the first Interest Payment Date (inclusive of the aforementioned commencement date and end date) and the period from the date immediately succeeding the last Interest Payment Date before the Date of Redemption and ending on the date immediately preceding the Date of Redemption (inclusive of the aforementioned commencement date and end date).</p>
Issue	The offer of Debentures to Qualified Investors pursuant to this Prospectus.
Issue Price	LKR 100/- per each Debenture
Market Day	Any day on which trading takes place at the CSE.
Non-Viability Conversion	<p>In the event of an occurrence of a Trigger Event as determined at the sole discretion of the Central Bank of Sri Lanka, there would be a conversion of Debentures to Ordinary Voting Shares by the Company without any requirement of approval by the Debenture Holders in compliance with Basel III requirements.</p> <p>Upon the occurrence of a Trigger Event, the outstanding balance of the Debentures including the total Par Value of the Debentures and Debenture Interest accrued and unpaid (if any) as at that date will be permanently converted to Ordinary Voting Shares at the Conversion Price.</p> <p>In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Voting Share on such issuance and allotment, the Company shall settle such sums in cash, based on the issue price of such share.</p>

Non-Resident(s)	Persons resident outside Sri Lanka including country funds, regional funds, investment funds and mutual funds established outside Sri Lanka.
Par Value	LKR 100/- per each Debenture
Principal Sum	The product of the number of Debentures allotted and the Par Value.
Prospectus	This Prospectus dated 02 nd September 2019 issued by HNB.
Qualified Investors	<ul style="list-style-type: none"> (a) A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended). (b) A specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No.30 of 1988 (as amended). (c) A mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund. (d) A venture capital fund/ company and private equity company. (e) A finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act. No 42 of 2011 (as amended). (f) A company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act, no 56 of 2000 (as amended). (g) A company licensed by the Insurance Board of Sri Lanka to carry on Insurance business in terms of the Regulation of the Insurance Industry Act, No. 43 of 2000 (as amended). (h) A corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No.7 of 2007. (i) An investment trust or investment company. (j) A Non-Resident institutional investor. (k) An individual with a minimum initial investment amount of LKR 5,000,000/-.
Registered Address	The address provided by the Debenture Holders to the CDS.
Subordinated	Means the claims of the Debenture Holders shall in the event of winding up of the Bank rank after all the claims of depositors and secured and other unsecured creditors of the Bank and any preferential claims under any Statutes governing the Bank, but shall rank <i>pari passu</i> with other subordinated Debenture Holders and in priority to and over the claims and rights of the Shareholder/s of the Bank <u>unless there has been an issuance of shares to the Debentures Holders upon the occurrence of a Trigger Event in which case a Debenture Holder would cease to be a Debenture Holder and become a shareholder of the Bank to the extent of such issuance.</u>
Tier 2	Tier 2 Capital includes qualifying Tier 2 capital instruments, revaluation gains approved by CBSL and general loan loss provision of the Bank.
Trigger Event	Means a point at which the Monetary Board of the Central Bank of Sri Lanka determines (a) that the Bank would become non-viable without a write down in terms of item 10(iii)(a) of the Web Based Return Code 20.2.3.1.1.1 of the Banking Act Direction No.1 of 2016 dated 29th December 2016 (as maybe amended from time to time); or (b) to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, in terms of Item 10(iii)(b) of the said Direction

Trust Deed	Trust Deed executed between the Bank and Bank of Ceylon on 08 th and 09 th August 2019.
Trustee	Bank of Ceylon
Unsecured	Repayment of the Principal Sum and payment of interest on the Debentures are not secured by a charge on any assets of the Issuer.
Volume Weighted Average Price (VWAP)	The daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share as published by the Colombo Stock Exchange.

5.0 PRINCIPAL FEATURES OF THE DEBENTURES

5.1 INVITATION TO SUBSCRIBE

The Board of Directors of Hatton National Bank PLC (hereinafter referred to as the “Board”) at the Board Meetings held on 26th September 2018, 24th January 2019, 14th February 2019 and 01st March 2019 resolved to raise a sum of Rupees Five Billion (LKR 5,000,000,000/-) by an initial issue of up to Fifty Million (50,000,000) Debentures, each with a Par Value of LKR 100/- and to raise a further sum of Rupees Two Billion (LKR 2,000,000,000/-) by an issue of a further Twenty Million (20,000,000) Debentures, in the event of an over subscription of the initial issue and with a further option to raise a sum of Rupees Three Billion (LKR 3,000,000,000/-) by an issue of a further Thirty Million (30,000,000) Debentures at the discretion of the Bank in the event of an over subscription of the initial issue and the second tranche.

As such a maximum amount of Rupees Ten Billion (LKR 10,000,000,000/-) would be raised by the issue of a maximum of Hundred Million (100,000,000) Debentures each with the Par Value of LKR 100/-.

HNB invites Applications for Debentures of Type A and/or Debentures of Type B which will rank equal and *pari passu* in all respects other than with respect to the rate of interest and the tenure of the Debentures as more fully described in Section 5.3 and Section 5.5 of this Prospectus.

The rights of the Debenture Holders with respect to payment of the Principal Sum and accrued interest due thereon upon a winding - up of the Bank will rank after all claims of depositors and secured and other unsecured creditors of the Bank and any preferential claims under any Statutes governing the Bank, but shall rank *pari passu* with other subordinated Debenture Holders and in priority to and over the rights of any ordinary shareholders. However, if there has been an issuance of ordinary shares to the Debenture Holders upon the occurrence of a Trigger Event a Debenture Holder would cease to be Debenture Holder and would become a shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing Ordinary Voting Share Holders.

It is the intention of the Bank to list the Debentures on the Colombo Stock Exchange. The CSE has given it's in principle approval for the listing of the Debentures and any ordinary shares which would be issued upon the occurrence of a Trigger Event on the CSE.

As per CSE Listing Rules Section 2.2.1 (I), only Qualified Investors would be eligible to invest in the said Debentures in both the primary and secondary markets, provided that an individual investor entering the market anew through the secondary market (i.e. without having invested in such Debentures through the primary offer) would also need to invest at minimum a sum of LKR 5,000,000/-. Accordingly, the secondary market trading of the Debentures are limited to the Qualified Investors.

5.2 SUBSCRIPTION LIST

Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 10th September 2019 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 30th September 2019.

However, the subscription list will be closed on an earlier date at 4.30 p.m. with notification to the CSE on the occurrence of the following.

- The maximum of 100,000,000 Debentures being fully subscribed; or
- The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed or the initial issue of 50,000,000 Debentures and second tranche of 20,000,000 Debentures becoming fully subscribed

In the event the Board of Directors of the Bank decides to exercise the option to issue the second tranche of up to 20,000,000 Debentures (having subscribed the initial Issue of 50,000,000 Debentures) or the third tranche of up to 30,000,000 Debentures (having subscribed the initial issue of 50,000,000 Debentures and the second tranche of 20,000,000 Debentures) but subsequently decides to close the subscription list upon part of either second tranche or third tranche becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.

In the event the Board of Directors of the Company decides to close the Debenture Issue without the full subscription of the initial Fifty Million (50,000,000) Debentures, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day at 4.30 pm.

5.3 TYPES OF DEBENTURES

The issue consists of only two types of Debentures, i.e. Debentures with fixed coupon rates each with a Par Value of Rupees One Hundred (LKR 100/-).

Type	Type of Interest	Tenure	Interest Rate	Annual Effective Rate (AER)	Interest Payment frequency
Type A	Fixed Rate	5 years	12.30% p.a.	12.30%	Annual
Type B	Fixed Rate	7 years	12.80% p.a.	12.80%	Annual

5.4 OBJECTIVES OF THE ISSUE & SPECIFIC RISKS RELATING TO THE OBJECTIVES OF THE DEBENTURE ISSUE

The key objectives of the debenture issue are to:

- a) **Improve the Tier 2 capital of the Bank to be compliant with the capital adequacy requirements as per the CBSL regulations in line with Basel III accord.**

The Bank has complied with the CBSL Basel III minimum capital adequacy requirement as at 31st December 2018 and 30th June 2019 with Total Tier I (including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks) of 12.80% & 13.02% and Total Capital Ratio (including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks) of 15.22% and 15.57% respectively as against the regulatory minimum requirements of 10.00% and 14.00% respectively.

However, the adoption of IFRS 9 accounting standards with effect from 01st January 2018, as well as increase taxation, has negatively affected the internal capital generation of the Bank. In addition to the increased minimum capital which would be applicable with effect from 1st January 2019 (as indicated in the table below) as directed by the Central Bank of Sri Lanka it is required to maintain counter cyclical capital buffers for system wide risk which could build up due to excess growth in aggregate credit and for pillar II requirements under the Basel III guidelines.

The forecasted improvement in ratios taking into account the intended proceeds of the Debenture Issue computed based on the financials as at 30th June 2019 under Basel III are as follows:

Components	Minimum Regulatory Requirement as at 01 st January 2019	As at 30 th June 2019	Expected (%), subsequent to the Debenture Issue		
			With LKR 5.0 Billion	With LKR 7.0 Billion	With LKR 10.0 Billion
Common Equity Tier I including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks	8.50%	13.02%	13.99%	13.99%	13.99%
Total Tier I including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks	10.00%	13.02%	13.99%	13.99%	13.99%
Total Capital Ratio including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks	14.00%	15.57%	17.18%	17.43%	17.81%

The Bank has received approval from CBSL to include the Debentures as Tier 2 capital of the Bank.

Further, the Bank has obtained the shareholder approval by way of a special resolution on 29th March 2019 for the issuance of any Ordinary Voting Shares which may be created by the occurrence of a 'Trigger Event'. Further as per the Rule 2.2.1 (k) of the CSE Listing Rules, the Bank has obtained the shareholder approval by way of a special resolution for the issuance of the Debentures.

b) Strengthen the balance sheet to support the demand for credit.

The proceeds of the debenture Issue would be utilized to fund the expected growth in the loan book, and the Bank expects to fully utilize the entire funds raised within 12 months from the Date of Allotment. During the interim period the funds shall be invested in treasury bills and treasury bonds which is expected to yield a return of 10%-11%.

Specific Risk Relating to the Objectives

Specific risks in relation to on-lending the funds during the stipulated time frame would arise if the demand for credit declines sharply during the next one year hampering economic growth. During the first nine months of 2018, the advances of the Bank have grown by LKR 84.0 Billion, hence even in the unlikely event of a significant drop in credit growth, the amount of approximately LKR 10.0 Billion to be raised through the proposed debenture issue could be deployed within the above stipulated time frame. However, in case of an unprecedented drop in the demand for credit, if the Bank is unable to meet the specific objectives within the stipulated time frame, then the funds raised would be invested in government securities until such time the funds are fully on-lent.

The proposed amount to be raised through the Debenture Issue would be required to meet the above mentioned objectives. As such, in the event of an under subscription, the Bank would resort to alternate options of raising funds such as rights issue, unlocking value of certain investments at the right price in order to bridge the gap.

However, the risk of undersubscription of the Debenture Issue will be greatly mitigated due to the placements on “best efforts” basis by the designated Joint Managers and Placement Agents to the Issue, pre-marketing and building a pipeline of potential investors.

No further shareholder approval will need to be sought in the event the Debenture Issue is not fully subscribed or if the time lines stated above are amended as thought fit by the Bank.

The utilization of the proceeds of the Debenture Issue will be disclosed in the Annual Report and the Interim Financial Statements in the following format from the Issue Opening Date and until the objectives of the Debenture Issue are achieved.

Debenture Issue Proceeds utilization as at dd-mm-yyyy

Objective number	Objective as Per Prospectus	Amount allocated as Per Prospectus in LKR	Proposed date of Utilization as Per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amounts utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (eg: whether lent to related party)
1	Improve the Tier 2 capital of the Bank	Initial issue of LKR 5 Billion with an option to issue up to a further LKR 2 Billion and LKR 3 Billion at the discretion of the Bank in the event of an oversubscription. (Maximum issue size LKR 10 Billion)	Upon the allotment of the Debentures to include the amount raised via the Debentures under Tier 2 Capital base.					To be disclosed in the Annual Report and the Interim Financial Statements
2	Strengthen the balance sheet to support the demand for credit		Within 12 months from the Date of Allotment	-	-	-	-	

In the event the proceeds raised are fully utilized in terms of the objectives disclosed in the Prospectus prior to submission of the Bank's next immediate financial statements (i.e. either interim financial statements or annual report), the Bank to disclose the fact that proceeds have been utilized in its entirety as per the above template.

Note:

If there are any changes occurring in circumstances due to specific risks relating to objectives of the Debenture Issue as highlighted in section "Specific Risk Relating to the Objectives of the Debenture Issue", the Bank may use the funds appropriately, i.e. if funds are not utilized for loan growth they will be invested in Government Securities at the discretion of the Bank, for which no further approval from Debenture Holders will be sought, as same is not required. However, in the event the Bank deviates from the stated objectives, then, the Bank would obtain relevant approvals prior to utilization of the funds.

5.5 PAYMENT OF INTEREST

The Debentures will carry a rate of interest as described below on the Interest Payment Dates:

Type	Tenure	Coupon Payment Frequency	Interest Rate
Type A	5 year	Payable Annually on the Interest Payment Date	12.30% p.a. (AER 12.30%)
Type B	7 year	Payable Annually on the Interest Payment Date	12.80% p.a. (AER 12.80%)

The Interest rate has been determined giving consideration to the HNB's rating as Issuer, the instrument rating, market conditions and features of the instrument, including the "convertible feature".

Interest on the Debentures accruing on a daily basis will be paid annually from the Date of Allotment until the Date of Redemption on the outstanding Principal Sum.

The interest due on the Debentures for a particular Interest Period will be calculated based on the actual number of days in such Interest Period and will be paid not later than three [03] Working Days from each Interest Payment Date.

In order to accommodate the debenture interest cycles in the CDS System of the CSE, the payment of interest on a particular Interest Payment Date will include Debenture Holders holding Debentures in the CDS as of the Entitlement Date.

Upon the occurrence of the "Trigger Event", the Company shall be required and entitled to issue and within twenty (20) days to allot voting shares of the Company ranking equal and *pari passu* with the existing Ordinary Voting Shares, to the Debenture Holders up to the outstanding balance of such Debentures including the total Par Value of the Debentures and Debenture Interest. As such upon issuance of Ordinary Voting Shares as above, no interest will be accrued on Debentures thereafter, **as the Debentures will cease to exist.**

5.6 APPLICATION OF TAX ON INTEREST PAYMENTS

Interest on the Debentures will be paid after deducting any taxes and charges thereon (if any) as per the applicable laws prevalent at the time of interest payment to the Debenture Holders. As at the Date of this Prospectus, the applicable Withholding Tax (WHT) rate is 5%.

5.7 REDEMPTION OF DEBENTURES AN CONSEQUENCE OF A TRIGGER EVENT

Redemption of Debentures

Redemption of the Debentures will take place on the respective Date of Redemption as described below in accordance with the provisions of the Trust Deed. The Principal Sum and unpaid and accrued interest (if any) payable on the redemption of Debentures will be paid not later than three (03) Working days from the Date of Redemption.

If the Date of Redemption falls on a day which is not a Market Day then the Date of Redemption shall be the immediately succeeding Market Day and Interest shall be paid for each calendar day up to the date immediately preceding such Market Day.

These Debentures shall not be redeemed by the Bank prior to maturity for any reason whatsoever except due to the occurrence of an Event of Default contemplated in Clause 10.1 of the Trust Deed. If redemption is to be done before maturity, it will be done subject to the prior written approval from the Director Bank Supervision of the Central Bank of Sri Lanka (CBSL) and the approval of the Debenture Holders of each type representing $\frac{3}{4}$ th in nominal value of the Debentures outstanding when the Principal Sum is repaid before maturity. The Debenture Holder shall not have any right or option to call for redemption of the Debentures before the date of maturity of such Debenture. However, if a Trigger Event occurs prior to maturity, the Debenture will get converted to Ordinary Voting Shares ranking *pari passu* with the existing Ordinary Voting Shares of the Bank.

Trigger Event

A “Trigger Event” is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1 (10) (ii) (a & b) as a point/event is the earlier of;

a) “Decision that a write down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board or

b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by Monetary Board”

Conversion Price

Outstanding balance of the Debentures including the total Par Value of the Debentures and accrued unpaid Debenture Interest (if any), will be converted at an issue price of such Ordinary Voting Shares which will be based on the simple average of the daily Volume Weighted Average Price (VWAP) of an Ordinary Voting Share as published by the Colombo Stock Exchange during the three months (03) period, immediately preceding the date of the Trigger Event.

Averaging out of the VWAP over a period of 03 months preceding the Trigger Event as opposed to a shorter window closer to the Trigger Event, is aimed at smoothing out price effects.

If the prevailing 3 month VWAP at the time of the Trigger Event is low, it would result in a comparatively higher number of Ordinary Voting Shares being issued to the Debenture Holders. Alternately, where a higher 3 month Volume Weighted Average Share Price prevails at the time of the Trigger Event it would result in a comparatively lower number of Ordinary Voting Shares being issued to Debenture Holders.

Issuance of Ordinary Voting Shares upon occurrence of a Trigger Event

Based on above conversion mechanism the outstanding balance of the Debentures will get converted to Ordinary Voting Shares. In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Voting Share on such issuance and allotment, the Bank shall settle such sums in cash, based on the issue price of such share.

Applicable timelines

Upon the occurrence of the Trigger Event as determined by the Monetary Board of the Central Bank of Sri Lanka, the Company shall be required and entitled to issue and within twenty (20) days to allot Ordinary Voting Shares of the Company ranking equal and *pari passu* with the existing Ordinary Voting Shares to the Debenture Holders as of the Trigger Date, up to the outstanding balance of such Debentures including the total Par Value of the Debentures and unpaid and accrued Debenture Interest (if any) at an issue price for such Ordinary Voting Shares which will be based on the Conversion Price.

The CDS upload pertaining to Ordinary shares will be completed within 10 Market Days from the Date of Allotment of such shares. In the event of any Debenture Holder being entitled to a fractional allotment of an Ordinary Voting Share on such issuance and allotment, the Company shall settle such sums in cash, based on the issue price of such share within fourteen (14) Market Days from the Date of Allotment of the said Ordinary Voting Shares.

Market Announcements

The Company on receipt of a Trigger Event notification from the Central Bank of Sri Lanka will immediately make a market announcement of the same and further announce the “Conversion Price” and “dates” (i.e. Trigger Event date, Date of Allotment and CDS upload date) pertaining to such conversion of Debentures to Ordinary Voting Shares.

Compliance with applicable laws and regulations

Issue of any new Ordinary Voting Shares due to occurrence of a Trigger Event, would be carried out in compliance with the applicable laws and regulations of Sri Lanka, including any regulations applicable on ‘material interest that a shareholder may hold’ in terms of the Banking Act No 30 of 1988.

Non Occurrence of a Trigger Event

The proposed Type A and B Debentures will be redeemed after 05 years and 07 years respectively from the Date of Allotment of such Debentures and the Principal Sum and unpaid and accrued interest (if any) payable on the redemption of Debentures will be paid not later than three (03) Working days from the Date of Redemption, unless otherwise a Trigger Event’ occurs as detailed above.

5.8 PAYMENT METHOD

Payment of principal and interest will be made after deducting taxes at source, (if applicable) in Sri Lankan Rupees to the registered Debenture Holders only as of the Entitlement Date. In the case of joint Debenture Holders, the payment of Principal Sum and interest will be made to the one whose name stands first in the register of Debenture Holders on the date of payment.

In the event accurate bank account details are provided to the CDS by the Debenture Holders, the payment of Principal Sum and interest shall be made to Debenture Holders through an electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as RTGS (arranged only at the expense of the investor) or SLIPS. RTGS transfers however shall be accommodated only for amounts over and above the maximum value of Rupees Five Million (LKR 5,000,000/-) that can be accommodated via SLIPS transfers.

If the Debenture Holder has not provided to the CDS accurate and correct details of his/her/its/their bank account for the payment of Principal Sum and interest, such payment to the Debenture Holder will be posted to the address registered with the CDS through registered post to the Debenture Holder, by crossed cheques marked “Account Payee Only”. Interest payable will be made only by cheques within three (03) Market Days from the end of each period.

It is the responsibility of the Non-Resident and Foreign Investors to ensure that their IIA through which they invest for Debentures is recorded correctly against the records in CDS to dispatch their debenture interest payments.

5.9 TRUSTEE TO THE ISSUE

Bank has entered into an agreement with Bank of Ceylon who will act as Trustee to the Issue. Debenture Holders in their Application Forms for subscription will be required to authorize the Trustee, to act as the agent in entering into such deeds, writings and instruments with the Bank and to act as the Agent and Trustee for the Debenture Holders.

The rights and obligations of the Trustee are set out in the Trust Deed and the Debentures will be subject to the terms and conditions incorporated in the said Trust Deed.

The fee payable to the Trustee will be Sri Lankan Rupees Four Hundred and Fifty Thousand (LKR 450,000/-) per annum (payable semi-annually) plus statutory levies. Trustee has no conflict of interest with the Bank, except that the Trustee is one of the Bank's rendering banking related services to the Bank.

5.10 RATING OF THE DEBENTURE

Fitch Ratings Lanka Limited has assigned a credit rating of 'A+ (lka)' to the Debentures.

'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

Source: https://www.fitchratings.com/creditdesk/public/ratings_defintions/index.cfm?rd_file=uspf

The Board of Directors will undertake to keep the Trustee of the Debenture Issue and CSE informed on any change to the credit rating of the Debentures when any of the Directors are aware of any changes to the ratings.

You may access the guidelines from Fitch Ratings regarding the Global Bank Rating Criteria (which includes the rating methodology applicable to this particular instrument under the approach set out for going-concern instruments via the link given below;

<https://www.fitchratings.com/site/re/891051>

A copy of the rating certificate is given in Annexure I of this Prospectus.

5.11 RIGHTS AND OBLIGATIONS OF THE DEBENTURE HOLDERS

(a) Debenture Holders are entitled to the following rights.

- Receive the interest on the Interest Payment Dates at the interest rates set out in Section 5.5 of this Prospectus and the Principal Sum on the Date of Redemption as set out in Section 5.7 of this Prospectus.
- Call and attend meetings of Debenture Holders as set out in the Trust Deed
- Receive a copy of the Annual Report within 5 months from the financial year end at the same time and in the same manner as an ordinary shareholder would receive the same.
- The other rights of the holders of these Debentures as set out in the Trust Deed

In the event of the Bank winding up, the claims of the Debenture Holders will rank after all the claims of the secured and unsecured creditors of the Bank and the preferential claims under any Statutes governing the Bank, but in priority to and over the claims and rights of the shareholders of the Bank, unless there has been an issuance of ordinary shares to the Debenture Holders upon the occurrence of a Trigger Event in which case a Debenture Holder would cease to be a Debenture Holder and would become a shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing Ordinary Shareholders.

(b) Debenture Holders do not have the following rights

- Attend and vote at meetings of holders of shares and other Debentures
- Share the profits of the Bank
- Participate in any surplus in the event of liquidation
- Calling for redemption before maturity, subject to the provisions stated in the Trust Deed
- Convert the Debentures into ordinary shares at their option

However, in the event the Debenture Holders become shareholders of the Bank, due to the occurrence of Trigger Event as described in 5.7 above there would be an entitlement to exercise such rights as are exercisable by the shareholders of the Bank.

(c) Each Debenture Holder must ensure that the information in respect of the securities account maintained with the CDS is up to date and accurate. Each Debenture Holder shall absolve the Bank from any responsibility or liability in respect of any error or inaccuracy or absence of necessary changes in the information recorded with the CDS. Provided further that the Debenture Holder shall absolve the CSE and the CDS from any responsibility or liability in respect of any error or inaccuracy or absence of necessary changes in the information recorded with the CDS where such errors or inaccuracies or absence of changes are attributable to any act or omission of the Debenture Holders.

5.12 BENEFITS OF INVESTING IN DEBENTURES OFFERED BY THE BANK

- (a) Provides an opportunity to diversify the investment portfolio of the Qualified Investor.
- (b) Provides the Qualified Investor with a regular cash inflow of interest payments.
- (c) Provides the Qualified Investor with an opportunity to invest in Debentures issued by a leading Bank in Sri Lanka.
- (d) Being listed on the CSE, the Debentures will have a secondary market subject to secondary market trading of these Debentures being limited to 'Qualified Investors' as defined in the Prospectus, thus providing the Qualified Investor with an opportunity to exit at the market price prevailing at the time of divestiture subject to market conditions.
- (e) The Debentures may be used as collateral to obtain credit facilities from banks and financial institutions with the exception of the issuing bank.

5.13 RISKS INVOLVED IN INVESTING IN THE DEBENTURES

Subscribers to the Debentures could be exposed to the following risks

(a) Interest Rate Risk

Provided all other factors are equal, the market price of the Debentures will generally fluctuate in the opposite direction to the fluctuation in market interest rates. Thus, the interest rate risk could be identified as the reduction in the market price of Debentures resulting from a rise in interest rates.

(b) Reinvestment Risk

Interest on the Debentures are payable annually. A Qualified Investor may decide to reinvest these interest payments and earn interest from that point onwards. Depending on the prevailing interest rates at the point of reinvestment, the risk of returns generated by Debenture Holders by reinvesting such interest received being higher or lower than the return offered by the Debentures is known as reinvestment risk.

(c) Duration Risk

Duration is a measure of the price sensitivity of fixed income investments to a change in interest rates based on the time to maturity of principal and coupon payments. The higher the duration, the greater the price volatility or duration risk, while a lower duration carries a lower risk.

(d) Subordinated Risk

The Debentures will be the Bank's direct unsecured obligations which, if the Bank becomes insolvent or is wound-up (prior to the occurrence of a Trigger Event), will rank equal with the Bank's other subordinated indebtedness and will be Subordinated in right of payment to the claims of the Bank's depositors and other unsubordinated creditors. Therefore, if, prior to the occurrence of a Trigger Event, the Bank becomes insolvent or is wound-up, the assets of the Bank would first be applied to satisfy all rights and claims of holders of senior indebtedness. If the Bank does not have sufficient assets to settle claims of such senior indebtedness holders in full, the claims of the holders of the Debentures will not be settled and, as a result, the holders will lose the entire amount of their investment in Debentures. The Debentures will share equally in payment with claims under other subordinated indebtedness if the Bank does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, holders could lose all or part of their investment.

In addition, holders should be aware that, upon the occurrence of a Trigger Event, all the Bank's obligations under the Debenture shall be deemed paid in full by the issuance of Ordinary Voting Shares upon a Non-Viability Conversion, and each holder will be effectively further Subordinated due to the change in their status following such a conversion from being the holder of a debt instrument ranking ahead of holders of Ordinary Voting Shares to being the holder of Ordinary Voting Shares. As a result, upon Non-Viability Conversion, the holders could lose all or part of their investment in the Debentures irrespective of whether the Bank has sufficient assets available to settle what would have been the claims of the holders of the Debentures or other securities subordinated to the same extent as the Debentures, in proceedings relating to an insolvency or winding-up.

(e) Credit Risk

Credit Risk is also referred to as default risk. This is the risk that the issuer of a debenture may default, i.e. the issuer will not be able to pay interest and principal payments on a timely basis. This risk is gauged in terms of rating assigned by different rating agencies. Fitch Ratings Lanka Limited has assigned a Long-term Rating of A+ (Ika) by Fitch Ratings to these Debentures and will be periodically reviewing the same.

(f) Liquidity Risk

Liquidity risk is associated with the ease in which an investment can be sold after the initial placement. In order to reduce the liquidity risk of the Debentures, the Bank has applied for a listing of these Debentures on the CSE and has received in-principle approval for such listing whereby Debenture Holders will be able to sell the Debentures through the CSE in order to convert the Debentures to cash and exit from the investment.

ADDITIONAL RISKS ARISING FROM THE DEBENTURES BEING A BASEL III NON-VIABILITY CONVERSION INSTRUMENT

Risks arising from Non-Viability Conversion features

(i) Conversion Risk

Upon the occurrence of a Trigger Event the Bank shall convert the Debentures into Ordinary Voting Shares and any accrued but unpaid interest will be added to the Par Value of the Debentures and such accrued but unpaid interest, together with the principal amount of the Debentures will be deemed paid in full by the issuance of Ordinary Voting Shares. Upon conversion the Debenture Holders shall have no further rights and the Bank shall have no further obligations to holders of the Debentures under the Trust Deed. Moreover, Non-Viability Conversion upon the occurrence of a Trigger Event is not an event of default under the terms of the Debenture or the Trust Deed.

Potential investors in Debentures should understand that, if a Trigger Event occurs and Debentures are converted into Ordinary Voting Shares, Investors are obliged to accept the Ordinary Voting Shares even if they do not at the time consider such Ordinary Voting Shares to be an appropriate investment for them and despite any change in the financial position of the Bank since the Issue of the Debentures or any disruption to the market for those Ordinary Voting Shares or to capital markets generally.

(ii) The number and value of Ordinary Voting Shares to be received on a Non - Viability Conversion may be worth significantly less than the Par Value of the Debentures and can be variable.

Upon the occurrence of Non-Viability Conversion even though Ordinary Voting Shares of equivalent value would be initially issued at the VWAP, yet there is no certainty of the value of such Ordinary Voting Shares to be received by the holders of the Debentures being maintained at such levels and the value of such Ordinary Voting Shares could eventually be significantly less than the Par Value of the Debentures.

Moreover, there may be an illiquid market, or no market at all, in Ordinary Voting Shares received upon the occurrence of a Non-Viability Trigger Event, and investors may not be able to sell the Ordinary Voting Shares at a price equal to the value of their investment and as a result may suffer significant loss.

(iii) The Debentures are loss-absorption instruments that involve risk and may not be a suitable investment for all investors

The Debentures are loss-absorption financial instruments designed to comply with applicable banking regulations and involve certain risks. Each potential Qualified Investor of the Debentures must determine the suitability (either alone or with the help of a financial advisor) of the investment in light of its circumstances. In particular, each potential Qualified Investor should understand thoroughly the terms of the Debentures, such as the provisions governing the Non-Viability Conversion, including under what circumstances a Trigger Event could occur.

A potential Qualified Investor should not invest in the Debentures unless he/she has the knowledge and expertise (either alone or with the financial advisor) to evaluate how the Debentures will perform under changing conditions, the resulting effects on the likelihood of the Non-Viability Conversion into Ordinary Voting Shares and the value of the Debentures, and the impact this investment will have on the potential Qualified Investor's overall investment portfolio. Prior to making an investment decision, potential Qualified Investor should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus.

(iv) Uncertainty regarding the Trigger Event

Due to the inherent uncertainty regarding the determination of when a Trigger Event may occur, it will be difficult to predict when, if at all, the Debentures will be converted into Ordinary Voting Shares. In addition, investors in the Debentures are likely not to receive any advance notice of the occurrence of a Non-Viability Trigger Event. As a result of its uncertainty, trading behaviour in respect of the Debentures is not necessarily expected to follow trading behaviour associated with other types of convertible and exchangeable securities. Any indication, whether real or perceived, that the Bank is trending towards a Trigger Event can be expected to have an adverse effect on the market price of the Debentures and the Ordinary Voting Shares, whether or not such Trigger Event actually occurs. Therefore, in such circumstances, investors may not be able to sell their Debentures easily or at prices that will provide them with a yield comparable to other types of subordinated Debentures, including the Bank's other subordinated debt securities.

In addition, a Non-Viability Conversion could drive down the price of Ordinary Voting Shares subsequent to the conversion itself arising from the additional shares in issue of the Bank.

(v) Following a Non-Viability Conversion, the Qualified Investor will no longer have rights as a creditor and will only have rights as a holder of Ordinary Voting Shares

Upon a Non-Viability Conversion, the rights, terms and conditions of the Debentures, including with respect to priority and rights on liquidation, will no longer be relevant as all such Debentures will have been converted on a full and permanent basis into Ordinary Voting Shares ranking *pari passu* with all other outstanding Ordinary Voting Shares. If a Non-Viability Conversion occurs, then the interest of depositors, other creditors of the Bank, and holders of Bank securities which are not contingent instruments will all rank in priority to the holders of contingent instruments, including the Debentures.

Given the nature of the Non-Viability Trigger Event, a Holder of Debentures will become a holder of Ordinary Voting Shares at a time when the Bank's financial condition has deteriorated.

If the Bank were to become insolvent or wound-up after the occurrence of a Non-Viability Trigger Event, as holders of Ordinary Voting Shares investors may receive substantially less than they might have received had the Debentures not been converted in to Ordinary Voting Shares.

(vi) An investor's remedies for the Bank's breach of its obligations under the Debenture are limited

Save and Except for an Event of Default (which shall occur if the Bank becomes insolvent or bankrupt, the Bank goes into liquidation either voluntarily or under an order of a court of competent jurisdiction, or the Bank otherwise acknowledges its insolvency), the Trustees and holders of Debentures shall not be entitled to declare the principal amount of the Debentures due and payable under any circumstance. As a result, the Qualified Investor will have no right of acceleration in the event of a non-payment of interest or a failure or breach in the performance of any other covenant of the Bank, although legal action could be brought to enforce any covenant given by the Bank.

(g) Acknowledgement of the CBSL Resolution Powers

The CBSL retains full discretion regarding the determination that a Trigger Event has occurred; as the resolution authority of Banks in Sri Lanka, the CBSL has resolution powers through Statute.

The Monetary Board determines the Trigger Event and effects a conversion after considering the other bail-in alternatives available to the Bank. Further, Section 30 and 30(9) of the Monetary Law Act No.58 of 1949 (as amended) and Part VII (A) and Part VIII of the Banking Act No.30 of 1988 (as amended) specify certain events upon which Monetary Board can exercise its resolution mechanism. In view of the above, based on the statutory authority of the Monetary Board, CBSL retains full discretion to choose or not to choose to trigger for Non-Viability as has been provided for in the Banking Act Direction No.1 of 2016 on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialized Banks.

As the CBSL retains full discretion to choose not to trigger Non-Viability Conversion notwithstanding a determination that the Bank has ceased, or is about to cease to be viable, under such circumstances, the holders of the Debentures may be exposed to losses through the use of other resolution tools under applicable Statutes.

(h) Generic Risks

(i) The ability to transfer the Debentures may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the Debentures

In Sri Lanka the secondary trading activity in the corporate debt market is limited. The Debentures are a new issue of securities and have no established secondary trading market. Further the secondary market trading is only limited to Qualified Investors as defined in the Prospectus. There can be no assurance that an active secondary trading market will develop. If the Debentures are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank.

Even if an active secondary trading market does develop, it may not be liquid and may not continue. Therefore, Qualified Investors may not be able to sell their Debentures easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. If the secondary market for the Debentures is limited, there may be few buyers for the Debentures and this may significantly reduce the relevant market price of the Debentures.

(ii) Credit ratings may not reflect all risks associated with an investment in the Debentures

A credit rating reflects a relative ranking of credit risk and does not reflect the potential impact of all risks related to the structure, market, additional factors discussed herein, and other factors that may affect the value of the Debentures.

(iii) A Downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Debentures could cause the liquidity or market value of the Debentures to decline

Rating initially assigned to the Debentures may be lowered or withdrawn entirely by the Rating Agency if, in the Rating Agency's judgment, circumstances relating to the basis of the Rating, such as adverse changes to the Bank's business, so warrant. If the Rating Agency lowers or withdraws its Rating, such event could reduce the liquidity or market value of the Debentures. A Credit Rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the Rating Agency at any time.

(iv) Changes in law, or changes in regulatory classification may affect the rights of holders as well as the market value of the Debentures

The regulatory regime in connection to these instruments is evolving. Changes in law may include change in statutory, tax and regulatory regimes during the life of the Debentures, which may have an adverse effect on the investment in the Debentures.

5.14 TRANSFER OF DEBENTURES

The Debentures will be transferable and transmittable in the manner set out in the Trust Deed, which is reproduced below.

- (a) These Debentures shall be freely transferable amongst Qualified Investors and the registration of such transfer shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.
- (b) The Debentures shall be transferable and transmittable amongst Qualified Investors as long as the Debentures are listed in the CSE. Subject to the provisions contained herein the Bank may register without assuming any liability on any transfer of Debentures, which are in accordance with the statutory requirements and rules and regulations in force for the time being as laid down by the CSE, SEC and the CDS
- (c) In the case of death of a Debenture Holder
 - (i) The survivor where the deceased was a joint holder; and
 - (ii) The executors or administrators of the deceased or where the administration of the estate of the deceased is in law not compulsory the heirs of the deceased where such Debenture Holder was the sole or only surviving holder; shall be the only persons recognized by the Bank as having any title to his/her Debentures.
- (d) Any person becoming entitled to any Debentures in consequence of bankruptcy or winding up of any Debenture Holder, upon producing proper evidence that he/she/it sustains the character in respect of which he/she/it proposes to act or his/her title as the Board of Directors of the Bank thinks sufficient may in the discretion of the Board be substituted and accordingly registered as a Debenture Holder in respect of such Debentures subject to the applicable laws, rules and regulations of the Bank, CDS, CSE and SEC.
- (e) No change of ownership in contravention to these conditions will be recognized by the Bank.

5.15 LISTING

An Application has been made to the CSE for permission to obtain a listing for the Debentures and any shares which may be issued upon the occurrence of a Trigger Event and the CSE has granted its approval in-principle for the same. It is the intention of the Bank to list the Debentures in the Colombo Stock Exchange upon the allotment thereof.

The CSE however, assumes no responsibility for the correctness of the statements made or opinions expressed or reports included in this Prospectus. Admission to the official list is not to be taken as an indication of the merits of the Bank or of its Debentures.

5.16 COST OF THE ISSUE

The Board of Directors estimates that the total cost of the Issue including fees to professionals, printing, advertising and other costs connected with the Issue will be approximately LKR 36 Million. Such costs will be financed by the internally generated funds of the Bank.

5.17 BROKERAGE FEE

Brokerage fee of Fifteen Cents (LKR 0.15) per Debenture shall be paid in respect of the number of Debentures allotted on Applications bearing the original seal of any Bank operating in Sri Lanka or a member/trading member of the CSE or any other party identified by the Bank and/or Joint Managers and Placement Agents as involved in the Issue.

5.18 UNDERWRITING

This Issue is not underwritten.

The offering is not conditional to any minimum amount to be raised through this Issue. In the event of an under subscription, the Bank is confident that any short fall in the funds required to meet the objectives of the Issue can be financed through internally generated funds and other credit facilities that could be obtained by the Bank, at its discretion depending on the situation.

6.0 PROCEDURE FOR APPLICATION

6.1 INSPECTION OF DOCUMENTS

Articles of Association, the Trust Deed, Auditors Report and Audited Financial Statements for the five (05) financial years ended 31st December 2018 (i.e. the five (05) financial years immediately preceding the date of this Prospectus), Interim Financial Statements as at 30th June 2019 and all other documents referred to in Rule 3.3.11 (a) of the CSE Listing Rules, including material contracts and management agreements entered into by the Bank (if any) would be made available for inspection by the public during normal working hours, seven (07) Market Days prior to the date of opening of the subscription list at the registered office of the Bank at No. 479 T B Jayah Mawatha, Colombo 10, Sri Lanka until the Date of Redemption of the Debentures.

The Prospectus, Trust Deed and the Articles of Association of the Bank, will be available on the web site of CSE, www.cse.lk and the website of the Bank, www.hnb.net from seven (07) Market Days prior to the date of opening of the subscription list until the Date of Maturity of the Debentures as stipulated in Rule 3.3.11 (b) of the CSE Listing Rules.

Audited financial statements of Hatton National Bank PLC made up to 31st December 2018, Interim Financial Statements as at 30th June 2019, Accountants Report and the five year summary of financial statements will be available on the web site of CSE, www.cse.lk and the website of the Bank, www.hnb.net

Furthermore, copies of the Prospectus and Application Forms will be made available free of charge from the collection points as set out in Annexure II of this Prospectus from seven (07) Market Days prior to the date of opening of the subscription list.

6.2 ELIGIBLE APPLICANTS

Applications are invited for the subscription of Debentures from the following categories of Qualified Investors.

- (a) A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended).
- (b) A specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended).
- (c) A mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund.
- (d) A venture capital fund/ company and private equity company.
- (e) A finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act, No. 42 of 2011 (as amended).
- (f) A company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act, No. 56 of 2000 (as amended).
- (g) A company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of the Insurance Industry Act, No. 43 of 2000 (as amended).
- (h) A corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 7 of 2007.
- (i) An investment trust or investment company.
- (j) A Non-Resident institutional investor
- (k) An individual with a minimum initial investment amount of LKR 5,000,000/-.

In view of the above, trading of the Debentures on the CSE will also be limited to Qualified Investors.

Applications will not be accepted from individuals and Sri Lankans residing outside Sri Lanka who are under the age of 18 years, or in the names of sole proprietorships, partnerships or unincorporated trusts, or bodies of persons. Applications will also not be entertained from any financial institution over which the Bank has control.

“Persons resident outside Sri Lanka” will have the same meaning as in the notice published under the Foreign Exchange Act no. 12 of 2017 in Gazette No. 2045/56 dated 17th November 2017.

When permitting Non -Residents to invest in the Debentures, the Bank will comply with the relevant Foreign Exchange Regulations including, the conditions stipulated in the notice under the Foreign Exchange Act with regard to the Issue and transfer of Debentures of Companies incorporated in Sri Lanka to persons resident outside Sri Lanka as published in the Government Gazette (Extraordinary) No. 2045/56 dated 17th November 2017.

6.3 HOW TO APPLY

The terms and conditions applicable to the Applicants are as follows.

- (a) Applications should be made on the Application Forms, which accompany and constitute a part of this Prospectus (exact size photocopies of Application Forms will also be accepted). Care must be taken to follow the instructions given herein and in the Application Form. Applicants using photocopies are requested to inspect the Prospectus which is available for inspection with the Registrar to the Issue and also issued free of charge by the parties listed in Annexure II of this Prospectus.

The Application Form can also be downloaded from the website of CSE, www.cse.lk, the website of the Bank, www.hnb.net and the websites of Joint Managers and Placement Agents to the Issue, www.ndbib.com, www.acuity.lk until the Closure Date.

The Prospectus will be made available and can be downloaded from the website of CSE, www.cse.lk and the website of the Bank, www.hnb.net until the Date of Redemption of the Debentures from the websites of Joint Managers and Placement Agents to the Issue, www.ndbib.com, www.acuity.lk until the Closure Date.

Applications which do not strictly conform to instructions and other conditions set out herein or which are incomplete or illegible may be rejected. The Bank reserves the right to ask for additional information to satisfy itself that the Applicant is a Qualified Investor.

- (b) Applicants should apply for only one Type of Debentures (i.e. either Debentures of Type A or Debentures of Type B) under one Application Form.
- (c) In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used. Once an Application Form has been submitted for a particular Type of Debentures, it will not be possible for an Applicant to switch between the Types of Debentures.

- (d) More than one Application submitted by an Applicant under the same Type of Debentures will not be accepted. If more than one Application Forms are submitted for one Type of Debentures from a single Applicant, those would be construed as multiple Applications and the Bank reserves the right to reject such multiple Applications or suspected multiple Applications.
- (e) If the ownership of the Debentures is desired in the name of one Applicant, full details should be given only under the heading SOLE/FIRST APPLICANT in the Application Form. In the case of joint Applicants, the signatures and particulars in respect of all Applicants must be given under the relevant headings in the Application Form.
- (f) An Applicant of a joint Application will not be eligible to apply for the Debentures through a separate Application Form either individually or jointly. Such Applicants are also deemed to have made multiple Applications and will be rejected.

In the case of joint Applications, the refunds (if any), interest payments and the redemption will be remitted in favour of the first Applicant as identified in the Application Form.

The Bank shall not be bound to register more than three (03) natural persons as joint holders of any Debentures (except in the case of executors, administrators or heirs of a deceased member).

Joint Applicants should note that all parties should either be residents of Sri Lanka or Non-Residents.

- (g) Applications by companies, corporate bodies, incorporated societies, approved provident funds, trust funds and approved contributory pension schemes registered/incorporated/established in Sri Lanka should have obtained necessary internal approvals as provided by their internal approval procedures at the time of applying for the Debentures and should be made under their common seal or in any other manner as provided by their Articles of Association or such other constitutional documents of such Applicant or as per the statutes governing them. In the case of approved provident funds, trust funds and approved contributory pension schemes, the Applications should be in the name of the Trustee/board of management.
- (h) All Qualified Investors should indicate in the Application for Debentures, their CDS account number.

In the event the name, address or NIC number/passport number/company number of the Qualified Investor mentioned in the Application Form differ from the name, address or NIC number/passport number/company number as per the CDS records, the name, address or NIC number/company number as per CDS records will prevail and be considered as the name, address or NIC number/passport number company number of such Qualified Investor. Therefore Qualified Investors are advised to ensure that the name, address or NIC number/passport number company number mentioned in the Application Form tally with the name , address or NIC number/passport number company number given in the CDS account as mentioned in the Application Form.

In the case of joint Applicants, a joint CDS account in the name of the joint Applicants should be indicated.

Application Forms stating third party CDS accounts, instead of Applicants' own CDS account numbers, except in the case of margin trading, will be rejected.

- (i) Applicants who wish to apply through their margin trading accounts should submit the Application Forms in the name of the “Margin Provider / Applicant’s name” signed by the margin provider, requesting a direct deposit of the Debentures to the Applicant’s margin trading account in the CDS. The margin provider should indicate the relevant CDS account number relating to the margin trading account in the Application Form. A photocopy of the margin trading agreement must be submitted along with the Application.

Margin providers can, apply under their own name and such Applications will not be construed as multiple Applications.

- (j) Application Forms may be signed by a third party on behalf of the Applicant(s) provided that such person holds the Power of Attorney (POA) of the Applicant(s). A copy of such POA certified by a Notary Public as “True Copy” should be attached with the Application Form. Original of the POA should not be attached.
- (k) As per the Foreign Account Tax Compliance Act (FATCA) “US Persons” must provide the duly completed declaration as per the specimen given in Annexure IV together with the Application Form. Under the provisions of FATCA, “US Persons” include;
- US Citizens (including an individual born in U.S. but resident in another country who has not renounced U.S. citizenship)
 - A lawful citizen of the U.S. (including Green card holders)
 - A person residing in the U.S.
 - A person who spends certain number of days in the U.S. each year
 - U.S. Corporations, estates and trusts
 - Any entity that has a linkage or ownership to U.S. or the U.S. territories
 - Non U.S. entities that have at least one U.S. Person as a “substantial beneficial owner”
- (l) Funds for the investments in Debentures and the payment for Debentures by Non-Residents should be made only out of funds received as inward remittances or available to the credit of “Inward Investment Account” (IIA) (formerly known as Securities Investment Accounts) of the Non-Residents opened and maintained in a licensed commercial bank in Sri Lanka in accordance with directions given by the Director of the Department of Foreign Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the IIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the IIA.

Applications not made in line with the instructions will be rejected.

- (m) Non-Residents should have obtained necessary internal approvals as provided by their internal approval procedures at the time of applying for the Debentures and may be affected by the laws of the jurisdiction of their residence. If the Non-Resident Applicants wish to apply for the Debentures, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

Application Forms properly filled in accordance with the instructions thereof together with the remittance for the full amount payable on Application if not remitted through RTGS transfer should be enclosed in an envelope Marked "HATTON NATIONAL BANK PLC - DEBENTURE ISSUE 2019" on the top left hand corner in capital letters and dispatched by post or courier or delivered by hand to Registrars to the Issue or collection points mentioned in Annexure II of this Prospectus.

Applications sent by post or courier or delivered to any collection point set out in Annexure II of this Prospectus should reach the office of the Registrar to the Issue, S S P Corporate Services (Private) Limited, No.101, Inner Flower Road, Colombo 03 at least by 4.30 p.m. on the following Market Day immediately upon the Closure Date. Applications received after the said period will be rejected even though they have been delivered to any of the said collection points prior to the Closure Date or carry a postmark dated prior to the Closure Date.

Applications delivered by hand to the Registrars to the Issue after the Closure Date of the Issue will also be rejected.

Please note that Applicant information such as full name, address, NIC number/passport number/company number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information will take precedence over information provided in the Application Form.

Care must be taken to follow the instructions on the reverse of the Application Form.

Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.

PLEASE NOTE THAT ALLOTMENT OF DEBENTURES WILL ONLY BE MADE IF THE APPLICANT HAS A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF APPLICATION.

Please note that upon the allotment of Debentures under this Issue, the allotted Debentures would be credited to the Applicant's CDS account so indicated.

Hence, DEBENTURE CERTIFICATES SHALL NOT BE ISSUED.

6.4 NUMBER OF DEBENTURES TO BE SUBSCRIBED

Applicants are allowed to invest in either;

- Debentures of Type A; and/or
- Debentures of Type B

subject to the minimum subscription under each Type of Debentures as given below.

The minimum subscription requirement applicable for a Qualified investor applying for Debt Securities shall be Rupees Ten Thousand (LKR 10,000/-).

Provided however, the minimum subscription requirement applicable for an individual investor applying for Basel III Compliant Debt Securities shall be Rupees Five Million (LKR 5,000,000/-).

Any Application in excess of the minimum subscription requirement shall be in multiples of Rupees Ten Thousand (LKR 10,000/-).

An Applicant should apply only for one Type of Debentures under one Application Form.

6.5 MODE OF PAYMENT OF THE INVESTMENT BY THE APPLICANTS

- (a) Payment in full for the total value of Debentures applied for should be made separately in respect of each Application either by cheque/s, bank draft/s, bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer directed through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the following:
- (b) Payments for Applications for values above and inclusive of Sri Lankan Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either a;
- Bank guarantee issued by a licensed commercial bank; or
 - Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-; or
 - RTGS transfer with value on the Issue opening date.

Multiple cheques or RTGS transfers will not be accepted for Applications for values below Sri Lankan Rupees One Hundred Million (LKR 100,000,000/-).

In the case of Application values above and inclusive of Sri Lankan Rupees One Hundred Million (LKR 100,000,000/-), multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka each of which should be for a value less than Sri Lankan Rupees One Hundred Million (LKR 100,000,000/-) will be accepted.

- (c) Cheques or bank drafts should be made payable to “Hatton National Bank PLC – Debenture Issue 2019” and crossed “Account Payee Only”, and must be honoured on the first presentation.
- (d) In case of bank guarantees, such bank guarantees should be issued by any licensed commercial bank in Sri Lanka in favour of “Hatton National Bank PLC – Debenture Issue 2019” in a manner acceptable to the Bank, and be valid for a minimum of one (01) month from the Issue opening date (10th September 2019).

Applicants are advised to ensure that sufficient funds are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Issue. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

- (e) In case of RTGS transfers (only for Application values above and inclusive of Sri Lankan Rupees One Hundred Million (LKR 100,000,000/-), such transfers should be made to the credit of “Hatton National Bank PLC – Debenture Issue 2019” bearing Account Number 003010531793 at Hatton National Bank PLC with value on the Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date).

The Applicant should obtain a confirmation from the Applicant's bank, to the effect that arrangements have been made to transfer payment in full for the total value of Debentures applied for to the credit of "Hatton National Bank PLC – Debenture Issue 2019" bearing Account Number 003010531793 at Hatton National Bank PLC with value on Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date) and should be attached with the Application Form.

For RTGS transfers above and inclusive of Sri Lankan Rupees One Hundred Million (LKR 100,000,000/-), the Applicants are entitled to an interest at the rate of Three Decimal Five per centum (3.50%) per annum from the date of such transfers up to the Date of Allotment. However, no interest will be paid if the RTGS transfers are not realized before the end of the Closure Date. Furthermore, even if such RTGS transfers are effected prior to the Issue opening date, no interest will be paid for the period prior to the Issue opening date.

- (f) Cash will not be accepted.
- (g) Payment for the Debentures by Non-Residents should be made only out of funds received as inward remittances or available to the credit of "Inward Investment Account" (IIA) maintained with any licensed commercial bank in Sri Lanka in accordance with directions given by the Director Department of Foreign Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the IIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the IIA.

- (h) The amount payable should be calculated by multiplying the number of Debentures applied for by the Par Value (LKR 100/-). If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee, the Application will be rejected.
- (i) In the event that cheques are not realized within Two (02) Market Days of deposit, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid.
- (j) The amount payable should be calculated by multiplying the number of Debentures applied for by the Par Value (LKR 100/-). If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee or transferred via RTGS, the Application will be rejected.
- (k) In the event that cheques are not realised prior to the date of deciding the basis of allotment, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid.
- (l) All cheques/bank drafts received in respect of the Applications for Debentures will be banked commencing from the Working Day immediately following the Closure Date.

6.6 REJECTION OF APPLICATIONS

Application Forms and the accompanying cheques/bank drafts/bank guarantees or RTGS transfers, which are illegible or incomplete in any way and/or not in accordance with the terms, conditions and instructions, set out in this Prospectus and in the Application Form will be rejected at the sole discretion of the Bank.

Applications from individuals and Sri Lankans residing outside Sri Lanka who are under the age of 18 years or in the names of sole proprietorships, partnerships and unincorporated trusts will also be rejected.

Any Application Form, which does not state a valid CDS account number, will be rejected.

More than one Application Form submitted under one Type of Debentures by an Applicant will not be accepted. If more than one Application Form is submitted under one type of Debentures by a single Applicant, those would be considered as multiple Applications and the Bank reserves the right to reject such multiple Applications or suspected multiple Applications.

Any Application Form from a non-Qualified Investor will also be rejected.

Any Application Form with more than three (03) natural persons as joint Applicants for any type of Debentures will be rejected.

Applications delivered by hand to the Registrars to the Issue after the 'Closure Date" will be rejected. Applications received at the Registrar's office by post or courier after 4.30 p.m. on the Market Day immediately following the Closure Date, will also be rejected even if they carry a post mark dated prior to the Closure Date.

Applications delivered to any place mentioned in Annexure II should also reach the office of the Registrars to the Issue at least by 4.30 p.m. on the Market Day immediately following the Closure Date. Applications received after the said duration will be rejected even though they have been delivered to any of the said collection points prior to the Closure Date.

In the event that cheques are not realized within Two (02) Market Days of deposit and realized after such date, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid. In the event cheques are dishonoured/returned on first presentation, such Applications will be rejected.

6.7 BANKING OF PAYMENTS

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Working Day immediately after the Closure Date as set out in Section 5.2 of this Prospectus, in terms of the CSE Listing Rules.

6.8 BASIS OF ALLOTMENT OF DEBENTURES

In the event of an over subscription, the Board of Directors of the Bank will endeavour to decide the basis of allotment in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. Upon the allotments being decided, an announcement will be made to the CSE.

The Board however shall reserve the right to allocate up to a maximum of 75% of the number of Debentures to be allotted under this Issue to institutional and or identified investor/s of strategic importance with whom the Bank might have mutually beneficial relationships in the future as future investors, who are Prospectus.

Number of Debentures to be allotted to identified institutional investor/s of strategic and operational importance, on a preferential basis or otherwise will not exceed 75% of the total number of Debentures to be issued under this Prospectus under any circumstances, unless there is an under subscription from the other investors (investors that do not fall under preferential category).

The number of Debentures to be issued under Debentures of Type A and Debentures of Type B will be in accordance with the basis of allotment which will be decided at the discretion of the Board of Directors of the Bank in a fair manner in the event of an oversubscription.

The Bank reserves the right to reject any Application or to accept any Application in part only, without assigning any reason therefor.

A written confirmation informing successful Applicants of the allotment of Debentures will be dispatched within ten (10) Market Days from the Closure Date as required by the CSE.

6.9 REFUNDS

Monies will be refunded where;

- an Application is rejected for reasons given in 6.6 of this Prospectus; or
- the Application is accepted only in part.

The Applicants may indicate the preferred mode of refund payments in the Application Form (i.e. direct transfer via SLIPS/RTGS or cheque).

If the Applicant has provided accurate and complete details of his/her bank account in the Application, the Bankers to the Issue will make refund payments up to and inclusive of Rupees Five Million (LKR 5,000,000/-) to the bank account specified by the Applicant, through SLIPS and a payment advice will be sent in the event of refunds over Rupees Five Million (LKR 5,000,000/-) if the Applicant has provided accurate and correct details of his/her bank account refunds will be made via RTGS or if the Applicant has not provided accurate and correct details of his/her bank account in the Application or if the Applicant has not provided details of the bank account in the Application Form, the Bank will make such refund payments to the Applicant by way of a cheque and sent by post at the risk of the Applicant.

In the case of joint Application, the cheques will be drawn in favour of the Applicant's name appearing first in the Application Form.

It is the responsibility of Non-Residents/Foreign Investors to ensure that their IIA details are accurately provided on the Application Form to forward the refund to IIA through which the Application was made.

Applicants can obtain details on bank and branch codes required for providing instructions on SLIPS transfers at the following website;

https://www.lankaclear.com/assets/images/products/products-and-services/slips/file/SLIPS_%20Bank%20branch%20list%2020190411.xls

Refunds on Applications rejected or partly allotted Debentures would be made within ten (10) market days excluding the Closure Date. Applicants would be entitled to receive interest at the rate of the last quoted Average Weighted Prime Lending Rate (AWPLR) published in the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in the event that the Central Bank of Sri Lanka ceases to publish the AWPLR) plus five per centum (5.00%) for the delayed period on any refunds not made within this period.

6.10 CDS ACCOUNTS AND SECONDARY MARKET TRADING

Debentures allotted will be directly deposited to the respective CDS accounts given in the Application Forms before the expiry of eighteen (18) Market Days, from the Closure Date. A written confirmation of the credit will be sent to the Applicants within two (02) Market Days of crediting the CDS account, by ordinary post to the address provided by each Applicant.

The Bank will submit to the CSE a 'Declaration' on direct upload to CDS on the Market Day immediately following the day on which the Applicants' CDS accounts are credited with the Debentures.

Trading of Debentures on the secondary market will commence on or before the third (3rd) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

7.0 THE BANK

7.1 BACKGROUND

Hatton National Bank is a leader in the banking industry in Sri Lanka with an over 130 years of proud history, supporting the economic growth of the country. First established as “Hatton Bank” in 1888 being a lifeline to thousands of plantation workers in the Hatton region, the bank moved forward to be incorporated as a Public Limited Company in 1970. HNB’s growth has been driven by its island wide reach, strong relationships, the ability to reinvent itself and a strong value based organisation culture. Currently, HNB is amongst the Top 10 largest public listed companies by market capitalisation at the Colombo Stock Exchange.

7.2 VISION OF THE BANK

“To be the acknowledged leader and chosen partner in providing financial solutions through inspired people”

7.3 VALUES OF THE BANK

- Treasure professional & personal integrity at all times
- Demonstrate mutual respect in all our interactions
- Passionate in everything we do
- Committed to being customer centric
- Courage to change, challenge and be different
- Demonstrate unity in diversity

7.4 NATURE OF BUSINESS

The Bank actively delivers a range of financial services including accepting deposits, personal banking, corporate banking, treasury, project financing, trade finance, Islamic banking, custodial services, credit card services and international banking related products.

7.5 FUTURE STRATEGIES, RISKS AND ASSUMPTIONS

(a) Strategies

The key strategic focus areas of the Bank would include:

- Profitable Balance sheet growth by focusing on retail and SME and micro finance segments
- Improving asset quality by refining credit approval structure and operating model of the Bank and by leveraging on the dedicated collections centre
- Upgrade IT infrastructure and focusing on Digital Banking to improve the future readiness
- Improving the employee value proposition
- Enhanced customer experience by offering choice and convenience through multiple channels, improved product propositions to meet customer requirements

(b) Risks

The implementation and achievement of the key strategies and the objectives would be dependent on the economic & political environment in the country which would have an impact on the domestic credit growth which in turn would affect the income / profitability of the Bank.

Digital disruption is a key challenge faced by the industry and could have an impact unless actions are taken in a timely manner. Further, unforeseen events, could result in delays in the implementation of key IT upgrades / implementations thereby delay the expected outcomes.

(c) Assumptions in relation to future plans

The key assumptions used in formulating the future strategies of the Bank are as follows:

- The economic growth is expected to be moderate over the next couple of years, slightly above the growth rates witnessed over the past 2 years.
- The current high interest rate regime is expected to continue during the major part of the current year and expected to marginally come down as witnessed historically
- Rupee is expected to depreciate marginally compared to the previous year

7.6 STATED CAPITAL

The stated capital of the Bank represents ordinary voting and Non-voting shares as given below.

Voting Ordinary Shares	31st December 2018	30th June 2019*
Balance (LKR 000's)	26,649,460	27,839,769
Number of Shares (No.)	395,451,248	401,343,863

Non-Voting Ordinary Shares	31st December 2018	30th June 2019*
Balance (LKR 000's)	5,688,566	5,981,137
Number of Shares (No.)	97,199,341	99,062,844

**unaudited*

The Bank does not have preference or any other classes of shares in issue. The Bank also does not have any outstanding convertible debt securities.

At the Extra Ordinary General Meeting held on 5th July 2017, shareholders approved a resolution to issue 56,029,966 voting shares and 14,093,547 non-voting shares by way of a rights issue to the existing shareholders of the Bank in the proportion of one new ordinary share for every six ordinary shares (1 : 6) held as at the end of trading on 5th July 2017. These shares were to be issued at an issue price of Rs 220/- per each Ordinary Voting Share and at an issue price of Rs 190/- per each ordinary non-voting share. Accordingly, Bank raised Rs 14.5 Billion through the issue of 56,029,966 voting shares and 11,676,947 non-voting shares. The non-voting shares rank *pari passu* in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay dividends for three consecutive years, these shares will automatically be converted into voting ordinary shares.

As part of the Employee Share Option Plan that was in effect, the Bank has issued shares totalling to 1,201,044 and 263,948 during 2017 and 2018 respectively to the eligible employees of the Bank.

7.7 MAJOR SHAREHOLDERS AS AT 30th JUNE 2019

Twenty (20) largest shareholders of the Bank as at 30th June 2019 given below:

- Voting Ordinary Shares

	Name	No. of Shares	Voting Capital %
1.	Employees Provident Fund	39,119,092	9.75
2.	Sri Lanka Insurance Corporation Ltd-Life Fund	33,180,292	8.27
3.	Milford Exports (Ceylon) (Pvt) Limited	31,736,382	*7.91
4.	Stassen Exports (Pvt) Limited	27,508,042	*6.85
5.	Mr. Sohli Edelji Captain	26,129,128	6.51
6.	Sonetto Holdings Limited.	19,725,642	4.91
7.	Sri Lanka Insurance Corporation Ltd-General Fund	16,989,898	4.23
8.	Distilleries Company of Sri Lanka PLC	12,307,446	*3.07
9.	JPMLU-Franklin Templeton Investment Fund	11,799,126	2.94
10.	National Savings Bank	11,515,728	2.87
11.	Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	7,532,868	1.88
12.	Ms. Leesha Anne Captain	7,500,710	1.87
13.	RBC Investor Services Trust-RBC Emerging Markets Small-CAP Equity Fund	7,331,420	1.83
14.	HSBC Intl Nom Ltd-CMG First state global umbrella Fund PLC-CMG First State Indian Subcontinent Fund	6,755,476	1.68
15.	RBC Investor Services Bank - COELI SICAV I - Frontier Market Fund	6,540,834	1.63
16.	BNYM SANV Re-IF Ruffer Total Return Fund	6,313,648	1.57
17.	SSBT-AI Mehwar Commercial Investments LLC	6,130,896	1.53
18.	JPMCB-Scottish Ork SML TR GTI 6018	5,700,082	1.42
19.	CitiBank Newyork S/A Norges Bank Account 2	4,715,374	1.17
20.	BNYM SA/NV Re-IF Ruffer Absolute Return Fund	4,237,905	1.06

*Pursuant to the provisions of the Banking Act Directions No. 1 of 2007, the total collective voting rights in the Bank, of Milford Exports (Ceylon) Limited, Stassen Exports Limited and Distilleries Company of Sri Lanka (who collectively hold 17.83% of the voting shares of the Bank) are limited to 10% of the total voting rights of the Bank with effect from 15th March 2012 as the voting rights in excess of such percentage is deemed invalid from that date.

- Non-Voting Ordinary Shares

	Name	No. of Shares	Non-Voting Capital %
1.	Citibank Newyork S/A Norges Bank Account 2	10,288,143	10.39
2.	UBS AG Zurich	8,781,597	8.86
3.	JPMLU-Franklin Templeton Invest	7,145,272	7.21
4.	BNYM SANV Re-Frontaura Global Frontier Fund LLC	5,480,087	5.53
5.	Akbar Brothers Pvt Ltd A/c No 1	3,763,374	3.80
6.	BNYM SANV Re-neon liberty lorikeet master fund LP	3,670,992	3.71
7.	BNYM SANV Re-IF Ruffer total return fund	3,171,728	3.20
8.	BNYM SANV Re-IF Ruffer absolute return fund	2,112,783	2.13
9.	CB Europe plc lux s/a Dunross and Co ab	2,054,253	2.07
10.	Mr. Sohli Edelji Captain	1,533,976	1.55
11.	Rubber Investment trust limited a/c # 01	1,343,990	1.36
12.	BNYM SANV Re-IF ruffer Investment funds : IF Ruffer Pacific fund	1,254,145	1.27
13.	Employees Trust Fund Board	1,159,235	1.17
14.	Deutsche Bank AG as trustee for JB Vantage value equity fund	1,053,788	1.06
15.	Union assurance plc/account no. 05 (unit-linked life insurance fund-equity fund)	995,529	1.00
16.	Union Assurance plc-Universal Life Fund	927,041	0.94
17.	Hatton National Bank PLC A/c No 2	712,874	0.72
18.	Saboor Chatoor (pvt) ltd	671,124	0.68
19.	JPMCB-Templeton Global Investment Trust-Templeton Frontier Markets Fund	651,968	0.66
20.	Mr. E Chatoor	639,631	0.65

7.8 DETAILS OF OTHER DEBENTURES IN ISSUE

The details of other debentures issued by Hatton National Bank PLC as at 30th June 2019 are given in the table below;

Year of Issuance	CSE listing	Ranking	Issue Value LKR (000's)	Interest Rate p.a.	Tenor	Issue Date	Maturity Date
2006	Listed	Subordinate	514,345	11.00%	15 Year	01-Apr-2006	31-Mar-2021
	Listed	Subordinate	1,362,800	11.25%	18 Year	01-Apr-2006	31-Mar-2024
2007	Listed	Subordinate	700,000	16.75%	15 Year	01-Aug-2007	31-Jul-2022
2011	Listed	Subordinate	2,000,000	11.50%	10 Year	05-Sep-2011	04-Sep-2021
2013	Listed	Senior	2,000,000	8.00%	10 Year	30-Aug-2013	29-Aug-2023
2014	Listed	Senior	2,757,240	7.75%	5 Year	15-Dec-2014	14-Dec-2019
	Listed	Senior	84,040	8.33%	10 Year	15-Dec-2014	14-Dec-2024
2016	Listed	Subordinate	7,000,000	11.25%	5 Year	28-Mar-2016	28-Mar-2021
	Listed	Subordinate	2,000,000	11.75%	5 Year	01-Nov-2016	01-Nov-2021
	Listed	Subordinate	4,000,000	13.00%	7 Year	01-Nov-2016	01-Nov-2023

The above mentioned Debenture Holders of the Bank will not be entitled to any of the rights and privileges available to the shareholders of the Bank including right to receive, to attend and vote at General Meetings of the shareholders of the Bank. Debenture Holders' rights in respect of calling and attending meetings of Debenture Holders are stated in the respective Trust Deeds.

The above mentioned Debenture Holders are at any event not barred from being shareholders of the Bank and if they are shareholders they will enjoy the rights and privileges entitled to shareholders.

In the case of the death of a Debenture Holder pertaining to above mentioned classes:

- i) the survivor where the deceased was a joint holder; or
- ii) if not the joint holder the heirs of the deceased shall be the only person/s recognized by the Bank as having any title to his/her Debentures. Any person becoming entitled to Debentures in consequence of bankruptcy or winding up of any Debenture Holder, upon producing proper evidence that it/he/she sustains the character in respect of which it/he/she proposes to act or its/his/her title as the Board of Directors of the Bank thinks sufficient may at the discretion of the Board be substituted and accordingly registered as a Debenture Holder in respect of such Debentures subject to the applicable laws and rules and regulations of the Bank and the CSE.

In the event of liquidation or winding up, the claims of the above mentioned Subordinated Debenture Holders will be ranked after all the claims of the senior debt holders of the Bank and the preferential claims under Section 365 of the Companies Act No.7 of 2007 but in priority to the claims and rights of the Shareholders of the Bank.

7.9 PARTICULARS OF LONG TERM LOANS AND OTHER BORROWINGS OF THE BANK

As at 31st December 2018 and 30th June 2019 the outstanding balances are given in the table below.

	As at 31st December 2018 LKR 000
Balance as at 31 st December 2017	125,135,383
New borrowings / (settlements)	20,648,014
Balance as at 31 st December 2018	145,783,397

	As at 30th June 2019* LKR 000
Balance as at 31 st December 2018	145,783,397
New borrowings / (settlements)	(12,926,263)
Balance as at As at 30 th June 2019	132,857,134

**unaudited*

Borrowing of Hatton National Bank PLC as at 31st December 2018 and 30th June 2019 comprise of the following categories.

	As at 31st December 2018 LKR 000	As at 30th June 2019* LKR 000
Due to banks	77,492,582	79,116,418
Securities sold under repurchase agreements	16,678,946	6,329,142
Other borrowings	24,894,155	20,397,634
Debt securities issued	4,487,763	4,709,597
Subordinated term debts	22,229,951	22,304,343
Total	145,783,397	132,857,134

**unaudited*

7.10 CONTINGENT LIABILITIES AND LITIGATION AGAINST THE BANK

The details of the contingent liabilities as at 31st December 2018 and 30th June 2019 and litigation against the Bank as at the date of the Prospectus are given below.

CONTINGENT LIABILITIES

Commitments and Contingencies of the Bank	As at 31st December 2018 LKR 000	As at 30th June 2019* LKR 000
Documentary credit	29,760,771	22,958,393
Guarantees	141,352,517	129,938,532
Acceptances	19,065,908	14,513,293
Bills for collection	14,407,921	11,125,934
Forward exchange sales	38,199,566	54,054,764
Forward exchange purchases	85,271,103	90,452,220
Cheques sent on clearing	7,604,740	4,464,492
Commitments for unutilised facilities	427,551,711	436,653,534
Total	763,214,236	764,161,162

**unaudited*

CAPITAL COMMITMENTS – BANK

The details of the Capital expenditure approved by the Board of Directors for which provision has not been made in the accounts are given below.

Capital Commitments	As at 31st December 2018 LKR 000	As at 30th June 2019* LKR 000
Approved and contracted but not provided for	327,759	248,914
Approved and not contracted for	37,027	35,741
Total	364,786	284,655

**unaudited*

LITIGATIONS AGAINST THE BANK

The Bank does not have any significant litigations against the Bank as at the date of Issue.

7.11 DETAILS OF CONVERTIBLE DEBT SECURITIES

The Bank does not have any convertible debt securities in issue as at the date of the Issue.

7.12 FINANCIAL RATIOS

Capital Adequacy Ratio (CAR)

Capital Ratios	Basel II	Basel III	Basel III	Basel III
	31.12.2016	31.12.2017	31.12.2018	30.06.2019
Tier 1	11.22%	13.72%	12.80%	13.02%
Tier 2	15.27%	17.04%	15.22%	15.57%

Debt to Equity Ratio and Interest Cover

	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	30.06.2019
*Interest Cover (Times)	6.01	5.78	5.06	4.46	4.71	3.86
**Debt to Equity Ratio	54.59%	100.63%	119.84%	90.84%	78.38%	70.45%

* **INTEREST COVER** - A ratio showing the number of times interest charges is covered by earnings before interest and tax. Includes interest paid on Borrowings and Debentures

Interest Cover Ratio = [PBIT / Borrowing cost]

** **DEBT TO EQUITY RATIO** - Debt Includes Borrowings and Debentures

Debt to Equity Ratio = [Long term borrowing including debt securities / Total Equity]

7.13 DETAILS OF PENALTIES IMPOSED BY REGULATORY AND STATE AUTHORITIES

There were no significant penalties imposed by regulatory and state authorities on the Bank.

7.14 DETAILS OF COMMISSION PAID

No commission has been paid in the two (02) years preceding the Issue or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions, for any shares of the Bank.

7.15 MANAGEMENT AGREEMENTS

There are no management agreements entered in to by the Bank and in force as at 30th June 2019.

7.16 TRANSACTION RELATING TO PROPERTY

There is no transaction relating to the property of the Bank, completed within the two (02) preceding years in which any vendor of the property sold to the Bank was any person who is or was at the time of the transaction, a promoter or a director or proposed director of the Bank who had any interest direct or indirect.

7.17 DETAILS OF BENEFITS PAID TO PROMOTERS

No benefit has been paid or given by the Bank within the two (02) years preceding the Issue and there are no benefits intended to be paid or given to any promoter.

7.18 DIVIDEND POLICY (AS AT 31ST DECEMBER)

The Board has adopted a policy of paying out dividends to the shareholders based on factors including but not limited to the Bank's earnings and capital requirements and overall macro financial conditions. Dividends paid and payable are subject to the Banking Act requirements.

	2012	2013	2014	2015	2016	2017	2018
Dividend Per Share (LKR)	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Gross Dividend (LKR Million)	3,379	3,400	3,431	3,451	3,523	4,153	4,188

7.19 DEBENTURE INTEREST PAYMENT DETAILS (AS AT 31ST DECEMBER)

	2013	2014	2015	2016	2017	2018
Gross interest due on debentures LKR(000)	427.25	1,157.4	1,146.15	1,379.49	2,915.85	2,830.44
Debenture interest paid on due date LKR(000)	427.25	1,157.4	1,146.15	1,379.49	2,915.85	2,830.44
Debenture interest paid after the due date LKR(000)	-	-	-	-	-	-
Debenture interest not paid as of to date LKR(000)	-	-	-	-	-	-

7.20 TAXATION

The Bank is not enjoying any tax exemptions as at the date of the Prospectus.

7.21 GROUP COMPANIES AND THEIR PRINCIPAL ACTIVITIES

The details of Group Companies of the Bank are given in the table below:

Name of Company	Relationship	Principal Activity	Shareholding % (as at 30 th June 2019)
HNB Assurance PLC	Listed subsidiary	Life Insurance	60%
Sithma Development Ltd	Subsidiary	Property Development	100%
Acuity Partners (Pvt) Ltd	Joint Venture	Investment Banking	50%
HNB Finance Ltd	Subsidiary	Microfinance	42%

7.22 INDEPENDENT DIRECTORS

The Board comprises of eleven (11) Directors out of whom ten (10) are Non-Executive Directors and one (1) is an Executive Director. Out of the 10 Non-Executive Directors seven (7) have been declared as independent as at the date of this Prospectus, they are as follows;

Mr. D. S. Weerakkody	(Chairman- Non Executive / Independent Director)
Dr. L. R. Karunaratne	(Non-Executive / Independent Director)
Mr. P. S. C. Pelpola	(Non-Executive / Independent Director)
Mr. E. D. P. Soosaipillai	(Non-Executive / Independent Director)
Mr. A. H. D. A. N. De Silva	(Non-Executive / Independent Director)
Mr. W. M. M. D. Ratnayake	(Non-Executive / Independent Director)
Mr. H. A. Peiris	(Non-Executive, Independent Director)

8.0 BOARD OF DIRECTORS

8.1 DETAILS OF THE DIRECTORS

The details of the Board of Directors of Hatton National Bank PLC as at the date of this Prospectus are given below:

MR. DINESH WEERAKKODY

HNB:

Chairman

Appointed: May 2018

Independent, Non-Executive Director

Appointed: June 2017

Skills & Experience:

A former Chairman of Commercial Bank of Ceylon PLC, Employees Trust Fund Board of Sri Lanka. He was also a Director of DFCC Bank.

Holds a MBA (University of Leicester, UK) and is a Fellow of the Chartered Institute of Management Accountants (UK) and of the Certified Management Accountants (Sri Lanka). Also holds a BTEC (UK) Certificate in Information Technology, an Advanced Diploma in Business Administration (ABE UK) and is a Professional Member of the Singapore Human Resource Institute. He was conferred an honorary membership by the Institute of Personnel Management of Sri Lanka for his contribution to HR.

Other Current Appointments:

Chairman of the National Human Resources Development Council of Sri Lanka and the International Chamber of Commerce of Sri Lanka. Holds several honorary Advisory roles in the current government.

Currently serves in a number of private sector and MNC boards and Chairs/Member of the Audit Committee and the Remuneration Committee in several of those Companies. He is a Council Member of the Employers Federation of Ceylon and the Institute of Directors of Sri Lanka. He is a member of the CIMA Asia Pacific Industry Advisory Body and National Health Development Fund of the Ministry of Health.

He is the recipient of a Jaycees Ten Outstanding Young Persons Award in 1999 and an International Associations of Lions Clubs National Achievers Award in 2008 for the advancement of good governance in the public sector.

Mr. Weerakkody has published widely on Economics, Banking and Finance, HR, Leadership, Management, International Relations and development issues. He is an author of six books and is a regular business speaker / commentator.

MR. JONATHAN ALLES

HNB:

Managing Director /Chief Executive Officer Appointed: July 2013

Executive Director

Appointed: May 2013

Skills & Experience:

An experienced banker counting over 32 years in the industry with experience having served several international banks including the HSBC-Dubai, Saudi British Bank-Riyadh, HSBC (Sri Lanka) and National Bank of Abu Dhabi. Holds a MBA from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka.

Other Current Appointments:

Chairman of HNB Finance Ltd and Acuity Partners (Pvt) Ltd. He is the immediate past Chairman/Director of Lanka Financial Services Bureau Ltd, Lanka Ventures PLC and LVL Energy Fund. He is a member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform, Vice Chairman of the Banking, Financial & Insurance Services Group of the Employers' Federation of Ceylon, a Member of the Main Committee of the Ceylon Chamber of Commerce and the Sri Lanka Institute of Directors. Mr. Alles was recently appointed as Chairman of Asian Bankers Association for the period 2018-2020.

Mr. Alles is a dynamic Banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 250 customer centres, using cutting edge technological platforms and enabling a new paradigm in Sri Lanka's banking culture. Under his leadership, HNB has received recognition from numerous international and local institutions and continues to set new benchmarks in the Sri Lankan banking industry.

DR. ROHAN KARUNARATNE

HNB:

Independent, Non-Executive Director Appointed: October 2011

Skills & Experience:

Consultant Engineer, counts over 34 years' of experience in Civil Engineering. Wide business experience gained from leadership roles held in a range of industries.

Holds a PhD in Management and a MBA from the Sussex University (UK). A Civil Engineering Graduate and advanced Diploma holder in HIET (Chennai – India), is a Fellow of the International Institute of Management (HK) and a Fellow of the Ceylon Institute of Builders.

Other Current Appointments:

President of the Ceylon Institute of Builders (CIOB), Advisory Panel Member of the Ministry of Megapolis & Western Development and Export Development Board.

Chairman of A.K.K Engineers (Pvt) Ltd, Associated Motor Finance Co Ltd, Hybrid Airports (Pvt) Ltd, Master Builders International (Pvt) Ltd, Pinthaliya Holiday Resorts & Spa, Arpico Finance PLC and a Director of Helanko Hotels & Spa (Pvt) Ltd. Deputy Chairman, International Institute of Management.

Previous Appointments:

Past Chairman of the National Construction Association of Sri Lanka, inaugural Chairman of Human Resources Development (Pvt) Ltd and Advance Construction Training Academy and a Director of Property Development Ltd (BOC), Sino Lanka Hotels & Spa (Pvt) Ltd., and Canwill Holdings (Pvt) Ltd.

MR. RUSI CAPTAIN**HNB:**

Non-Executive Director
Appointed: April 2012

Skills & Experience:

Experience gained in diverse business and leadership roles.
Secondary education at Millfield, U.K. and the University of Miami, Florida

Other Current Appointments:

Director of Polypak Secco Ltd, Paints & General Industries Ltd, Paints & General (Exports) Ltd, CIC Holdings PLC, Propertex Development Ltd, Austin Gloves (Ceylon) Ltd, CEI Plastics Ltd, Ranweli Ltd, Agriland Ltd, Forest Creek Park Ltd, Body Bar Ltd, Horahena Investments Ltd, Palmland Ltd, Parkland Ltd, Cisco Specialty Packaging (Pvt) Ltd, Randiya Farms Ltd. And Link Natural Products (Pvt) Ltd and Chacra Capital Holdings (Pvt) Ltd.

MR. AMAL CABRAAL**HNB:**

Independent, Non-Executive Director
Appointed: April 2014

Skills & Experience:

Counts over 30 years of business experience in General Management, Marketing and Sales in Sri Lanka, U.K., India and Bangladesh.
Executive Education Alumnus of INSEAD-France and holds a MBA from the University of Colombo. A Chartered Marketer and a Fellow of the Chartered Institute of Marketing – U.K.

Other Current Appointments:

Non-Executive Chairman of Ceylon Beverage Holdings PLC, Lion Brewery (Ceylon) PLC and CIC Feeds Group of companies. Independent non-executive Director of John Keells Holdings PLC, Sunshine Holdings PLC, Silvermill Investment Holdings (Pvt) Ltd and a Member of the Supervisory Board of Associated Motorways (Private) Ltd. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. Committee Member of the Ceylon Chamber of Commerce and Management Committee of the Mercantile Services Provident Society.

Previous Appointments:

Chairman and CEO of Unilever Sri Lanka

MR. PALITHA PELPOLA

HNB:

Independent, Non-Executive Director

Appointed: April 2015

Skills & Experience:

Experience gained in diverse business and leadership roles.

Institute of Cost & Management Accountants Part III

Other Current Appointments:

Chairman of Ceybank Asset Management Limited., Coconut Cultivation Board and Kapruka Fund.

Board Member of Tea, Rubber & Coconut Fragmentation Board and Coconut Development Authority.

Previous Appointments:

Has served the Government of Sri Lanka through various appointments including Private Secretary to the President, Private Secretary to the Minister of Mahaweli Development and Lands & Land Development, Special Advisor to the Minister of Plantation Industries, Senior Advisor of the Ministry of Enterprise Development & Investment Promotion. Managing Director of Mahaweli Economic Agency.

Chief Executive Officer of Leader Publications Ltd and Media Consultant of World Health Organization.

Executive Director of Sri Lanka Foundation, Los Angeles, California, USA.

MR. DULIKSHA SOOSAIPILLAI

HNB:

Independent, Non-Executive Director

Appointed: April 2015

Skills & Experience:

Over 30 years' of experience in Finance, Strategy, Risk Management & Compliance in the financial services sector.

A Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.

Other Current Appointments:

Independent Non-Executive Director of Commercial Credit and Finance PLC and serves in many of its board sub-committees. Independent Non-Executive Director of Udupussellawa Plantations PLC and Hapugastenne Plantations PLC and serves on many of its Board Sub-Committees.

Previous Appointments:

Was engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management Project in 2012.

Managing Director of the Maldives Finance Leasing Company Pvt Ltd for more than 7 years and the Chief Executive Officer of Ceylease Financial Services Ltd - a subsidiary of the Bank of Ceylon.

Chief Operating Officer of Dunamis Capital PLC, the holding Company of the First Capital Group of Companies and the Kelsey Group of Companies.

MR. A N DE SILVA

HNB:

Independent, Non-Executive Director

Appointed: April 2015

Skills & Experience:

Over 40 years' of experience in commercial banking and Bank Management.

Elected an Associate of the Chartered Institute of Bankers, London, UK in December 1978, on successful completion of its professional examinations.

Has been exposed to extensive training attachments in Banking and Management both locally and overseas with Dresdner Bank, AG, Germany, National Institute of Bank Management, Pune, India, Centre for Financial Engineering in Development, Washington DC USA, Mt Eliza Campus - Monash University, Melbourne, Australia.

Team Member of HNB's User Group Heads who evaluated IT Systems in the U.K. and India.

Participated in a study tour of the South African Banking System organised by the Institute of Bankers, South Africa.

Played a key role in HNB's acquisitions of Indosuez Bank and Habib Bank AG Zurich.

Other Current Appointments:

Independent Non-Executive Director, Malwatte Valley Plantations PLC and Holco Ceylon (Private) Ltd.

Previous Appointments:

Former Acting Chief Executive Officer and Chief Operating Officer, Union Bank of Colombo PLC, former Director, Lanka Clear Limited and former Alternate Director, Credit Information Bureau of Sri Lanka (CRIB).

Former Deputy General Manager (Corporate Banking), Hatton National Bank PLC.

MR. L U D FERNANDO

HNB:

Non-Executive, Non Independent Director

Appointed: October 2018

Skills & Experience:

Mr. Fernando is a Fellow member of Chartered Institute of Management Accountants of United Kingdom and was awarded a Masters Degree in Business Administration from Postgraduate Institute of Management, University of Sri Jayawardenapura in 1992.

Other Current Appointments:

Mr. Fernando is a Director of Addison (Pvt) Ltd and HealthCey (Pvt) Ltd. He has held Board and other positions in several sectors including Finance, Life & General Insurance, Assets management & Unit Trusts, Management of healthcare, food & beverages, manufacturing and in retail.

Previous Appointments:

Mr. Fernando served as a non-executive Director in the HNB board from April 2012 to March 2017. He has also served as the executive Director of Sri Lanka Insurance Corporation Ltd from year 2003 – 2009. He was a Director of Distilleries Co. of Sri Lanka PLC from February 2006 – December 2008. Mr. Fernando also served in the Director boards of Lanka Hospitals Corp. PLC (Sept.2006 – June 2009 and May 2009 – June 2016), Melstacorp PLC (June 2010 – Dec. 2011), Pelwatte Sugar PLC (April 2011 – Nov. 2011) and National Asset management Ltd (Sept.2007 – April 2010).

Mr. Fernando is an alumni of Postgraduate Institute of Management, University of Sri Jayawardenepura.

MR. MADU RATNAYAKE**HNB:**

Independent/Non-Executive Director

Appointed: October 2018

Skills & Experience:

A Chartered Engineer, Group CIO and the Center Head for Virtusa Sri Lanka. He holds an MBA from the Postgraduate Institute of Management (Sri Jayawardenapura) and a First Class Honors Degree in Software Engineering from City University in London.

Has over 20 years' experience in IT, digital transformation, project and service delivery. He has experience in large scale business transformation program design and execution, driving corporate innovation, cyber security, solution architecture, customer support, consultancy and general management in UK, USA, Australia, India and Sri Lanka. He has delivered multi-million dollar projects to Fortune 1000 companies with geographically spread software teams.

Other Current Appointments:

Founder Director and former Chairman of Sri Lanka Association for Software and Services Companies (SLASSCOM), the industry body for IT and BPM in Sri Lanka and the former Chairman of Sarvodaya Fusion, the ICT4D arm of Sarvodaya, the largest NGO in Sri Lanka; He represents the IT industry on the boards of several leading universities/Institutions.

Previous Appointments:

Has served as a Director of Sanasa Development Bank from December 2014 to January 2016 and Sri Lanka Institute of Information Technology.

MR. HIRAN ASOKA PIERIS**HNB:**

Independent/Non-Executive Director

Appointed: April 2019

Skills & Experience:

A member of the Institute of Chartered Accountants of Sri Lanka, a fellow member of the Chartered Institute of Management Accountants (UK). He is also a Chartered Global Management Accountant and an associate member of the Institute of Chartered Accountants of Sri Lanka.

Other Current Appointments:

A non-executive director Cargills Ceylon PLC.

Previous Appointments:

Mr. Pieris was the Group Chief Executive Officer of the Singer Group of Sri Lanka, from July 2010 to October 2018. He was named as one of the top Corporate Front Runners/Business Leaders in Sri Lanka by LMD in 2012, 2015, 2016, 2017 and 2018. He was also a member of the Group Management Committee of Hayleys PLC from October 2017 to October 2018. Mr. Pieris served as the Vice President - Finance of Singer Asia Ltd in Hong Kong for two years and was Finance Director of Singer Group in Sri Lanka for six years. He understudied marketing operations in Singer, Jamaica. He has been a Director of Public Quoted Companies in Sri Lanka, Bangladesh and Indonesia and a Director of Non Quoted Companies in India and Hong Kong.

Mr. Pieris has volunteered his services on many fronts – As an Active Rotarian since 1997 and a past president of the Rotary Club of Colombo North; as a member of the Council of Institute of Chartered Accountants of Sri Lanka; as a member of the Executive Council of the Sri Lanka Retailers Association; as a member of the Chamber Committee of the Ceylon Chamber of Commerce.

MR. PRAWIRA RIMOE SALDIN**HNB:**

Alternate Director to Mr. R S Captain – Director, HNB PLC

Appointed: July 2018

Skills & Experience:

Appointed as alternate Director in July 2018. He is a fellow of the Institute of Chartered Accountants of Sri Lanka, a fellow of the Chartered Institute of Management Accountants of London and a Certified Management Accountant Australia. Mr. Saldin is an alumni of the Asia Institute of Management and serves as Chairman of Industrial Association of Sri Lanka.

Mr. Saldin has over 30 years of experience in Finance, Operations and General Management.

Other Current Appointments:

He is presently the Director/CEO of Polypak Secco Ltd, a Director of Paints & General Industries Ltd and Polytex Properties and Investments Ltd. He is also the Chairman of Chemanex PLC and a Director of CIC Holdings PLC and serves in the Board of Directors of a number of companies in the CIC Group including Akzo Nobel Paints Lanka Ltd. Mr. Saldin serves as the Chairman of the Audit Committee of CIC Holdings PLC.

Previous Appointments:

Mr. Saldin has served as the Commercial Director and Group Finance Director of CIC Holdings PLC for the period 1995 - 2005. He was the Country Controller & Group Finance Director for Shell Sri Lanka for the period 2005 – 2010 and also the Group Chief Operating Officer, Browns Group of Companies PLC and the Managing Director of Brown Investments PLC from 2010 - 2014.

DR. PRASAD SAMARASINGHE

Appointed as alternate Director in July 2019. Dr. Samarasinghe is also a director of Hayleys Fibre PLC, servingits Board from September 2017.

Dr. Samarasinghe is the Managing Director/Director of Lanka Bell (Pvt) Ltd from July 2005 and also the Managing Director of Telecom Frontier (Pvt) Ltd from September 2008. He is a Doctor of Philosophy in Telecommunications – Australian National University, Canberra, Australia and holds a Master of Engineering Degree from University of Moratuwa. He is a recipient of First Class Honours of B.Sc (Eng) in Electronics & Telecommunications – University of Moratuwa. Dr. Samarasinghe is a Licentiate of Part 1 and Part II of Institute of Chartered Accountants of Sri Lanka, holding the best results in Financial Accounting, Business Mathematics, Statistics and Data Processing in the year 1991.

Dr. Samarasinghe was holding the position as the Systems Engineer (Data Communications) at Electroteks (Pvt) Ltd from September 1996 to June 1998. Thereafter, he joined the Commercial Bank of Ceylon and served as Manager/Communications Engineer till January 2001, Chief Manager IT from 2001 to May 2002 prior to become the Head of IT in May 2002 till September 2003. He was the Deputy General Manager (ICT) of Sri Lanka Insurance from 2003 to July 2005. Dr. Samarasinghe had been a Director – E-Channelling (pvt) Ltd from September 2004 to June 2009 and became the Chief Operating Officer (support services) of Sri Lanka Insurance in July 2005 and served till 2008 March. He was the Managing Director of Bellvantage (Pvt) Ltd from September 2008 to December 2011.

Dr. Samarasinghe is holding a professional membership as a Board Director of TRACE and LK Domain Registry and was a council member of CSSL (2015-2016), FITIS (2015-2018) and a General council member of SLASSCOM from 2015-2016.

8.2 DIRECTORS' INTEREST IN ASSETS

The Directors of the Bank hold no interest in acquisition, disposal or lease of any asset of the Bank during the past two (02) years preceding the Issue and have not proposed to acquire, dispose or lease any asset of the Bank during the two (02) years succeeding the Issue.

8.3 BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Bank re-constituted the Related Party Transactions Review Committee as a Board Sub-Committee with effect from 1st January 2016, to review 'Related Party Transactions' in terms of the Code of Best Practices on Related Party transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC) and Section 9 of the Listing Rules of the Colombo Stock Exchange.

The Composition of the Committee is as follows:

- Mr. A. H. D. A. N. de Silva - Committee Chairman
- Mr. P. S. C. Pelpola
- Mr. A.J. Alles

9.0 STATUTORY DECLARATIONS

9.1 STATUTORY DECLARATION BY THE DIRECTORS

We, the undersigned who are named herein as Directors of Hatton National Bank PLC hereby declare and confirm that we have read the provisions of CSE Listing Rules and of the Companies Act No.7 of 2007 and any amendments thereto relating to the Issue of the Prospectus and those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of the Company have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to the Company and making assumptions that are considered to be reasonable at the present point in time in our best judgment.

The parties to the Issue including Lawyers, Auditors and Rating Company have submitted declarations to the Company declaring that they have complied with all regulatory requirements applicable to such parties, and that such parties have no conflict of interest with the Company. Nevertheless, Acuity Partners (Pvt) Limited, one of the Joint Managers and Placement Agents to the Issue is a joint venture between Hatton National Bank PLC and DFCC Bank PLC. Further, the Company Secretaries to the said Issue has also submitted declarations to the Company declaring that they have complied with all regulatory requirements applicable to them.

An Application has been made to the CSE for permission to deal in and for a listing for Debentures issued by the Company and those Debentures which are the subject of this Issue.

Such permission will be granted when Debentures are listed on the CSE. The CSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the CSE is not to be taken as an indication of the merits of the Company or of the Debentures issued.

Name of Director	Designation	Signature
Mr. D. S. Weerakkody	Chairman - Non Executive , Independent Director	Sgd.
Mr. A.J. Alles	Managing Director / Chief Executive Officer	Sgd.
Dr. L. R. Karunaratne	Director (Non-Executive , Independent)	Sgd.
Mr. R. S. Captain Mr. P. R. Saldin	Director (Non-Executive , Non Independent) Alternate Director to Mr. R. S. Captain	Sgd.
Mr. D. A. Cabraal	Director (Non-Executive , Non Independent)	Sgd.
Mr. P. S. C. Pelpola	Director (Non-Executive , Independent)	Sgd.
Mr. E. D. P. Soosaipillai	Director (Non-Executive , Independent)	Sgd.
Mr. A. H. D. A. N. De Silva	Director (Non-Executive , Independent)	Sgd.
Mr. L. U. D. Fernando Dr. T. K. D. A. P. Samarasinghe	Director (Non-Executive , Non Independent) Alternate Director to Mr. L. U. D. Fernando	Sgd.
Mr. W. M. M. D. Ratnayake	Director (Non-Executive , Independent)	Sgd.
Mr. H. A. Pieris	Director (Non-Executive , Independent)	Sgd.

9.2 STATUTORY DECLARATION BY THE JOINT MANAGERS AND PLACEMENT AGENTS TO THE ISSUE

We, NDB Investment Bank Limited of No 135, Baudhdhaloka Mawatha, Colombo 04, who are named in the Prospectus as the Joint Managers and Placement Agents to the Issue hereby declare and confirm that to the best of our knowledge and belief based on the information provided to us by Hatton National Bank PLC, the Prospectus constitutes full and true disclosure of all material facts about the Issue and Hatton National Bank PLC whose Debentures are being listed.

Signed by two Directors of NDB Investment Bank Limited, being duly authorised thereto, at Colombo on this 29 August 2019.

Sgd.
Director

Sgd.
Director

We, Acuity Partners (Private) Limited of No. 53, Dharmapala Mawatha, Colombo 03, who are named in the Prospectus as the Joint Managers and Placement Agents to the Issue hereby declare and confirm that to the best of our knowledge and belief based on the information provided to us by Hatton National Bank PLC, the Prospectus constitutes full and true disclosure of all material facts about the Issue and Hatton National Bank PLC whose Debentures are being listed.

Signed by two Directors of Acuity Partners (Private) Limited, being duly authorised thereto, at Colombo on this 28 August 2019.

Sgd.
Managing Director

10.0 FINANCIAL INFORMATION

10.1 ACCOUNTANT'S REPORT AND FIVE YEAR SUMMARY OF FINANCIAL STATEMENTS



Ernst & Young
Chartered Accountants
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SPF/BV/TW

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

10 April 2019

Accountants' Report Hatton National Bank PLC

Dear Sirs/Mesdames

Introduction

This report has been prepared for the purpose of prospectus issued in connection with the proposed issue of BASEL III compliant - Tier 2, listed, rated, unsecured, subordinated, redeemable 5 and 7 year debentures (2019/24 and 2019/26) of Hatton National Bank PLC with a non-viability conversion, at a par value of LKR 100/- each in order to issue fifty million (50,000,000) debentures with an option to issue up to a further twenty million (20,000,000) debentures at the discretion of the Bank in the event of an over subscription of the initial tranche and a further option to issue up to Thirty Million (30,000,000) debentures at the discretion of the Bank in the event of an oversubscription of the first two tranches.

We have examined the Financial Statements of the 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 2014 to 31 December 2018, 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.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatinga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal: T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

2. Financial Information

2.1 Five-year Summary of Audited Financial Statements

A summary of Statements of Financial Position, Statement of Profit or Loss, Statements of Changes in Equity and Statements of Cash Flows of the Bank and a summary of Consolidated Statements of Financial Position, Statement of Profit or Loss, Statements of Changes in Equity and Statements of Cash Flows of the Group for the financial years ended 31 December 2014 to 31 December 2018, based on the audited financial statements are set out on Annexure 01 of the Accountants' Report.

2.2 Audited Financial Statements for the Year ended 31 December 2018

Our audit report on the Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2018 together with such Financial Statements comprising the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow along with the accounting policies and notes thereon is available on the websites of 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 Audit Reports

We have audited the Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its subsidiaries for the years ended 31 December 2014 to 31 December 2018. Unmodified audit opinions have been issued for the said financial years by our reports dated 20 February 2015, 19 February 2016, 23 February 2017, 20 February 2018 and 20 February 2019 respectively.

2.4 Accounting Policies

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its subsidiaries for the years ended 31 December 2014 to 31 December 2018 comply with Sri Lanka Accounting Standards.

The accounting policies of the Bank and its Subsidiaries are stated in detail in the audited Financial Statements of Hatton National Bank PLC for the year ended 31 December 2018 and changes in the accounting policies of Bank from 31 December 2014 to 31 December 2017 are given below.

Change in Accounting Polices as a Result of adoption of SLFRS 11-Joint Arrangements

The Bank adopted Sri Lanka Accounting Standard SLFRS 11-Joint Arrangements with effect from 1st January 2014. Upon adoption of SLFRS 11, the Group has determined its interest in Acuity Partners (Pvt) Ltd to be classified as a joint venture under SLFRS 11 and it is required to be accounted for using the equity method. Prior to the transition to SLFRS 11, Acuity Partners (Pvt) Ltd was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the consolidated financial statements. The transition was applied retrospectively as required by SLFRS 11 and the comparative information for the immediately preceding period (2013) is restated.

2.5 Dividends

Bank has paid dividend during the years ended 31 December 2014 to 31 December 2018 as follows.

Year	Dividend Paid (Rs. '000)	Dividend Per Share (Rs.)
2014 *	3,431	8.50
2015 **	3,451	8.50
2016**	3,523	8.50
2017***	4,153	8.50
2018**	4,188	8.50

* Final dividend of Rs 7.00 per share paid in cash

** Final dividend of Rs 7.00 per share consists of Rs 3.50 per share in cash and Rs 3.50 in the form of a scrip dividend.

*** Final dividend of Rs 7.00 per share consists of Rs 5.00 per share in cash and Rs 2.00 in the form of a scrip dividend.

2.6 Events after Reporting Date

There were no significant events occurred after the last audit report date.

3. Restriction on Use

This report is made solely for the purpose of prospectus issued in connection with the proposed issue of BASEL III compliant - Tier 2, listed, rated, unsecured, subordinated, redeemable 5 and 7 year debentures (2019/24 and 2019/26) of Hatton National Bank PLC with a non-viability conversion, at a par value of LKR 100/- each in order to issue fifty million (50,000,000) debentures with an option to issue up to a further twenty million (20,000,000) debentures at the discretion of the Bank in the event of an over subscription of the initial tranche and a further option to issue up to Thirty Million (30,000,000) debentures at the discretion of the Bank in the event of an oversubscription of the first two tranches

Yours faithfully



Annexure I
IFRS

BALANCE SHEET

	Bank		Group					2018		
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
ASSETS										
Cash and Cash Equivalents	13,141,295	14,909,598	17,511,446	21,739,800	25,141,890	13,421,850	15,419,654	18,668,703	21,924,898	24,966,831
Balance with Central Banks	16,907,538	20,096,090	33,777,614	38,610,940	33,907,057	16,907,538	20,096,090	33,777,614	38,610,940	33,907,057
Placements with banks	3,789,538	26,827	753,050	3,182,377	3,292,733	5,096,455	1,174,326	2,198,446	9,670,125	8,506,255
Reverse repurchase agreement	16,930,572	4,869,219	4,303,460	90,094	90,094	19,575,253	7,782,374	5,756,794	772,002	1,168,764
Derivative financial instruments	178,370	1,302,872	289,989	615,357	4,507,576	178,370	1,302,872	289,989	615,357	4,507,576
Other financial assets held for trading/Financial assets recognised through profit or loss - measured at fair value	551,371	593,390	544,915	120,486	100,342	1,052,727	1,948,772	716,009	266,538	264,420
Non-current assets held for sale	30,238	20,151	-	-	-	30,238	20,151	-	-	-
Loans and receivables for other customers/Financial	396,277,166	498,341,628	584,412,727	639,102,061	749,048,820	401,859,754	507,244,329	597,467,460	655,612,938	770,263,000
Financial investments - Loans and	35,369,035	84,206,702	99,260,698	122,199,048	160,145,680	38,049,100	87,087,205	102,063,229	125,031,671	165,821,983
Financial investments - Available-for-sale/Financial	67,842,229	78,046,503	89,915,153	95,403,820	69,436,989	69,443,057	79,718,231	95,797,142	101,742,985	76,005,258
Financial investments - Held-to-maturity	655,000	655,000	755,000	755,000	755,000	955,421	1,257,433	465,081	1,565,603	-
Investment in Joint Venture	3,017,285	3,017,285	3,017,285	3,017,285	3,017,285	1,196,544	1,253,370	1,450,806	1,689,263	2,027,201
Investments in Subsidiaries	392,088	386,643	403,959	327,464	325,818	1,042,386	1,041,797	1,054,300	1,146,564	1,107,472
Property, Plant and Equipment	9,304,665	11,473,569	13,945,002	17,905,320	21,304,370	18,290,365	23,908,688	29,844,234	34,635,034	42,417,126
Intangible Assets and goodwill	802,728	659,309	789,648	815,381	905,653	1,089,759	1,001,230	1,180,269	1,237,829	1,377,864
Deferred tax assets	287,384	-	-	-	199,315	199,315	-	-	-	-
Other Assets	7,374,846	6,602,922	9,283,490	11,083,242	14,509,951	8,102,644	7,328,053	10,810,117	13,038,222	16,273,512
Total Assets	572,851,348	725,207,710	858,963,436	954,877,581	1,086,489,258	596,490,776	757,584,575	901,540,193	1,007,559,969	1,148,614,319
LIABILITIES										
Due to banks	43,428,762	58,232,034	69,219,302	62,463,497	77,492,582	43,504,729	58,283,838	69,254,893	62,464,391	77,976,010
Derivative financial instruments	630,598	304,485	665,890	1,305,900	2,519,172	630,598	304,485	665,890	1,305,900	2,519,172
securities sold under repurchase agreements	16,983,545	16,630,201	13,458,127	5,064,360	16,678,946	16,983,545	16,630,201	13,458,127	5,064,360	16,678,946
Fin. Liabilities at amortised cost - due to other customers	419,327,123	527,126,181	623,494,969	701,519,297	799,975,357	425,620,382	536,132,789	635,371,097	718,770,051	818,041,962
Dividends Payable	587,078	764,771	1,007,075	975,371	994,812	587,078	764,771	1,015,463	986,880	1,009,468
Other borrowings/Financial liabilities at amortised cost - other borrowings	4,345,285	26,833,109	27,839,845	27,258,006	24,894,155	4,345,285	26,833,109	27,839,845	27,258,006	24,894,155
Debt securities issued	4,451,407	4,490,742	4,653,057	4,540,259	4,487,763	4,451,407	4,490,742	4,625,379	4,066,087	5,030,000
Current Tax Liabilities	3,297,530	4,542,977	6,223,943	3,974,624	9,277,185	3,394,992	4,762,707	6,425,379	4,066,087	9,652,223
Insurance provision - Life	-	-	-	-	-	5,562,649	7,007,081	8,747,856	10,915,858	12,256,686
Insurance provision - Non Life	-	-	-	-	-	1,279,139	1,546,266	1,921,567	2,384,908	2,525,095
Deferred Tax Liabilities	-	378,820	231,364	5,082,636	1,808,898	-	579,102	824,778	7,309,283	5,831,673
Other provisions	1,810,893	2,538,111	3,158,444	3,015,875	3,559,925	2,123,089	2,746,294	3,407,050	3,416,332	4,081,659
Other liabilities	5,436,705	6,250,856	5,840,718	5,720,896	6,816,540	6,300,920	7,250,893	7,279,639	7,359,236	8,852,418
Subordinated term debts	11,653,759	12,064,370	26,153,476	25,809,261	22,229,951	11,677,046	12,085,598	25,901,110	25,564,596	21,930,246
Total Liabilities	511,952,685	660,156,657	781,946,210	846,729,982	970,735,286	526,852,079	679,840,885	807,228,495	881,901,846	1,011,279,713
SHAREHOLDERS FUNDS										
Statutory Capital	13,289,992	13,826,873	15,340,158	31,409,119	32,338,026	13,289,992	13,826,873	15,340,158	31,409,119	32,338,026
Statutory reserves	3,160,000	3,760,000	4,560,000	5,460,000	6,260,000	3,160,000	3,760,000	4,560,000	5,460,000	6,260,000
Retained earnings	7,808,059	5,270,848	9,524,236	15,193,585	15,648,251	10,396,517	7,949,848	12,821,116	18,082,284	20,179,299
Other Reserves	36,640,612	42,193,332	47,592,832	56,084,895	61,507,695	41,058,056	50,027,681	58,569,401	67,058,017	73,884,071
Total equity attributable to equity holders of the Bank	60,898,663	65,081,053	77,017,226	108,147,599	115,753,972	67,904,565	75,564,402	91,290,675	122,009,420	132,661,396
Non controlling interests	60,898,663	65,081,053	77,017,226	108,147,599	115,753,972	1,734,132	2,179,288	3,021,023	3,648,703	4,673,210
Total Equity	121,797,326	130,162,106	154,034,452	216,295,198	231,507,944	69,638,697	77,743,690	94,311,698	125,658,123	137,334,606
Total liabilities and shareholders funds	572,851,348	725,207,710	858,963,436	954,877,581	1,086,489,258	596,490,776	757,584,575	901,540,193	1,007,559,969	1,148,614,319
Commitments and contingencies	396,361,392	343,386,012	502,372,909	598,364,726	763,214,236	396,361,392	343,386,012	502,372,909	598,364,726	763,214,236



Annexure 1

IFRS

Rs.000

INCOME STATEMENT

	Bank 2014	2015	2016	2017	2018	Group 2014	2015	2016	2017	2018
INCOME	59,500,495	61,153,466	84,350,823	106,295,194	121,356,089	65,023,846	70,026,698	95,990,771	119,759,106	138,250,551
Interest income	51,868,333	52,615,463	75,608,193	96,175,453	108,104,923	53,062,579	56,893,956	81,533,502	103,908,195	116,488,588
Less - Int expense	26,966,826	26,279,934	41,236,605	56,526,138	60,525,342	27,077,830	27,200,236	42,444,643	58,446,928	62,852,424
Net interest income	24,901,507	26,335,529	34,371,588	39,649,315	47,579,581	25,984,749	29,693,720	39,088,859	45,461,267	53,636,164
Fee & comm income	4,976,212	5,874,928	7,139,253	8,415,579	9,540,862	5,196,099	6,426,080	7,905,879	9,227,529	10,382,030
Fee & comm expenses	(98,329)	(98,622)	(90,594)	(105,482)	(141,592)	(123,290)	(182,093)	(180,531)	(213,143)	(284,080)
Net fee and commission income	4,877,883	5,776,306	7,048,659	8,310,097	9,399,270	5,072,809	6,243,987	7,725,348	9,014,386	10,097,950
Net interest, fee and commission income	29,779,390	32,111,835	41,420,247	47,959,412	56,978,851	31,057,558	35,937,707	46,814,207	54,475,653	63,734,114
Net gain/(loss) from trading	(570,720)	196,993	(1,795,691)	(3,711,203)	(356,594)	(441,618)	212,364	(1,824,452)	(3,695,658)	(396,918)
Net gain/(loss) from financial investments	1,398,025	253,858	111,713	212,129	215,551	1,493,975	297,978	103,165	247,166	217,896
Net Insurance Premium Income						3,831,288	4,679,897	5,490,712	6,326,292	7,431,823
Net gain derecognition of financial assets										72,150
Other operating income	1,828,645	2,212,224	3,287,355	5,203,236	3,851,347	1,881,523	1,516,423	2,781,965	3,745,582	4,054,982
Total Operating Income	32,435,340	34,774,910	43,023,624	49,663,574	60,689,155	37,822,726	42,644,369	53,365,597	61,099,035	75,114,047
Less: Impairment for loans and other losses	2,491,520	931,925	237,160	3,035,468	9,292,421	2,532,808	1,022,111	508,159	3,926,149	9,784,052
Net operating income	29,943,820	33,842,985	42,786,464	46,628,106	51,396,734	35,289,918	41,622,258	52,857,438	57,172,886	65,329,995
Less										

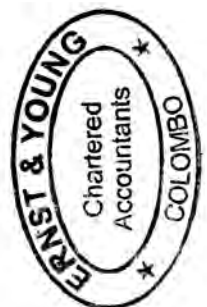


IFRS	Bank 2014	2015	2016	2017	2018	Group 2014	2015	2016	2017	2018
INCOME STATEMENT										
OPERATING EXPENSES										
Personnel costs	7,407,015	7,927,695	8,703,575	8,866,642	10,000,083	8,108,200	9,155,160	10,416,099	10,916,284	12,290,751
Benefits, claims and underwriting expenditure						3,240,203	4,211,996	4,571,389	5,485,864	5,679,269
Other expenses	7,971,000	8,050,939	9,584,304	10,689,807	12,075,883	8,385,792	9,093,136	10,785,144	12,407,714	14,353,950
Operating profit/ (loss) before value added tax (VAT)/Operating profit before Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Recovery Levy (DRL) on financial services	15,378,015	15,978,634	18,287,879	19,556,449	22,075,966	19,734,195	22,460,292	25,772,632	28,809,862	32,323,970
	14,565,805	17,864,351	24,498,585	27,071,657	29,320,768	15,555,723	19,161,966	27,084,806	28,363,024	33,006,025
Less: VAT, NBT & DRL on financial services	2,501,876	2,814,334	4,352,756	5,021,446	6,369,268	2,550,247	3,061,783	4,734,949	5,435,628	6,842,813
Operating profit/ (loss) after value Share of profit/(loss) of Associates (net of income tax)	12,063,929	15,050,017	20,145,829	22,050,211	22,951,500	13,005,476	16,100,183	22,349,857	22,927,396	26,163,212
	-	-	-	-	-	142,977	60,085	148,790	175,616	303,092
PROFIT BEFORE INCOME TAX	12,063,929	15,050,017	20,145,829	22,050,211	22,951,500	13,148,453	16,160,268	22,498,647	23,103,012	26,466,304
Less - Income tax expense	3,058,655	4,601,231	6,002,423	5,583,421	7,433,297	3,080,360	5,064,424	6,833,685	6,361,616	7,316,842
PROFIT FOR THE YEAR	9,005,274	10,448,786	14,143,406	16,466,790	15,518,203	10,068,093	11,095,844	15,664,962	16,741,396	19,149,462
Profit Attributable to Equity holders of the Bank	9,005,274	10,448,786	14,143,406	16,466,790	15,518,203	9,819,595	10,553,568	14,755,634	15,946,989	17,635,774
Non-controlling interest	-	-	-	-	-	248,498	542,276	909,328	794,407	1,513,688
PROFIT FOR THE YEAR	9,005,274	10,448,786	14,143,406	16,466,790	15,518,203	10,068,093	11,095,844	15,664,962	16,741,396	19,149,462



Annexure I
Statement of Changes in Equity
For the year ended 31st December
Bank

	Stated Capital		Other Reserves					Total		
	Voting Shares Rs 000	Non-Voting Shares Rs 000	Statutory Reserve Rs 000	Investment Fund Account Rs 000	Capital Reserve Rs 000	Available-for-Sale Reserve Rs 000	General Reserve Rs 000		ESOP Reserve Rs 000	Retained Earnings Rs 000
Balance as at 1st January 2014	10,254,944	2,575,324	2,660,000	4,101,205	4,466,918	4,413,828	19,100,000	416,216	3,465,419	51,453,854
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2014	-	-	-	-	-	-	-	-	9,005,274	9,005,274
Other comprehensive income, net of tax	-	-	-	-	-	2,341,527	-	-	1,140,012	3,481,539
Total comprehensive income for the year	-	-	-	-	-	2,341,527	-	-	10,145,286	12,486,813
Transactions with equity holders recognised directly in equity										
Contributions by and distributions to equity holders										
Final dividend 2013 - Cash	-	-	-	-	-	-	-	-	(2,800,912)	(2,800,912)
Interim dividend 2014 - Cash	-	-	-	-	-	-	-	-	(602,939)	(602,939)
Issue of shares under ESOP	307,076	54,771	-	-	-	-	-	-	-	361,847
Total contributions by and distributions to equity holders	307,076	54,771	-	-	-	-	-	-	(3,403,851)	(3,042,004)
Transfers during the year 2014	78,371	19,506	500,000	306,821	-	-	6,000,000	(97,877)	(6,806,821)	-
Transfer of investment fund account balance	-	-	-	(4,408,026)	-	-	-	-	4,408,026	-
Balance as at 31st December 2014	10,640,391	2,649,601	3,160,000	4,466,918	4,466,918	6,755,355	25,100,000	318,339	7,808,059	60,898,663
Balance as at 1st January 2015	10,640,391	2,649,601	3,160,000	4,466,918	4,466,918	6,755,355	25,100,000	318,339	7,808,059	60,898,663
Super gains tax paid	-	-	-	-	-	-	-	-	(2,074,248)	(2,074,248)
Balance as at 1st January 2015 - Adjusted	10,640,391	2,649,601	3,160,000	4,466,918	4,466,918	6,755,355	25,100,000	318,339	5,733,811	58,824,415
Total comprehensive income for the year										
Net profit for the year 2015	-	-	-	-	-	-	-	-	10,448,786	10,448,786
Other comprehensive income, net of tax	-	-	-	-	-	(2,299,789)	-	-	(897,969)	(1,206,722)
Total comprehensive income for the year	-	-	-	-	-	(2,299,789)	-	-	9,550,817	9,242,064
Transactions with equity holders recognised directly in equity										
Contributions by and distributions to equity holders										
Final dividend 2014 - Cash	-	-	-	-	-	-	-	-	(2,827,776)	(2,827,776)
Interim dividend 2015 - Cash	-	-	-	-	-	-	-	-	(608,548)	(608,548)
Issue of shares under ESOP	368,785	52,113	-	-	-	-	-	-	-	420,898
Total contributions by and distributions to equity holders	368,785	52,113	-	-	-	-	-	-	(3,436,324)	(3,015,426)
Transfers during the year 2015	101,513	14,470	600,000	-	(22,544)	-	6,000,000	(115,983)	(6,577,456)	-
Balance as at 31st December 2015	11,110,689	2,716,184	3,760,000	6,435,410	6,435,410	4,455,566	31,100,000	202,356	5,270,848	65,051,053



Statement of Changes in Equity
For the year ended 31st December
Bank

	Stated Capital		Other Reserves					Total		
	Voting Shares Rs 000	Non-Voting Shares Rs 000	Statutory Reserve Rs 000	Investment Fund Account Rs 000	Capital Reserve Rs 000	Available-for-Sale Reserve Rs 000	Fair value Reserve Rs. 000		General Reserve Rs 000	ESOP Reserve Rs 000
Balance as at 1st January 2016	11,110,689	2,716,184	3,760,000	-	6,433,410	4,455,566	31,100,000	202,356	5,270,848	65,051,053
Total comprehensive income for the year										
Net profit for the year 2016					2,218,908	(2,754,309)			14,143,406	14,143,406
Other comprehensive income, net of tax					2,218,908	(2,754,309)			362,934	(172,467)
Total comprehensive income for the year					2,218,908	(2,754,309)			14,506,340	13,970,939
Transactions with equity holders recognised directly in equity										
Contributions by and distributions to equity holders										
Final dividend 2015 - Cash										(1,421,200)
Final dividend 2015 - Scrip	1,022,473	256,607								(1,421,200)
Interim dividend 2016 - Cash										(620,387)
Issue of shares under ESOP	157,128	21,813								178,941
Total contributions by and distributions to equity holders	1,179,601	278,420								(3,462,787)
Transfers during the year 2016	48,444	6,820	800,000		(9,835)		6,000,000	(55,264)	(6,790,165)	-
Balance as at 31st December 2016	12,338,734	3,001,424	4,560,000		8,644,483	1,701,257	37,100,000	147,092	9,524,236	77,017,226
Balance as at 1st January 2017	12,338,734	3,001,424	4,560,000		8,644,483	1,701,257	-	37,100,000	147,092	9,524,236
Total comprehensive income for the year										
Net profit for the year 2017									16,466,790	16,466,790
Other comprehensive income, net of tax					81,059	2,464,910			(284,960)	2,261,009
Total comprehensive income for the year					81,059	2,464,910			16,181,830	18,727,799
Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders										
Dividends to equity holders										(1,451,296)
Final dividend 2016 - Cash										(1,451,296)
Final dividend 2016 - Scrip	1,044,073	262,093								(145,130)
Interim dividend 2017 - Cash										(732,745)
Proceeds from rights issue	12,326,592	2,218,619								14,545,211
Issue of shares under ESOP	143,110	20,568								163,678
Total contributions by and distributions to equity holders	13,513,775	2,501,280							(3,635,337)	12,379,718
Transfer of unclaimed dividends										22,856
Transfers during the year 2017	47,516	6,390	900,000				6,000,000	(53,906)	(6,900,000)	-
Balance as at 31st December 2017	25,900,025	5,509,094	5,460,000		8,723,542	4,166,167	43,100,000	93,186	15,193,585	108,147,599



**Statement of Changes in Equity
For the year ended 31st December
Bank**

	Stated Capital			Other Reserves						Total Rs 000	
	Voting Shares Rs 000	Non-Voting Shares Rs 000	Statutory Reserve Rs 000	Investment Fund Account Rs 000	Capital Reserve Rs 000	Available-for- Sale Reserve Rs 000	Fair value Reserve Rs. 000	General Reserve Rs 000	ESOP Reserve Rs 000		Retained Earnings Rs 000
Balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	-	8,725,542	4,166,167	-	43,100,000	93,186	15,193,585	108,147,599
Day 1 impact from the application of SLFRS 9	-	-	-	-	-	(4,166,167)	4,035,701	-	-	(4,042,519)	(4,172,985)
Restated balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	-	8,725,542	-	4,035,701	43,100,000	93,186	11,151,066	103,974,614
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	15,518,203	15,518,203
Net profit for the year 2018	-	-	-	-	-	-	-	-	-	(100,911)	(534,721)
Other comprehensive income, net of tax	-	-	-	-	2,065,452	-	(2,499,262)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	2,065,452	-	(2,499,262)	-	-	15,417,292	14,983,482
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-
Interim dividend 2017 - Cash	-	-	-	-	-	-	-	-	-	(2,442,768)	(2,442,768)
Final dividend 2017- Scrip	706,515	173,318	-	-	-	-	-	-	-	(977,592)	(97,759)
Interim dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	(738,976)	(738,976)
Issue of shares under ESOP	31,442	4,708	-	-	-	-	-	-	-	-	36,150
Total contributions by and distributions to equity holders	737,957	178,026	-	-	-	-	-	-	-	(4,159,336)	(3,243,353)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	39,229	39,229
Transfers during the year 2018	11,478	1,446	800,000	-	-	-	-	6,000,000	(93,186)	(6,719,738)	-
Balance as at 31st December 2018	26,649,460	5,688,566	6,260,000	-	10,790,994	-	1,536,439	49,100,000	-	15,728,513	115,753,972



Annexure 1
Statement of Changes in Equity

Group	Sated Capital		Other Reserves										Total		
	Voting Shares	Non-Voting Shares	Statutory Reserve	Investment Fund Account	Capital Reserve	Available-for-Sale Reserve	General Reserve	Fair Value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	ESOP Reserve	Exchange Equalisation Reserve		Retained Earnings	Non Controlling Interests
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January 2014	10,254,944	2,375,324	2,660,000	4,101,205	8,792,637	4,454,969	19,100,000	-	(4,182)	416,216	-	5,210,488	809,240	58,370,881	
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit for the year 2014	-	-	-	-	-	-	-	-	-	-	-	9,819,595	248,498	10,068,093	
Other comprehensive income, net of tax	-	-	-	-	-	2,351,202	-	-	-	-	-	1,142,303	4,427	3,497,932	
Total comprehensive income for the year	-	-	-	-	-	2,351,202	-	-	-	-	-	10,961,898	252,925	13,566,025	
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Final dividend 2013 - Cash	-	-	-	-	-	-	-	-	-	-	-	(2,800,912)	(65,000)	(2,865,912)	
Interim dividend 2014 - Cash	-	-	-	-	-	-	-	-	-	-	-	(602,939)	-	(602,939)	
Issue of shares under ESOP	307,076	54,771	-	-	-	-	-	-	-	-	-	-	-	361,847	
Total contributions by and distributions to equity holders	307,076	54,771	-	-	-	-	-	-	-	-	-	(3,403,851)	(65,000)	(3,107,004)	
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	-	44,930	-	-	-	-	44,930	
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	26,777	-	26,777	
Deferred tax on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	167	288	
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	121	-	-	-	-	-	-	-	736,800	
Transfers during the year -2014	78,371	19,506	500,000	306,821	-	-	6,000,000	-	-	(97,877)	-	(6,800,821)	-	-	
Transfer of investment fund account balance	-	-	-	(4,408,026)	-	-	-	-	-	-	-	4,408,026	-	-	
Balance as at 31st December 2014	10,640,391	2,649,601	3,160,000	-	8,792,778	6,806,191	25,100,000	-	40,748	318,339	-	10,396,517	1,734,132	69,638,697	
Balance as at 1st January 2015	10,640,391	2,649,601	3,160,000	-	8,792,778	6,806,191	25,100,000	-	40,748	318,339	-	10,396,517	1,734,132	69,638,697	
Super gains tax paid	-	-	-	-	-	-	-	-	-	-	-	(2,093,074)	(12,551)	(2,105,625)	
Balance as at 1st January 2015 - Adjusted	10,640,391	2,649,601	3,160,000	-	8,792,778	6,806,191	25,100,000	-	40,748	318,339	-	8,303,443	1,721,581	67,533,072	
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit for the year 2015	-	-	-	-	-	-	-	-	-	-	-	10,553,568	542,276	11,095,844	
Other comprehensive income, net of tax	-	-	-	-	-	(2,287,750)	-	-	-	-	-	(903,213)	(9,369)	(2,297,069)	
Total comprehensive income for the year	-	-	-	-	-	(2,287,750)	-	-	-	-	-	9,650,355	532,707	13,388,312	
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Final dividend 2014 - Cash	-	-	-	-	-	-	-	-	-	-	-	(2,827,776)	(75,000)	(2,902,776)	
Interim dividend 2015 - Cash	-	-	-	-	-	-	-	-	-	-	-	(608,548)	-	(608,548)	
Issue of shares under ESOP	368,785	52,113	-	-	-	-	-	-	-	-	-	-	-	420,898	
Total contributions by and distributions to equity holders	368,785	52,113	-	-	-	-	-	-	-	-	-	(3,436,324)	(75,000)	(3,090,426)	
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	-	(97,098)	-	-	-	-	(97,098)	
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	9,830	-	9,830	
Transfers during the year 2015	101,513	14,470	600,000	-	(22,544)	-	6,000,000	-	-	(115,983)	-	(6,377,456)	-	-	
Balance as at 31st December 2015	11,110,689	2,716,184	3,760,000	-	14,263,234	4,518,441	31,100,000	-	(56,350)	202,356	-	7,949,848	2,179,288	77,743,690	



Statement of Changes in Equity

Group

	Stated Capital		Other Reserves										Total		
	Voting Shares	Non-Voting Shares	Statutory Reserve	Investment Fund Account	Capital Reserve	Available-for-Sale	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	ESOP Reserve	Exchange Equalization Reserve		Retained Earnings	Non Controlling Interests
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January 2016	11,110,689	2,716,184	3,760,000	-	14,263,234	4,518,441	31,100,000	-	(56,350)	-	202,356	-	7,949,848	2,179,288	77,743,690
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	14,755,634	909,328	15,664,962
Net profit for the year 2016	-	-	-	-	-	-	-	-	-	-	-	-	368,586	81,814	3,192,000
Other comprehensive income, net of tax	-	-	-	-	5,518,506	(2,776,906)	-	-	-	-	-	-	15,124,220	991,142	18,856,962
Total comprehensive income for the year	-	-	-	-	5,518,506	(2,776,906)	-	-	-	-	-	-	-	-	-
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Final dividend 2015 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	(1,421,200)	(149,407)	(1,570,607)
Final dividend 2015 - Scrip	1,022,473	256,607	-	-	-	-	-	-	-	-	-	-	(1,421,200)	-	(142,120)
Interim dividend 2016 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	(620,387)	-	(620,387)
Issue of shares under ESOP	157,128	21,813	-	-	-	-	-	-	-	-	-	-	-	-	178,941
Total contributions by and distributions to equity holders	1,179,601	278,420	-	-	-	-	-	-	-	-	-	-	(3,462,787)	(149,407)	(2,154,173)
Transfer to life policy holder reserve fund	-	-	-	-	(9,835)	-	6,000,000	-	(134,781)	-	(55,264)	-	(6,790,165)	-	(134,781)
Transfers during the year 2016	48,444	6,820	800,000	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2016	12,338,734	3,001,424	4,560,000	-	19,771,905	1,741,535	37,100,000	-	(191,131)	-	147,092	-	12,821,116	3,021,023	94,311,698
Balance as at 1st January 2017	12,338,734	3,001,424	4,560,000	-	19,771,905	1,741,535	37,100,000	-	(191,131)	-	147,092	-	12,821,116	3,021,023	94,311,698
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	15,946,989	794,407	16,741,396
Net profit for the year 2017	-	-	-	-	(338,076)	2,466,196	-	-	-	-	-	-	(290,818)	32,734	1,870,036
Other comprehensive income, net of tax	-	-	-	-	(338,076)	2,466,196	-	-	-	-	-	-	15,656,171	827,141	18,611,432
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Final dividend 2016 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	(1,451,296)	(199,461)	(1,650,757)
Final dividend 2016 - Scrip	1,044,073	262,093	-	-	-	-	-	-	-	-	-	-	(1,451,296)	-	(145,130)
Interim dividend 2017 - Cash	-	-	-	-	-	-	-	-	-	-	-	-	(732,745)	-	(732,745)
Proceeds from rights issue	12,326,592	2,218,619	-	-	-	-	-	-	-	-	-	-	-	-	14,545,211
Issue of shares under ESOP	143,110	20,568	-	-	-	-	-	-	-	-	-	-	-	-	163,678
Total contributions by and distributions to equity holders	13,513,775	2,501,280	-	-	-	-	-	-	-	-	-	-	(3,635,337)	(199,461)	12,180,257
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	-	414,402	-	-	-	-	-	414,402
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	-	117,478	-	117,478
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	-	-	-	-	22,856	-	22,856
Transfers during the year 2017	47,516	6,390	900,000	-	-	-	6,000,000	-	-	-	(53,906)	-	(6,900,000)	-	-
Balance as at 31st December 2017	25,900,025	5,509,094	5,460,000	-	19,433,829	4,207,731	43,100,000	-	223,271	-	93,186	-	18,082,284	3,648,703	125,658,123



Statement of Changes in Equity

Group

	Stated Capital		Other Reserves										Total			
	Voting Shares	Non-Voting Shares	Statutory Reserve	Investment Fund Account	Capital Reserve	Available-for-Sale	General Reserve	Fair value Reserve	Life Policy Holder Reserve Fund	Restricted Regulatory Reserve	ESOP Reserve	Exchange Equalization Reserve		Retained Earnings	Non Controlling Interests	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	19,433,829	4,207,731	43,100,000	4,058,756	223,271	223,271	93,186	18,082,284	3,648,703	125,658,123			
Day 1 impact from the application of SLFRS 9				(4,207,731)				(4,507)					(4,654,029)			
Restated balance as at 1st January 2018	25,900,025	5,509,094	5,460,000	19,433,829		43,100,000	4,058,756	218,764	218,764	93,186	13,856,726	3,373,714	121,004,094			
Total comprehensive income for the year													19,149,462			
Net profit for the year 2018													17,254,618	1,513,688	19,149,462	
Other comprehensive income, net of tax							(2,521,033)				66,368		(90,611)	(4,678)	1,010,727	
Total comprehensive income for the year				3,560,681			(2,521,033)				66,368		66,368	17,164,007	1,509,010	20,160,189
Transactions with equity holders, recognised directly in equity																
Contributions by and distributions to equity holders																
Dividends to equity holders																
Interim dividend 2017 - Cash																
Final dividend 2017 - Scrip	706,515	173,318							381,156							
Interim dividend 2018 - Cash																
Issue of shares under ESOP	31,442	4,708														
Proceeds from rights issue																
Total contributions by and distributions to equity holders	737,957	178,026							381,156							
Transfer from life policy holder reserve fund																
Deemed disposal gain through joint venture																
Transfer of unclaimed dividends						6,000,000										
Transfers during the year 2018	11,478	1,446	800,000													
Balance as at 31st December 2018	26,649,460	5,688,566	6,260,000	22,994,510		49,100,000	1,537,723	(197,803)	381,156	(93,186)	66,368	20,181,416	4,673,210	137,334,606		



Annexure 1

Statement of Cash Flows

For the year ended 31st December

	BANK				GROUP					
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Cash flows from operating activities										
Interest receipts/interest and commission receipts	105,939,151	95,032,757	77,766,617	57,870,224	58,459,603	114,385,642	102,642,179	84,142,896	62,541,611	59,237,182
Interest payments	(62,689,239)	(57,225,691)	(36,874,859)	(26,162,039)	(31,065,772)	(64,957,879)	(54,672,229)	(37,989,919)	(26,960,267)	(31,163,966)
Net commission receipts	9,330,648	8,096,677	-	-	-	10,087,205	8,983,610	-	-	-
Trading income	2,989,088	547,165	-	-	-	2,986,670	530,850	-	-	-
Payments to employees	(9,171,330)	(8,427,884)	(8,610,079)	(7,787,955)	(7,085,900)	(11,379,438)	(10,224,168)	(10,255,904)	(9,016,129)	(7,747,437)
VAT & NBT on financial services	(6,244,330)	(5,198,271)	-	-	-	(6,590,515)	(5,613,721)	-	-	-
Receipts from other operating activities	1,935,073	3,217,536	3,152,693	2,486,728	1,742,375	9,861,573	5,753,404	9,035,322	7,422,487	5,736,461
Payments to other operating activities	(10,510,706)	(9,293,621)	(12,385,159)	(9,658,598)	(10,234,794)	(16,567,045)	(13,473,261)	(16,156,447)	(13,221,249)	(11,813,945)
Recovery of loans written off in prior years	-	-	34,014	19,989	8,913	-	-	52,881	33,267	8,913
Operating profit before changes in operating assets and liabilities	31,578,355	26,748,668	23,083,227	16,768,349	11,824,425	37,826,213	33,926,664	28,828,829	20,799,720	14,257,208
(Increase) / decrease in operating assets										
Balances with Central Bank of Sri Lanka/Deposits held for regulatory or monetary control purpose	4,703,883	(4,833,326)	(13,681,524)	(3,188,552)	(541,170)	4,703,883	(4,833,326)	(13,681,524)	(3,188,552)	(541,170)
Financial assets at amortised cost – loans & advances	(121,270,426)	(58,931,158)	(85,148,644)	(102,633,950)	(46,508,086)	(128,173,581)	(62,659,442)	(89,595,887)	(106,052,373)	(47,720,799)
Reverse repurchase agreements	(90,000)	4,301,421	567,579	11,922,595	(10,513,871)	(396,668)	4,167,210	2,043,130	11,731,355	(10,945,922)
Other short term assets	(5,048,453)	(1,383,507)	(343,355)	(1,385,665)	76,151	(4,874,360)	(1,765,867)	(1,090,556)	(1,356,430)	(73,750)
	(121,704,996)	(60,846,570)	(98,605,944)	(95,285,572)	(57,486,976)	(128,740,726)	(65,091,425)	(102,324,837)	(98,866,000)	(59,281,641)
Increase / (decrease) in operating liabilities										
Financial liabilities at amortised cost – due to depositors	96,961,771	74,318,613	91,722,310	106,591,985	34,850,987	97,766,339	79,519,452	94,514,994	109,212,989	35,416,711
Financial liabilities at amortised cost – due to debt securities holders	-	(158,720)	-	-	-	-	(158,720)	-	-	-
Financial liabilities at amortised cost – due to other borrowers	13,069,681	(7,196,366)	-	-	-	13,552,214	(7,231,063)	-	-	-
Financial liabilities at amortised cost - Securities sold under repurchase agreements	11,626,013	(8,106,159)	(3,446,549)	(342,332)	12,822,441	11,626,013	(8,106,159)	(3,446,549)	(342,332)	12,822,441
Other liabilities	1,108,990	28,303	(479,327)	686,371	540,741	2,529,775	(66,003)	(300,488)	696,755	654,477
	122,766,455	58,885,671	87,796,434	106,936,024	48,214,169	125,474,341	63,957,507	90,767,957	109,567,412	48,893,629
Net cash generated from operating activities before income tax	32,639,814	24,787,769	12,273,717	28,418,801	2,551,618	34,559,828	32,793,746	17,271,949	31,501,132	3,869,196
Income taxes paid	(4,305,953)	(5,897,548)	(3,447,705)	(2,142,303)	(1,222,240)	(4,871,157)	(6,673,342)	(3,949,092)	(2,340,344)	(1,281,374)
Super gains tax paid	-	-	-	(2,074,248)	-	-	-	-	(2,105,625)	-
Net cash generated from operating activities	28,333,861	18,890,221	8,826,012	24,202,250	1,329,378	29,688,671	26,119,404	13,322,857	27,055,163	2,587,822



Statement of Cash Flows	BANK						GROUP					
	2018	2017	2016	2015	2014		2018	2017	2016	2015	2014	
For the year ended 31st December												
Cash flows from operating activities												
Cash flows from investing activities												
Purchase of property, plant & equipment	(1,553,961)	(1,715,088)	(975,198)	(882,803)	(645,368)		(1,708,263)	(1,888,965)	(1,285,867)	(1,091,320)	(752,255)	
Proceeds from the sale of property, plant & equipment	4,803	2,600	12,151	23,522	49,942		8,171	23,801	11,577	23,593	50,876	
Net proceeds from sale, maturity and purchase of financial investments	(16,147,250)	(24,124,865)	(28,227,265)	(61,270,205)	(4,375,970)		(18,392,639)	(25,154,184)	(30,271,537)	(62,764,719)	(5,813,664)	
Net purchase of intangible assets	(382,545)	(281,739)	(350,477)	(77,194)	(104,687)		(497,025)	(367,328)	(441,837)	(156,306)	(120,477)	
Improvements to investment properties	-	-	(22,787)	-	(51,010)		-	(39,942)	(21,516)	(4,221)	-	
Proceeds from deemed disposal of subsidiary company by joint venture	-	-	-	-	-		-	117,478	-	9,830	26,777	
Dividend Received from joint venture	33,220	33,220	-	-	-		33,220	33,220	30,200	30,130	26,637	
Dividends received from investment in subsidiaries and associates	221,095	1,790,871	-	-	-		-	-	-	-	-	
Dividends received from other investments	187,905	197,937	-	-	-		192,639	206,706	-	-	-	
Proceeds from sale of investment properties	-	-	886,229	1,236,084	368,830		-	-	3,650	-	-	
Dividend income	-	-	-	-	-		-	-	145,082	298,749	269,037	
Proceeds from sale of non-current assets held for sale	-	-	23,734	31,000	-		-	-	23,734	31,000	-	
Investment in joint venture company	-	-	(100,000)	-	(660,000)		-	-	(100,000)	-	-	
Net cash effect on acquisition of subsidiary	-	-	-	-	-		-	-	-	-	(342,294)	
Net proceeds from sale of associate company	-	-	-	-	-		-	-	-	-	30,519	
Net cash used in investing activities	(17,636,733)	(24,097,064)	(28,753,613)	(60,939,596)	(5,418,263)		(20,363,897)	(27,069,214)	(31,906,514)	(63,623,264)	(6,624,844)	
Cash flows from financing activities												
Net proceeds from the issue of ordinary shares	36,151	14,702,544	-	-	-		36,151	14,702,544	-	-	-	
Dividend paid to non-controlling interest	-	-	-	-	-		(206,368)	(196,341)	-	-	-	
Dividend paid to shareholders of the parent company	(3,220,833)	(2,338,018)	(1,941,403)	(3,258,631)	(3,243,120)		(3,220,833)	(2,338,018)	(2,082,422)	(3,333,631)	(3,308,120)	
Debtenture issue expenses	-	-	(35,233)	-	(9,898)		-	-	(35,233)	-	(9,898)	
Increase / (decrease) in subordinated term debts /Repayment of subordinated debt	(4,000,000)	(500,000)	13,000,000	-	(318,581)		(4,055,661)	(490,500)	12,750,000	-	(318,581)	
Increase / (decrease) in long term borrowings	-	-	12,053,368	37,580,671	8,358,214		-	-	12,043,541	37,556,509	8,268,932	
Proceeds from issue of shares under ESOP	-	-	178,940	420,898	361,847		-	-	178,940	420,898	361,847	
Increase of debt securities issued	-	-	-	-	3,000,000		-	-	-	-	2,949,854	
Net cash generated from financing activities	(7,184,682)	11,864,526	23,255,672	34,742,938	8,148,462		(7,446,711)	11,677,685	22,856,826	34,643,776	7,944,034	
Net increase/ (decrease) in cash and cash equivalents	3,512,446	6,657,683	3,328,071	(1,994,408)	4,059,577		1,878,063	10,727,875	4,273,169	(1,924,325)	3,907,012	
Cash and cash equivalents at the beginning of the year	24,922,177	18,264,494	14,936,425	16,930,833	12,871,256		31,595,023	20,867,148	16,593,980	18,518,305	14,611,293	
Cash and cash equivalents at the end of the year	28,434,623	24,922,177	18,264,496	14,936,425	16,930,833		33,473,086	31,595,023	20,867,149	16,593,980	18,518,305	



8/22/2019

Press Release

Fitch Ratings

Fitch Rates Hatton National Bank's Basel III Sub-Debt Final 'A+(lka)'

Fitch Ratings - Colombo - 22 August 2019:

Fitch Ratings Lanka has assigned Hatton National Bank PLC's (HNB, AA-(lka)/Stable) proposed Sri Lanka rupee-denominated Basel III-compliant subordinated debentures a final National Long-Term Rating of 'A+(lka)'.

The final rating is the same as the expected rating assigned on 5 March 2019, and follows the receipt of documents conforming to information already received.

The debentures, totalling LKR10 billion, will have maturities of five and seven years and carry fixed coupons. The notes include a non-viability clause and will qualify as regulatory Tier 2 capital for the bank. HNB plans to use the proceeds to support its balance sheet growth and to improve its capital adequacy in light of new regulatory requirements.

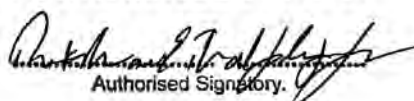
Key Rating Drivers

Fitch rates the Tier 2 instrument one notch below the bank's National Long-Term Rating to reflect the notes' subordinated status and higher loss-severity risks relative to senior unsecured instruments. The notes would convert to equity upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

HNB's National Long-Term Rating is used as the anchor rating for this instrument because the rating reflects the bank's standalone financial strength and best indicates the risk of the bank becoming non-viable.

Fitch has not applied additional notching to the notes for non-performance risk, as they have no going-concern loss-absorption features, in line with Fitch's criteria.

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RATING SENSITIVITIES

The rating of the notes would move in tandem with HNB's National Long-Term Rating.

RATING ACTIONS		
ENTITY/DEBT	RATING	PRIOR
Hatton National Bank PLC		
subordinated	Natl LT A+(lka) New Rating	A+(EXP)(lka)

Additional information is available on www.fitchratings.com

<https://www.fitchratings.com/site/pr/10036844>

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Applicable Criteria

National Scale Ratings Criteria (pub. 18 Jul 2018)
Bank Rating Criteria (pub. 12 Oct 2018)

Additional Disclosures

Solicitation Status
Endorsement Policy

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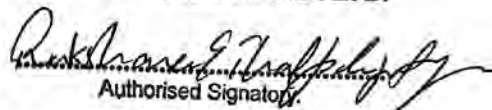
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Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

Issuer Hatton National Bank PLC No. 479 T B Jayah Mawatha Colombo 10 Tel: +94 11 2 664 664, +94 11 2 662 772, +94 11 4 764 764 Fax:+94 11 2 662 832	Joint Managers and Placement Agents to the Issue NDB Investment Bank Limited Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha Colombo 04 Tel: + 94 11 2 300 385-90 Fax: +94 11 2 300 393 Acuity Partners (Private) Limited Acuity House No. 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 Fax: +94 11 2 437 149
Registrars to the Issue SSP Corporate Services (Pvt) Limited No. 101 Inner Flower Road Colombo 03 Tel: +94 11 2 573 894 Fax: +94 11 2 573 609	Bankers to the Issue Hatton National Bank PLC No. 479 T B Jayah Mawatha Colombo 10 Tel: +94 11 2 664 664, +94 11 2 662 772, +94 11 4 764 764 Fax:+94 (011) 266 2832

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<p>Bartleet Religare Securities (Private) Limited</p> <p>Level "G", "Bartleet House" 65, Braybrooke Place Colombo 02</p> <p>Tel: +94 11 5 220 200 Fax: +94 11 2 434 985 E-mail: info@bartleetstock.com</p>	<p>Capital TRUST Securities (Private) Limited</p> <p>42, Sir Mohamed Macan Markar Mawatha Colombo 03</p> <p>Tel: +94 11 2 174 174 Fax: +94 11 2 174 173 E-mail: inquiries@capitaltrust.lk</p>
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<p>J B Securities (Private) Limited</p> <p>150, St. Joseph Street Colombo 14</p> <p>Tel: +94 11 2 490 900 Fax: +94 11 2 430 070 E-mail: jbs@jb.lk</p>	<p>John Keells Stockbrokers (Private) Limited</p> <p>186, Vauxhall Street, Colombo 02.</p> <p>Tel: +94 11 2 306 250 Fax: +94 11 2 342 068 E-mail: jkstock@keells.com</p>
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Trading Members

<p>Softlogic Stockbrokers (Private) Limited</p> <p>No.06, 37th Lane, Queens Road, Colombo 03.</p> <p>Tel: +94 11 7 277 000 Fax: +94 11 7 277 099 Email: ssb.inquiry@softlogic.lk</p>	<p>Capital Alliance Securities (Private) Limited</p> <p>Level 5, “Millennium House” 46/58, Navam Mawatha Colombo 02</p> <p>Tel: +94 11 2 317 777 Fax: +94 11 2 317 788 Email: info@cal.lk</p>
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<p>Taprobane Securities (Private) Limited</p> <p>2nd Floor 10, Gothami Road Colombo 08</p> <p>Tel: +94 11 5 328 200 Fax: +94 11 5 328 177 E-mail: info@taprobane.lk</p>	<p>TKS Securities (Private) Limited</p> <p>4th Floor, No. 245, Dharmapala Mawatha, Colombo 07.</p> <p>Tel: +94 11 7 857 799 Fax: +94 11 7 857 857 E-mail: info@tks.lk</p>

<p>Enterprise Ceylon Capital (Private) Limited</p> <p>No.73/1, Dharmapala Mawatha, Colombo 07.</p> <p>Tel: +94 11 2 445 644 Fax: +94 11 2 372 541 E-mail: info@ecc.lk</p>	
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Trading Members – Debt

<p>NSB Fund Management Company Limited</p> <p>No. 255, 1st Floor NSB Head Office Galle Road Colombo 3</p> <p>Tel: +94 -11 2 564 601 Fax: +94 11 2 574 387</p>	<p>Capital Alliance Limited</p> <p>Level 5, "Millenium House" 46/58, Nawam Mawatha Colombo 2</p> <p>Tel: +94 11 2 317 777 Fax: +94 11 2 317 788</p>
<p>Wealthtrust Securities Limited</p> <p>No. 32, Dudley Senanayake Mawatha, Colombo 08.</p> <p>Tel: +94 11 2 675 091 – 4 Fax: +94 11 2 689 605 E-Mail: info@wealthtrust.lk</p>	

ANNEXURE III - CUSTODIAN BANKS

<p>Bank of Ceylon (Head Office) 11th Floor, 04, Bank of Ceylon Mawatha, Colombo 01 T: +94 11 2 448 348, 2 338 742/55, 2 544 333</p>	<p>Citi Bank, N A 65 C, Dharmapala Mawatha, Colombo 07 T: +94 11 2 447 316/8, 2 447 318, 2 449 061</p>
<p>Commercial Bank of Ceylon PLC Commercial House, 21, Sir Razik Fareed Mawatha, Colombo 01 T: +94 11 2 445 010-15, 238 193-5, 430 420</p>	<p>Deutsche Bank AG 86, Galle Road, Colombo 03 T: +94 11 2 447 062, 2 438 057</p>
<p>Hatton National Bank PLC HNB Towers, 479, T. B. Jayah Mawatha, Colombo 10 T: +94 11 2 661 762</p>	<p>The Hong Kong and Shanghai Banking Corporation Limited 24, Sir Baron Jayathilake Mawatha, Colombo 01 T: +94 11 2 325 435, 2 446 591, 2 446 303</p>
<p>People's Bank (Head Office) 5th Floor, Sir Chittampalam A Gardiner Mawatha, Colombo 02 T: +94 11 2 206 782</p>	<p>Standard Chartered Bank 37, York Street, Colombo 01 T: +94 11 4 794 400, 2480 450</p>
<p>Sampath Bank PLC 110, Sir James Peiris Mawatha, Colombo 02 T: +94 11 5 600 374</p>	<p>State Bank of India 16, Sir Baron Jayathilake Mawatha, Colombo 01 T: +94 11 4 622 350</p>
<p>Seylan Bank PLC Level 8, Ceylinco Seylan Towers, 90, Galle Road, Colombo 03 T: +94 11 2 456 789, 4 701 812, 4 701 819</p>	<p>Union Bank of Colombo Limited 64, Galle Road, Colombo 03 T: +94 11 2 374 100</p>
<p>Nations Trust Bank PLC 256, Sri Ramanathan Mawatha, Colombo 15 T: +94 11 4 711 411</p>	<p>Pan Asia Banking Corporation PLC (Head Office) 450, Galle Road, Colombo 03 T: +94 11 2 565 565</p>
<p>Public Bank Berhard 340, R.A. De Mel Mawatha, Colombo 03 T: +94 11 2 576 289</p>	<p>Banque Indosuez C/o Hatton National Bank Limited, Cinnamon Garden Branch, 251, Dharmapala Mawatha, Colombo 07. T: +94 11 2 686 537, 011 2 689 176</p>

ANNEXURE IV – FATCA DECLARATION

Manager

Hatton National Bank PLC

.....

I/We.....

.....and.....

.....of.....

(address).....holder/s of Passport Number/ NIC Number..... who fall under definition of a US Persons under the provision of the Foreign Account Tax Compliance Act (“FATCA”) which is a US legislation aimed at preventing tax evasion by US persons through overseas assets. I/We confirm that I/We understand FATCA is extraterritorial by design and requires “US Persons” to report their financial assets held overseas.

I/We hereby request Hatton National Bank PLC which is recognized as a Foreign Financial Institutions (FFIs) in terms of the FATCA to report all information pertaining to the accounts and investments held by me/us in the Hatton National Bank PLC and to remit any tax payable to the Internal Revenue Services (IRS) of the United States of America. I/We further confirm that this request is made by me/us with full knowledge and understanding of FATCA.

Date:.....

Signature/s of Applicants