

PROSPECTUS

Debenture Issue

2024

HATTON NATIONAL BANK PLC



PROSPECTUS

AN INITIAL ISSUE OF UPTO EIGHTY MILLION (80,000,000) BASEL III COMPLIANT-TIER 2, LISTED RATED UNSECURED SUBORDINATED REDEEMABLE DEBENTURES WITH A NON-VIABILITY CONVERSION (“DEBENTURES”), AT THE PAR VALUE OF SRI LANKA RUPEES ONE HUNDRED (LKR 100/-) EACH TO RAISE SRI LANKA RUPEES EIGHT BILLION (LKR 8,000,000,000/-) WITH AN OPTION TO ISSUE UPTO A FURTHER FORTY MILLION (40,000,000) OF SAID DEBENTURES TO RAISE UP TO SRI LANKA RUPEES FOUR BILLION (LKR 4,000,000,000/-), AT THE DISCRETION OF THE BANK IN THE EVENT OF AN OVERSUBSCRIPTION OF THE INITIAL ISSUE

MAXIMUM ISSUE WILL NOT EXCEED ONE HUNDRED AND TWENTY MILLION (120,000,000) OF SAID DEBENTURES OF A VALUE OF NOT EXCEEDING SRI LANKA RUPEES TWELVE BILLION (LKR 12,000,000,000/-)

**TO BE LISTED ON THE
COLOMBO STOCK EXCHANGE**

Rated BBB+ (lka) /Stable by Fitch Ratings Lanka Limited

ISSUE OPENS ON

16TH AUGUST 2024

ISSUE IS LIMITED TO “QUALIFIED INVESTORS” ONLY 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. A Qualified 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 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.

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

Each potential Qualified Investor in these Debentures must determine the suitability of investment in light of its own circumstances. In particular, each potential Qualified Investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether the Qualified 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 behavior 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 Qualified 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 Qualified Investor’s overall investment portfolio.

This Prospectus is dated 09th August 2024

Responsibility for the Content of the Prospectus

This Prospectus has been prepared with available information.

The Directors of Hatton National Bank PLC (the Bank or the Issuer) 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 its 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 Qualified Investors based on the information contained herein. In making such investment decisions, prospective Qualified 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, salesperson, 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, Qualified 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 Lanka 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 Trading Participant 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 Debentures 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 up to Eighty Million (80,000,000) Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non-Viability Conversion, with an option to issue up to a further Forty Million (40,000,000) of said Debentures at the discretion of the Bank in the event of an over subscription of the initial Issue.					
Amount to be Raised	A sum of up to Sri Lanka Rupees Eight Billion (LKR 8,000,000,000/-) with an option to issue up to a further Sri Lanka Rupees Four Billion (LKR 4,000,000,000/-) at the discretion of the Bank in the event of an over subscription of the initial Issue.					
Entity Rating	A (Ika)/Stable by Fitch Ratings Lanka Limited					
Issue Rating	BBB+ (Ika)/Stable by Fitch Ratings Lanka Limited					
Issue Price	Rupees One Hundred (LKR 100/-) per each Debenture					
Par Value	Rupees One Hundred (LKR 100/-) per each Debenture					
Details of Debentures	Basel III compliant – Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with a Non-Viability Conversion, as described below.					
	Debenture Type	Type of Interest	Tenure	Fixed Interest Rate (Per annum)	Annual Effective Rate (AER)	Interest Payment Frequency
	Type A	Fixed Rate	5 years	13.00% p.a.	13.00%	Annual
	Type B	Fixed Rate	5 years	12.60% p.a.	13.00%	Semi-Annual
	Type C	Fixed Rate	7 years	13.25% p.a.	13.25%	Annual
	Type D	Fixed Rate	10 years	13.50% p.a.	13.50%	Annual
Number of Debentures to be Subscribed	The minimum subscription requirement applicable for a Qualified Investor applying for Debentures 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 as per Rule 2.2.1 (h) of CSE Listing Rules 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/-).					
Interest Payment Date(s)	For Type A, Type C and Type D Debentures: The dates on which payments 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 thereafter from the Date of Allotment until the Date of Redemption and includes the Date of Redemption. For Type B Debentures: The dates on which payments of interest in respect of the Type B Debentures shall fall due, which shall be six (06) months from the Date of Allotment and every six (06) months thereafter from the Date of Allotment until the Date of Redemption and includes the Date of Redemption.					

	Interest would be paid not later than three (03) Working Days from each Interest Payment Date. The final interest payment will be paid together with the Principal Sum within three (03) Working Days from the Date of Redemption.
Interest Period	<p>For Types A, C and D Debentures, the twelve (12) 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 shall 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> <p>For Types B Debentures, the six (06) 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 shall 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>
Mode of Payment of Principal Sum and Interest	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".
Issue Opening Date	16 th August 2024
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 16th August 2024 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 05th September 2024.</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 One Hundred and Twenty Million (120,000,000) Debentures being fully subscribed; or - The Board of Directors of the Bank decides to close the Issue upon the initial Issue of Eighty Million (80,000,000) Debentures becoming fully subscribed. <p>In the event the Board of Directors of the Bank decides to exercise the option to issue further up to Forty Million (40,000,000) Debentures (having subscribed the initial Issue of Eighty Million (80,000,000) Debentures) but subsequently decides to close the subscription list upon part of the further issue of Forty Million (40,000,000) Debentures 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>

	In the event the Board of Directors of the Bank decides to close the Debenture Issue without the full subscription of the initial Eighty Million (80,000,000) 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).
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 Qualified Investors.</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	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.
Volume Weighted Average Price (VWAP)	The daily Volume Weighted Average Price (VWAP) of an ordinary voting share as published by the Colombo Stock Exchange.
Trigger Event	<p>Means a point or event at which the Monetary Board of the Central Bank of Sri Lanka in terms of item 10 (iii)(a) of 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) determines:</p> <p>(a) 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 said Directions; or</p> <p>(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 Directions.</p>

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1 CORPORATE INFORMATION

Name of the Bank/Issuer	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 Company 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 (as amended)
Company Number	PQ 82 (Previous PBS 613)
Place of Incorporation	Colombo, Sri Lanka
Registered Address	“HNB Towers”, No. 479, T B Jayah Mawatha, Colombo 10 Tel: +94 11 266 4664 / Fax: +94 11 266 2832
Company Secretary	Ms. Shiromi Halloluwa (Attorney-at-Law) “HNB Towers”, No. 479, T B Jayah Mawatha, Colombo 10 Tel: +94 11 2661856 / Fax: +94 112662825
Rating Agency	Fitch Ratings Lanka Limited No.15-04, East Tower World Trade Centre Colombo 01 Tel: +94 11 7 541 900 / Fax: +94 11 2 541 903
Auditors	KPMG Sri Lanka Chartered Accountants 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03 Tel: +94 11 2 463 500 / Fax: +94 11 2 697 369
Board of Directors	Mr. Nihal Jayawardene PC- Chairman – (Non- Independent/ Non-executive Director) Mr. Jonathan Alles- Managing Director / Chief Executive Officer (Executive Director) Mr. Madura Ratnayake - (Independent / Non-Executive Director) Mr. Devaka Cooray - (Senior Independent / Non-Executive Director) Mr. Osman Chandrawansa - (Independent / Non-Executive Director) Mr. Prawira Rimoe Saldin- (Non-Independent / Non-Executive Director) Mr. Rasitha Gunawardana- (Independent / Non-Executive Director) Mr. Kithsiri Gunawardana- (Non-Independent / Non-Executive Director) Dr. Prasad Samarasinghe- (Non-Independent / Non-Executive Director) Mr. Nanda Fernando- (Independent / Non-Executive Director) Mr. Sivakrishnarajah Renganathan- (Independent / Non-Executive Director) Mr. Suresh Kumar Shah - (Independent / Non-Executive Director)

2 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</p> <p>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</p> <p>Tel: +94 11 2 206 206/ Fax: +94 11 2 437 149</p>
Lawyers to the Issue	<p>Ms. Dinethi Liyanage (Attorney-at-Law) Senior Manager - Legal Advisory Legal Department “HNB Towers” No. 479 T B Jayah Mawatha, Colombo 10</p> <p>Tel: +94 11 2 661 844 / Fax: +9411 2 662 832</p>
Registrars to the Issue	<p>S S P Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 03,</p> <p>Tel: +94 11 2 573 894/ Fax: +94 11 2 573 609</p>
Trustee to the Issue	<p>People’s Bank No 75, Sir Chittampalam A. Gardiner Mawatha, Colombo 02</p> <p>Tel: + 94 11 2 206 740/ Fax: + 94 11 2 458 827</p>
Company Secretary	<p>Ms. Shiromi Halloluwa (Attorney-at-Law) “HNB Towers” No. 479, T B Jayah Mawatha, Colombo 10.</p> <p>Tel: +94 112661856/ Fax :+94 112662825</p>
Rating Agency to the Issue	<p>Fitch Ratings Lanka Limited No.15-04, East Tower World Trade Centre, Colombo 01</p> <p>Tel: +94 11 2 541 900 / Fax: +94 11 2 541 903</p>
Bankers to the Issue	<p>Hatton National Bank PLC No. 479 T B Jayah Mawatha, Colombo 10</p> <p>Tel: +94 (011) 266 4664, +94 (011) 266 2772, +94 (011) 476 4764/ Fax:+94 (011) 266 2832</p>
Auditors and Reporting Accountants to the Issue	<p>KPMG Sri Lanka Chartered Accountants 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03 Tel: +94 11 5 426 426 / Fax: +94 11 2 445 872</p>

3 LIST OF ABBREVIATIONS

AER	Annual Effective Rate
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Private) Limited
CSE	Colombo Stock Exchange
D-SIBs	Domestically Systemically Important Banks
HLA	Higher Loss Absorbency
IIA	Inward Investment Account
HNB/Issuer/Bank/Company	Hatton National Bank PLC
NIC	National Identity Card
POA	Power of Attorney
RTGS	Real Time Gross Settlement
SEC	Securities and Exchange Commission of Sri Lanka
SLIPS	Sri Lanka Inter Bank Payment System
CEFTS	Common Electronic Fund Transfer Switch
PBIT	Profit Before Interest and Tax
FATCA	Foreign Account Tax Compliance Act

4 GLOSSARY OF TERMS RELATED TO THE ISSUE

Applicant	Any person identified as a Qualified Investor 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 Debentures in Issue.
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).
Closure Date	<p>Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 16th August 2024 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 05th September 2024.</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 One Hundred and Twenty Million (120,000,000) Debentures being fully subscribed; or - The Board of Directors of the Bank decides to close the Issue upon the initial Issue of Eighty Million (80,000,000) Debentures becoming fully subscribed. <p>In the event the Board of Directors of the Bank decides to exercise the option to issue further up to Forty Million (40,000,000) Debentures (having subscribed the initial issue of Eighty Million (80,000,000) Debentures but subsequently decides to close the subscription list upon part of the further issue of Forty Million (40,000,000) Debentures 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 Bank decides to close the Debenture Issue without the full subscription of the initial Eighty Million (80,000,000) 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>
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>For Type A, Type C and Type D Debentures: The dates on which payments 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 thereafter from the Date of Allotment until the Date of Redemption and includes the Date of Redemption.</p> <p>For Type B Debentures: The dates on which payments of interest in respect of the Type B Debentures shall fall due, which shall be six (06) months from the Date of Allotment and every six (06) months thereafter 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. The final interest payment will be paid together with the Principal Sum within three (03) Working Days from the Date of Redemption.</p>
Interest Period	<p>For Types A, C and D Debentures, the twelve (12) 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 shall 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> <p>For Types B Debentures, the six (06) 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 shall 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	Rupees One Hundred (LKR 100/-) per each Debenture
Market Day	Any day on which trading takes place at the CSE.
Non-Resident(s)	Persons resident outside Sri Lanka including country funds, regional funds, investment funds and mutual funds established outside Sri Lanka.
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 debenture interest accrued and unpaid (if any) as at that date will be permanently converted to ordinary voting shares at the Conversion Price.</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 Bank shall settle such sums in cash, based on the issue price of such share.
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 09 th August 2024 issued by Hatton National Bank PLC
Qualified Investors	<p>(a) A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988 (as amended).</p> <p>(b) A specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act, No.30 of 1988 (as amended).</p> <p>(c) A mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund.</p> <p>(d) A venture capital fund/ company and private equity company.</p> <p>(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).</p> <p>(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)</p> <p>(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)</p> <p>(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.</p> <p>(i) An investment trust or investment company</p> <p>(j) A Non-Resident institutional investor</p> <p>(k) An individual with an initial investment amount of LKR 5,000,000/-</p>
Redemption	Repayment of the Principal Sum and unpaid and accrued interest (if any) with regard to a Debenture to a Debenture Holder by the Bank
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 ordinary voting 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	<p>Means a point or event at which the Monetary Board of the Central Bank of Sri Lanka in terms of item 10 (iii)(a) of 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) determines:</p> <p>(a) 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 said Directions;</p> <p>or</p>

	(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 Directions
Trustee	People's Bank
Trust Deed	Trust Deed executed between the Bank and People's Bank on 30 th July 2024
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 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 Meeting held on 31st August 2023 resolved to raise a sum of Rupees Eight Billion (LKR 8,000,000,000/-) by an initial issue of up to Eighty Million (80,000,000) Debentures, each with a Par Value of LKR 100/- and to raise a further sum of Rupees Four Billion (LKR 4,000,000,000/-) by an issue of a further Forty Million (40,000,000) Debentures, in the event of an over subscription of the initial issue.

As such a maximum amount of Rupees Twelve Billion (LKR 12,000,000,000/-) would be raised by the issue of a maximum of One Hundred and Twenty Million (120,000,000) Debentures each with the Par Value of LKR 100/-.

Further, the Bank has obtained the shareholder approval by way of a special resolution on 28th March 2024 for the issuance of any ordinary voting shares which may be created by the occurrence of a ‘Trigger Event’. Further as per Rule 2.2.1 (m) of the CSE Listing Rules, the Bank has obtained the shareholder approval by way of a special resolution for the issuance of the Debentures.

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 voting 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 shareholders.

It is the intention of the Bank to list the Debentures on the Colombo Stock Exchange. The CSE has given its in principle approval for the listing of the Debentures and any ordinary voting shares which would be issued upon the occurrence of a Trigger Event (if any) on the CSE. However, the CSE reserves the right to withdraw such approval, in the circumstances set out in Rule 2.3 of the Listing Rules.

As per Section 2.2.1 (n) of the Listing Rules, only Qualified Investors would be eligible to invest in the said Debentures. Further, as set out in Rule 3.3.5 (ii) (a) (ii) of the CSE Listing Rules, the secondary trading of these Debentures shall also be limited to Qualified Investors. Accordingly, the allotment and 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 16th August 2024 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 05th September 2024.

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 One Hundred and Twenty Million (120,000,000) Debentures being fully subscribed; or
- The Board of Directors of the Bank decides to close the Issue upon the initial Issue of Eighty Million (80,000,000) Debentures becoming fully subscribed

In the event the Board of Directors of the Bank decides to exercise the option to issue further up to Forty Million (40,000,000) Debentures (having subscribed the initial Issue of Eighty Million (80,000,000) Debentures) but subsequently decides to close the subscription list upon part of the further Issue of Forty Million (40,000,000) Debentures 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 p.m.

In the event the Board of Directors of the Bank decides to close the Debenture Issue without the full subscription of the initial Eighty Million (80,000,000) Debentures, such decision is to be notified to the CSE on the day such decision is made and subscription list will be closed on the following Market Day at 4.30 p.m.

5.3 TYPES OF DEBENTURES

The Debenture Issue comprises of Debentures of Type A, Type B, Type C and Type D that will carry rates of interest as described below:

Debenture Type	Type of Interest	Tenure	Interest Rate (per annum)	Annual Effective Rate (AER)	Interest Payment frequency
Type A	Fixed Rate	5 years	13.00% p.a.	13.00%	Annual
Type B	Fixed Rate	5 years	12.60% p.a.	13.00%	Semi-Annual
Type C	Fixed Rate	7 years	13.25% p.a.	13.25%	Annual
Type D	Fixed Rate	10 years	13.50% p.a.	13.50%	Annual

Each of the Type A, Type B, Type C and Type D Debentures shall rank equal and pari passu other than with respect to the Rate of Interest and tenure.

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

The funds generated from the Debenture Issue will be utilized for the following purposes:

a. To strengthen the Tier 2 capital base of the bank in line with the BASEL III accord

Due to the challenging economic conditions stemming from the COVID-19 outbreak and subsequent foreign exchange crisis in Sri Lanka, the bank has recognized a substantial impairment in both its investments in loans and advances, and other financial assets up to December 2023. Further apart from debentures which matured in 2023, certain debentures issued previously are due to mature in 2024. Consequently, the bank anticipates utilizing funds from debentures to strengthen its Tier 2 capital base.

Applicable Capital Adequacy Ratio to HNB PLC

The requirements for minimum capital as per Basel III guidelines based Banking Act Direction No.1 of 2016 and Direction No. 11 of 2019 issued by the CBSL are as follows;

Components of Capital	BASEL III Minimum Regulatory Requirement		
	To be maintained by Non-D-SIBs	To be maintained by D-SIBs	Applicable to HNB
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	7.00%+HLA **	8.00%
Total Tier 1 including Capital Conservation Buffer	8.50%	8.50%+HLA **	9.50%
Total Capital Ratio Including Capital Conservation Buffer	12.50%	12.50%+HLA **	13.50%

Note: In May 2022, the Central Bank of Sri Lanka permitted the licensed commercial banks to drawdown the Capital Conservation Buffer up to 250 bps.

** As a domestic systemically important bank the High Loss Absorbency (HLA) applicable to HNB is 100 bps higher than that for a licensed commercial bank.

Banks Capital Adequacy Ratio under BASEL III

The Bank has complied with the CBSL BASEL III minimum capital adequacy requirement as at 31st March 2024 with a Tier 1 capital adequacy ratio of 14.48% and total capital adequacy ratio of 18.06%.

The projected ratios considering the intended proceeds of Debenture Issue computed under BASEL III will be as follows:

Components	As at 31 st March 2024	Regulatory Requirement As at March 2024*	With Rs. 8 Bn in new Debentures	With Rs. 12 Bn in new Debentures
Common Equity Tier 1 capital with buffers (CCB & Surcharge on D-SIB)	14.48%	8.00%	14.48%	14.48%
Total Tier 1 capital with buffers (CCB & Surcharge on c)	14.48%	9.50%	14.48%	14.48%
Total Capital Ratio (Tier 1 + Tier 2) with buffers (CCB & Surcharge on D-SIB)	18.06%	13.50%	18.97%	19.42%

*Based on unaudited financials

Tier 2 capital adequacy ratios move in relation to the risk-weighted assets and total capital of the bank which include qualified Tier 2 instruments, it's prudent for the bank to maintain an additional buffer above the minimum capital adequacy ratios specified by CBSL so that the Bank doesn't fall below the minimum requirements in the event of fluctuations that may arise in the ordinary course of business.

The Bank is required to and has obtained approval from CBSL to include the Debentures as Tier 2 capital.

b. To Support the Bank's balance sheet growth and reduce the maturity mismatch

Funds generated through the Debenture Issue will also be used to support the lending activities of the Bank as part of its normal course of business during the next 12 months from the date of Date of Allotment of Debentures. In the interim period, these funds will be invested in Government securities at zero risk at current market rates. We observed a contraction in the loan book during the first six months of 2023, primarily due to the higher interest rates prevailed during the period. However, since July 2023, with the gradual reduction in interest rates and post finalizing the Domestic Debt Restructuring, we have observed an expansion in the loan book. Accordingly, The Bank recorded a monthly average gross loan disbursement of LKR 33 Bn during the quarter ended 31st March 2024 reaching a Gross loan value of LKR 1,015 Bn as of 31st March 2024.

The proceeds from the Issue will be added to the Bank's pool of funds. This pool is available for lending to all parties. Transactions with related parties will be carried out in compliance with all applicable Statutes, Directions, Regulations and CSE Listing Rules.

Since the Debentures proposed to be issued are of a medium to long term nature, being of tenures of 5, 7 and 10 years, the raising of funds through Debentures can be expected to reduce the mismatch between assets and liabilities as the deposit products available currently are up to the tenor of 5 years. The long-term funds up to 10 years, could be utilized to funding leasing, personal loans and housing loans of the Bank.

The objectives of the issue do not amount to a major transaction of the Bank.

Specific risks relating to objectives of the Debenture Issue

As of the end of March 2024 (based on the unaudited financial statements), the Bank's overall assets amounted to LKR 1,941 Bn while its liabilities were LKR 1,750 Bn. In comparison, the proposed Debenture issue has a maximum size of LKR 12 Bn. Therefore, the bank's reliance on the debenture proceeds for asset growth is minimal as the bank is well liquid/capitalized and has access to alternative sources of funds, and there is no specific risk factor that might hinder the achievement of objectives within the specified timelines. It is the understanding of the Bank that the entire quantum of funds would be utilized within a period of 12 months from the date of allotment of the Debentures.

The Bank's portfolio of gross loans and advances recorded a decline of LKR 75 Bn during the first six months of 2023 (based on the audited financial statements), due to the high interest rate environment and recorded a growth of LKR 56.2 Bn during the second half of 2023 (based on the audited financial statements), with the easing of interest rates. Therefore, there is no specific risk factor that may lead to non-achievement of expansion targets pertaining to the Bank's loans and advances portfolio within the specified timeline via the proceeds of the Issue up to a maximum of LKR 12 Bn.

However, in the highly unlikely event of the Bank failing to lend these funds due to an unforeseen reason, these funds would be invested in Government Securities at zero risk at the prevailing market rates at such point of time.

In the event the Debenture Issue is not fully subscribed or if the timelines are changed if thought fit by the Bank, no further shareholder approval will need to be sought.

Debenture Issue proceeds utilization as at (dd-mm-yyyy)

Objective Number	Objective as per Prospectus	Amount allocated as per Prospectus (LKR)	Proposed Date of allocation as per Prospectus	Amount allocated from proceeds (LKR) (A)	% of Total Proceeds	Amount utilized (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.s, etc.)
1	To improve the Capital Adequacy Ratio	Initial issue of LKR 8.0 Bn and a maximum issue of LKR 12.0 Bn	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	To facilitate future expansion of business activities of the Bank		Over a period of 12 months from the Date of Allotment					

In the event the funds raised through the Debenture Issue are fully utilized by the Bank in terms of the objectives disclosed in the Prospectus between two financial periods, the Bank to disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first as per the above template.

5.5 PAYMENT OF INTEREST

The Debentures will carry a fixed rates of interest as described below, payable on the respective Interest Payment Dates:

Debenture Type	Type of Interest	Tenure	Fixed Interest Rate (per annum)	Annual Effective Rate (AER)	Interest Payment frequency
Type A	Fixed Rate	5 years	13.00% p.a.	13.00%	Annual
Type B	Fixed Rate	5 years	12.60% p.a.	13.00%	Semi-Annual
Type C	Fixed Rate	7 years	13.25% p.a.	13.25%	Annual
Type D	Fixed Rate	10 years	13.50% p.a.	13.50%	Annual

The interest rate has been determined giving consideration to the Hatton National Bank PLC'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 for Type A, Type C and Type D Debentures and will be paid semi-annually for Type B Debentures as applicable 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 (actual/actual) 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 Bank shall be required and entitled to issue and within twenty (20) days to allot shares of the Bank 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 unpaid accrued 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.

5.7 REDEMPTION OF DEBENTURES AND CONSEQUENCE OF A TRIGGER EVENT

Redemption of Debentures

Redemption of the Debentures will take place on Five (5) years from the Date of Allotment for Type A Debentures and Type B Debentures, Seven (7) years from the Date of Allotment for Type C Debentures and Ten (10) years from the Date of Allotment For Type D Debentures 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. It should be noted that no interest on interest would be payable for the aforesaid interim period.

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. 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) (iii) (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 (03) months period, immediately preceding the date of the Trigger Event.

Averaging out of the VWAP over a period of Three (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 three (03) month Volume Weighted Average Share Price (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 three (03) month VWAP 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 Bank shall be required and entitled to issue and within twenty (20) days to allot ordinary voting shares of the Bank 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 voting 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 Bank 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 Bank 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 (as amended).

Non Occurrence of a Trigger Event

The proposed Type A and B Debentures will be redeemed after 05 years and Type C and D Debentures will be redeemed after 07 years and 10 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 Lanka 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 People's Bank 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 Lanka Rupees Four Hundred thousand (LKR 400,000/-) 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 and may be a Qualified Investor to Debentures.

In the event the Trustee subscribes to the Debenture Issue, the Bank will make an immediate announcement to the market giving out information on the number of Debentures acquired by the Trustee.

5.10 RATING OF THE DEBENTURE

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

'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

<https://www.fitchratings.com/products/rating-definitions>

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/research/banks/bank-rating-criteria-01-09-2023>

Fitch Ratings Lanka Limited has downgraded the National Long-Term Rating of Hatton National Bank PLC to 'A (lka)'/Rating Watch Negative (from 'AA-(lka)'/Rating Watch Negative) on 12th January 2023 due to the recalibration of the Sri Lankan National Rating Scale. The outstanding Sri Lankan Rupee denominated - Subordinated Debt of the Bank was also revised two notches below the National Rating, i.e., 'BBB+(lka)'/RWN from 'A-(lka)'/RWN. A market announcement in this regard was made to the Colombo Stock Exchange on 13th January 2023. Subsequently, Fitch Ratings Lanka Limited removed the Watch on HNB's National Long-Term Rating on 5th October 2023 while affirming its National Long-Term Ratings.

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 rate 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 five (05) months from the financial year end at the same time and in the same manner as an ordinary voting 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 voting 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 Section 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 Type A, Type C and Type D Debentures are payable annually and interest on the Type B Debentures are payable semi-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 BBB+ (lka) 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. Furthermore, it should be noted that the secondary debt market is not as developed as the secondary equity market in Sri Lanka.

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 into ordinary voting shares.

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

Absent 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 through the CDS 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. However, the CSE reserves the right to withdraw such approval, in the circumstances set out in Rule 2.3 of the Listing Rules. It is the intention of the Bank to list the Debentures in the Colombo Stock Exchange upon the allotment thereof. However, the Debentures will be listed, only if compliant with the CSE Listing Rules, at the time of listing.

The CSE however, assumes no responsibility for the correctness of the statements made or opinions expressed or reports included in this Prospectus. If there is any inconsistency between the contents under the Prospectus and the CSE Listing Rules, the CSE Listing Rules will prevail. 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 30 Mn which would be approximately 0.07% of the amount raised. 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 Trading Participant 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.

5.19 INSPECTION OF DOCUMENTS

Articles of Association, the Trust Deed, Auditors' Report and Audited Financial Statements for the five (05) financial years ended 31st December 2023 (i.e. the five (05) financial years immediately preceding the date of this Prospectus), Interim Financial Statements and all other documents referred to in Rule 3.3.13 (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 website 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 3.3.13 (b) of the CSE Listing Rules.

Audited financial statements of Hatton National Bank PLC made up to 31st December 2023, Interim Financials of Hatton National Bank PLC made up to 31st March 2024, Accountants Report and the five year summary of financial statements will be available on the website 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 PROCEDURE FOR APPLICATION

6.1 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.

6.2 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 web site of the Joint Managers and Placement Agents to the Issue, www.ndbib.com or 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, the website of the Bank, www.hnb.net until the date of redemption of the Debentures and the web site of the Joint Managers and Placement Agents to the Issue, www.ndbib.com or 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, Type B, Type C or Debentures of Type D) 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/Internal Direct transfer 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 2024”** 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.

Scanned copies of duly filled Application Forms or/and digitally signed Application Forms will be accepted. Duly Filled digital Application forms should be emailed to one of the following e-mail address;

Joint Managers and Placement Agents to the issue : hnb.debenture@ndbib.com and hnb.debenture@acuity.lk

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, 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.

6.3 NUMBER OF DEBENTURES TO BE SUBSCRIBED

Applicants are allowed to invest either;

Debentures of Type A; and/or

Debentures of Type B; and/or

Debentures of Type C; and/or

Debentures of Type D

Applicants may invest in the Debentures subject to a minimum of One Hundred (100) Debentures Sri Lanka Rupees Ten Thousand (LKR 10,000/-) and in multiples of One Hundred (100) Debentures Sri Lanka Rupees Ten Thousand (LKR 10,000/-) thereafter.

Provided however, the minimum subscription requirement applicable for an individual Investor applying for BASEL III Compliant Debt Securities as per Rule 2.2.1 (h) of CSE Listing Rules shall be Sri Lanka Rupees Five Million (LKR 5,000,000/-).

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

6.4 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 electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as CEFTS/SLIPS/ RTGS transfer/ Internal Direct Transfers 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 Lanka 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 / Internal Direct transfer with value on the Issue opening date.

Multiple cheques or RTGS transfers will not be accepted for Applications for values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-). In the case of Application values above and inclusive of Sri Lanka 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 Lanka Rupees One Hundred Million (LKR 100,000,000/-) will be accepted.

- (c) **Multiple electronic fund transfers will not be accepted for Applications with any value. As such, in case an Applicant wishes to use electronic fund transfer mechanism recognised by the banking system of Sri Lanka for the payment for the value of Debentures applied;**
- **Payments for Applications for up to and inclusive of Sri Lanka Rupees Five Million (LKR 5,000,000/-) should be supported by either a CEFTS/SLIPS/RTGS / Internal Direct transfer; and**

- **Payments for Applications for values above Sri Lanka Rupees (LKR 5,000,000/-) should be supported by a RTGS/ Internal Direct transfer.**
- (d) Cheques or bank drafts should be made payable to **“HNB PLC DEBENTURE ACCOUNT 2024”** and crossed **“Account Payee Only”** and must be honoured on the first presentation.
- (e) In case of bank guarantees, such bank guarantees should be issued by any licensed commercial bank in Sri Lanka in favour of **“HNB PLC DEBENTURE ACCOUNT 2024”** in a manner acceptable to the Bank, and be valid for a minimum of one (01) month from the Issue opening date (16th August 2024).

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.

- (f) In case of electronic fund transfer mechanism recognised by the banking system of Sri Lanka such as CEFTS/SLIPS/RTGS/ Internal Direct transfers should be made to the credit of the following Bank Account with value on the Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date).

Account Name	HNB PLC DEBENTURE ACCOUNT 2024
Account Number	003010554068
Bank	Hatton National Bank PLC (Bank Code: 7083)
Branch	Head Office Branch (Branch Code - 003)

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 the above bank account and should be attached with the Application Form.

In case payment for the Application is made via a CEFTS or a SLIPS transfer, the CDS Account Number of the Applicant should be mentioned as the narration of such fund transfers.

For RTGS transfers/ Internal Direct transfers above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/), the Applicants are entitled to an interest at the rate of Two Decimal Five per centum (2.50%) per annum from the date of such transfers up to the Date of Allotment. However, no interest will be paid if the RTGS transfers/ Internal Direct transfers are not realized before the end of the Closure Date. Furthermore, even if such RTGS transfers/ Internal Direct transfers are effected prior to the Issue opening date, no interest will be paid for the period prior to the Issue opening date.

- (g) Cash will not be accepted.
- (h) 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/ Internal Direct transfer has been made out of the funds available in the IIA.

- (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 Sri Lanka Rupees One Hundred (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/CEFTS/SLIPS/ Internal Direct transfer, 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.

6.5 REJECTION OF APPLICATIONS

Application Forms and the accompanying cheques/bank drafts/bank guarantees or fund transfers through electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as CEFTS/SLIPS/RTGS/ Internal Direct transfer, 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 eighteen (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 or via email 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.

6.6 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.

6.7 BASIS OF ALLOTMENT OF DEBENTURES

The Debentures offered hereunder shall be allotted only to 'Qualified Investors' as defined in the Listing Rules, on a basis to be determined by the Bank.

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.

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 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.

6.8 REFUNDS

Monies will be refunded where;

- an Application is rejected for reasons given in Section 6.5 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/its 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/ Internal Direct transfer or if the Applicant has not provided accurate and correct details of his/her 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.lankapay.net/downloads/bank-branch-directory/>

Refunds on Applications rejected, or partly allotted Debentures would be made within eight (08) 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.

6.9 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 twelve (12) 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.

Further, as per CSE Listing Rule 3.3.5(ii) (a) (ii), the secondary market trading of the Debentures shall be limited to the "Qualified Investors".

7 THE BANK

7.1 OVERVIEW

The Bank is a public limited company incorporated on 5th March 1970 under the Laws of the Republic of Sri Lanka. The Company was re-registered under the Companies Act No 7 of 2007 on 27th September 2007. It is a Licensed Commercial Bank under the Banking Act No 30 of 1988 (as amended)

The Bank's main business is commercial banking for which the Bank holds a commercial banking license from the Central Bank of Sri Lanka. This license does not have an expiry date.

7.2 FINANCIAL YEAR

The financial year of the Bank commences on 01st January and ends on 31st December.

7.3 STATED CAPITAL

The stated capital of the Bank represents ordinary shares as given below.

Voting Ordinary Shares	31 st December 2023	31 st March 2024*
Balance (LKR '000)	33,553,624	35,072,240
Number of Shares (No.)	446,651,811	446,651,811

Non-Voting Ordinary Shares	31 st December 2023	31 st March 2024*
Balance (LKR '000)	7,401,492	7,785,987
Number of Shares (No.)	113,086,576	113,086,576

*Based on unaudited financials.

7.4 MAJOR SHAREHOLDERS AS AT 31ST MARCH 2024

Twenty (20) largest shareholders (voting) of the Bank as at 31st March 2024 are given below:

No	Name	No. of Shares	%
1	BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/ BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	44,599,422	9.99
2	EMPLOYEE'S PROVIDENT FUND	43,535,266	9.75
3	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	36,926,034	8.27
4	MILFORD EXPORTS (CEYLON) (PVT) LIMITED	35,319,119	*7.91
5	STASSEN EXPORTS (PVT) LIMITED	30,613,438	*6.85
6	SONETTO HOLDINGS LIMITED	21,952,479	4.91
7	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	18,970,648	4.25
8	CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	17,389,562	3.89

9	DISTILLERIES COMPANY OF SRI LANKA PLC	13,696,840	*3.07
10	DON AND DON HOLDINGS (PRIVATE) LIMITED (CONSISTING OF PEOPLE'S LEASING & FINANCE PLC / DON AND DON HOLDINGS (PRIVATE) LIMITED & DON AND DON HOLDINGS (PRIVATE) LIMITED)	13,626,897	3.05
11	NATIONAL SAVINGS BANK	12,815,744	2.87
12	MR. S.E. CAPTAIN	11,570,481	2.59
13	MR. D.N.N. LOKUGE	9,288,560	2.08
14	STANDARD CHARTERED BANK SINGAPORE S/A HL BANK SINGAPORE BRANCH	8,383,256	1.88
15	FINCO HOLDINGS (PRIVATE) LIMITED	7,121,362	1.59
16	MS. L.A. CAPTAIN	5,473,083	1.23
17	SIMONAS TRUST SERVICE PVT LTD	4,545,906	1.02
18	MR. Y.S.H.R.S. SILVA	3,860,684	0.86
19	GALLE FACE CAPITAL PARTNERS PLC	3,520,359	0.79
20	INVENCO CAPITAL PRIVATE LIMITED	3,223,758	0.72
	Total	346,432,898	78%
	Balance held by Other Shareholders	100,218,913	22%
	Total number of shares in issue	446,651,811	100%

* 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.

Twenty (20) largest shareholders (non - voting) of the Bank as at 31st March 2024 are given below:

	Name	No. of shares	%
1	BROWNS INVESTMENTS PLC (CONSISTING OF SAMPATH BANK PLC/BROWNS INVESTMENTS PLC & BROWNS INVESTMENTS PLC ACCOUNTS)	51,871,980	45.87
2	ACUITY PARTNERS (PVT) LIMITED/MR.ELAYATHAMBY THAVAGNANASOORIYAM / MR.ELAYATHAMBY THAVAGNANASUNDARAM	5,666,420	5.01
3	AKBAR BROTHERS PVT LTD A/C NO 1	4,975,179	4.40
4	EMPLOYEES TRUST FUND BOARD	1,466,366	1.30
5	MR. J.D. BANDARANAYAKE	1,022,795	0.90
6	MR. S.E. CAPTAIN	1,003,137	0.89
7	PEOPLE'S LEASING & FINANCE PLC/MR. I.D.R. PERERA	850,000	0.75

8	HATTON NATIONAL BANK PLC A/C NO 2	813,789	0.72
9	SABOOR CHATOOR (PVT) LTD	800,000	0.71
10	MR. E. CHATOOR	733,097	0.65
11	INVENCO CAPITAL PRIVATE LIMITED	705,519	0.62
12	NATIONAL SAVINGS BANK	624,232	0.55
13	E.W. BALASURIYA & CO. (PVT) LTD ACC NO 1	564,887	0.50
14	DON AND DON HOLDINGS PRIVATE LIMITED	497,701	0.44
15	MR. M.J. FERNANDO (DECEASED)	462,965	0.41
16	DR. R.D. BANDARANAIKE	437,668	0.39
17	MR. Y.H. ABDULHUSSEIN	435,000	0.38
18	LANKA SYNTHETIC FIBRE CO LTD	411,963	0.36
19	MISS R.H. ABDULHUSSEIN	408,095	0.36
20	MR. M.V. THEAGARAJAH	376,810	0.33
	Total	74,127,603	66%
	Balance held by other Shareholders	38,958,976	34%
	Total Number of Shares in issue	113,086,576	100%

7.5 DETAILS OF OTHER DEBENTURES IN ISSUE

The details of other debentures issued by Hatton National Bank PLC as at the date of this Prospectus are given in the table below.

Year of Issuance	CSE listing	Ranking	Issue Value LKR '000	Interest Rate p.a.	Tenor	Issue Date	Maturity Date
2014	Listed	Senior	84,040	8.33%	10 Year	15-Dec-2014	14-Dec-2024
2019	Listed	Subordinate	1,922,570	12.30%	5 Year	23-Sep-2019	22-Sep-2024
2019	Listed	Subordinate	8,077,430	12.80%	7 Year	23-Sep-2019	22-Sep-2026
2021	Listed	Subordinate	7,000,000	9.50%	10 Year	28-Jul-2021	29-Jul-2031

Outstanding Basel III Compliant Tier 2, Debentures with a Non-Viability Conversion as at the date of this Prospectus are as follows.

- HNB-BD-22/09/24-C2430-12.3 – LKR 1,922,570,000/-
- HNB-BD-22/09/26-C2431-12.8 – LKR 8,077,430,000/-
- HNB-BD-28/07/31-C2480-9.5 – LKR 7,000,000,000/-

The Bank does not have any outstanding convertible debt securities other than the Basel III Compliant Tier 2 Debentures with a Non- Viability Conversion issued in 2019 and 2021.

The debenture holders of the above stated debentures do not have the following rights.

- Sharing in the profits of the Bank
- Participating in any surplus in the event of liquidation or any special rights

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:

- the survivor where the deceased was a joint holder; or
- if not the joint holder the heirs of the deceased/administrators/executors 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.

7.6 PARTICULARS OF LONG-TERM LOANS AND OTHER BORROWINGS OF THE BANK

As at 31st December 2023 and 31st March 2024 the outstanding balances are given in the table below;

All numerical figures given under this section of the Prospectus are audited figures unless otherwise stated.

	LKR '000
Balance as at 31 st December 2022	69,972,435
New borrowings / (settlements)	44,823,181
Balance as at 31 st December 2023	114,795,616

	LKR '000
Balance as at 31 st December 2023	114,795,616
New borrowings / (settlements)	19,747,861
Balance as at 31 st March 2024*	134,543,477

*Based on unaudited financials

Borrowings of the Bank as at 31st December 2023 and 31st March 2024 comprise of the following;

	As at 31 st December 2023 LKR '000	As at 31 st March 2024* LKR '000
Due to banks	9,019,582	13,676,308
Securities sold under repurchase agreements	61,793,694	79,183,723
Financial liabilities at amortized cost - Due to debt security holders	24,933,215	22,118,247
Debt securities issued	87,569	85,785
Subordinated term debts	18,961,556	19,479,414
Total	114,795,616	134,543,477

*Based on unaudited financials

7.7 CONTINGENT LIABILITIES AND LITIGATION AGAINST THE BANK

The details of the contingent liabilities as at 31st December 2023 and 31st March 2024 are given below;

Commitments and Contingencies	As at 31 st December 2023 LKR '000	As at 31 st March 2024* LKR '000
Documentary Credit	26,964,874	25,117,747
Guarantees	114,927,736	79,868,471
Acceptance	11,270,528	15,395,515
Bills of collection	27,185,901	23,170,301
Forward Exchange Sales	31,440,180	41,171,558
Forward Exchange Purchases	122,106,261	113,788,770
Cheques sent on clearing	5,712,132	6,187,863
Undraw Credit Lines	543,425,500	566,701,293
Total	883,033,112	871,401,518

*Based on unaudited financials

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 31 st December 2022 LKR '000	As at 31 st December 2023 LKR '000
Approved and contracted but not provided for	721,488	1,068,928
Approved and not contracted for	933,708	258,141
Total	1,655,196	1,327,069

7.8 LITIGATIONS AGAINST THE BANK

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. Based on the assessment carried out as of the date of the Statement of Financial Position, Bank is of the view that apart from three legal cases pertaining to guarantee related issues the other legal cases filed against the Bank will not have a material impact on the financial position of the Bank. Please refer note 59 (c) of the Annual Report 2023 for additional information.

7.9 KEY FINANCIAL RATIOS

Capital Adequacy Ratio (CAR)

	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023	31.03.2024
Capital adequacy - Tier 1 Capital Ratio % *	14.57	14.73	18.16	11.06	13.66	14.48
Capital adequacy - Total Capital Ratio % *	18.28	17.98	14.53	14.00	17.13	18.06

* Minimum Statutory requirement of Tier 1 Capital Ratio and total capital ratio for the year 2018 was 8.875% and 12.875% respectively.

* With effect from 01.01.2019, the required minimum capital adequacy ratios of Tier 1 Capital Ratio and Total Capital Ratios were increased to 9.50% and 13.50% respectively.

* The Banking Act Direction No. 04 of 2022, dated 23rd May 2022, allows licensed banks to drawdown on the Capital Conservation Buffer (CCB) up to 2.5% subject to the conditions stipulated in the Banking Act Direction No. 01 of 2016 (as amended) on Capital Requirements under Basel III for licensed commercial banks and licensed specialised banks. If a bank draws down the CCB, a Board approved capital augmentation plan on rebuilding the CCB to 2.5% within 3 years is required to be submitted to the CBSL. The Bank has not drawn down the CCB.

Interest Cover and Debt to Equity Ratio

	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023	31.03.2024
Debt / Equity Ratio (%) *	69.53	67.56	28.27	30.91	19.55	18.45
Interest Cover Ratio (Times) **	4.25	3.95	5.12	4.3	10.14	12.16

*Debt/ Equity Ratio = [Long Term Borrowing including Debt Securities / Total Equity]

** Interest Cover Ratio = [PBIT / Borrowing cost]

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

7.10 DEBENTURE INTEREST PAYMENT DETAILS

	2019	2020	2021	2022	2023
Gross interest due on debentures (LKR '000)	3,042.26	3,552.06	3,108.79	2,911.77	2,690.74
Debenture interest paid on or before due date (LKR '000)	3,042.26	3,552.06	3,108.79	2,911.77	2,690.74
Debenture interest paid after the due date (LKR '000)	-	-	-	-	-
Debenture interest not paid as of to date (LKR '000)	-	-	-	-	-

7.11 TAXATION

Applicable taxes for the bank are income tax, VAT on financial services, crop insurance levy, local taxes and stamp duty.

- Income tax rate applied during 2023 was 30%. VAT rate on financial services, applied during 2023 was 18%. Social Security Contribution Levy came into effect from 1st October 2022. SSCL rate applied during 2023 and 2022 was 2.5%.

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

7.12 FINANCIAL STATEMENTS & FINANCIAL SUMMARY

The following financial information is hosted on the Bank's web site, www.hnb.lk and CSE web site www.cse.lk.

- Audited financial statements of Hatton National Bank PLC as at 31st December 2023
- Interim financial statements of Hatton National Bank PLC as at 31st March 2024
- Summarized financial statement for the five years ended 31st December 2019 to 31st December 2023 preceding the date of the Application stating the accounting policies adopted by the Bank certified by the Auditors and Qualifications carried in any of the Auditors Reports covering the period in question and any material changes in accounting policies during the relevant period.

8 BOARD OF DIRECTORS

8.1 DETAILS OF THE DIRECTORS

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

Name of Director	Executive / Non – Executive/ Independent/ Non- Independent*
Mr. Nihal Jayawardene PC	Chairman – (Non–Executive /Non-Independent Director)
Mr. Jonathan Alles	Managing Director / Chief Executive Officer (Executive Director)
Mr. Madura Ratnayake	(Independent / Non-Executive Director)
Mr. Devaka Cooray	(Senior Independent / Non-Executive Director)
Mr. Osman Chandrawansa	(Independent / Non-Executive Director)
Mr. Prawira Rimoe Saldin-	(Non-Independent / Non-Executive Director)
Mr. Rasitha Gunawardana	(Independent / Non-Executive Director)
Mr. Kithsiri Gunawardana	(Non-Independent / Non-Executive Director)
Dr. Prasad Samarasinghe	(Non-Independent / Non-Executive Director)
Mr. Nanda Fernando	(Independent / Non-Executive Director)
Mr. Sivakrishnarajah Renganathan	(Independent / Non-Executive Director)
Mr. Suresh Kumar Shah	(Independent / Non-Executive Director)

**In terms of the Banking Act Direction No 11 of 2007 Corporate Governance for Licensed Commercial Banks in Sri Lanka*

8.2 BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank in line with Section 9 of the Listing Rules.

The Committee carries out the following duties and responsibilities: -

1. Reviewing to evaluate and to determine the advisability of any Related Party Transactions except for transactions set out in Rule 9.14.10 of the Listing Rules, that require consideration by the Committee under the Related Party Policy of the Bank.
2. Approving or rejecting Related Party Transactions upon the required internal approvals being obtained.
3. Determining whether the relevant Related Party Transaction is fair to, and in the best interests of, the Bank and its stakeholders; and
4. Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.

Recommending to the full Board where necessary that the approval of the shareholders of the Bank be obtained by way of a Special Resolution prior to the concerned transaction being entered into as specified in Section 9.14.6 and 9.14.9 of the Listing Rules, where necessary.

The Board appointed Related Party Transaction Review Committee comprises of Three (3) Non-Executive Directors inclusive of the Chairman who is a Non-Independent Director and Managing Director /Chief Executive Officer. Composition of the Related Party Transactions Review Committee is as follows.

Name of the Board Subcommittee Member	Membership Status	Directorship Status
Mr. Rasitha Gunawardana	Chairman	Independent / Non-Executive Director
Mr. Jonathan Alles	Member	Managing Director / Chief Executive Officer (Executive Director)
Mr. Osman Chandrawansa	Member	Independent / Non-Executive Director
Mr. Nihal Jayawardene PC	Member	Chairman – (Non–Executive /Non-Independent)

9 STATUTORY DECLARATIONS

9.1 STATUTORY DECLARATION BY THE DIRECTORS

We, the undersigned who are named herein as Directors of Hatton National Bank PLC (Company) hereby declare and confirm that we have read the provisions of Colombo Stock Exchange (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 Debenture Issue including Lawyers, Auditors, Rating Company and Joint Managers and Placement Agents 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 of 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 Directors	Designation	Signature
Mr. Nihal Jayawardene PC	Chairman – (Non-Executive / Non-Independent)	Sgd.
Mr. Jonathan Alles	Managing Director / Chief Executive Officer (Executive Director)	Sgd.
Mr. Madura Ratnayake	(Independent / Non-Executive Director)	Sgd.
Mr. Devaka Cooray	(Senior Independent / Non-Executive Director)	Sgd.
Mr. Osman Chandrawansa	(Independent / Non-Executive Director)	Sgd.
Mr. Prawira Rimoe Saldin	(Non-Independent / Non-Executive Director)	Sgd.
Mr. Rasitha Gunawardana	(Independent / Non-Executive Director)	Sgd.
Mr. Kithsiri Gunawardana	(Non-Independent / Non-Executive Director)	Sgd.
Dr. Prasad Samarasinghe	(Non-Independent / Non-Executive Director)	Sgd.
Mr. Nanda Fernando	(Independent / Non-Executive Director)	Sgd.
Mr. Sivakrishnarajah Renganathan	(Independent / Non-Executive Director)	Sgd.
Mr. Suresh Kumar Shah	(Independent / Non-Executive Director)	Sgd.

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

We, NDB Investment Bank Limited of No 135, Bauddhaloka 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, 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 09th August 2024.

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 the Managing Director of Acuity Partners (Private) Limited, being duly authorized thereto, at Colombo on this 09th August 2024.

Sgd.
Managing Director

10 FINANCIAL INFORMATION

10.1 ACCOUNTANTS' REPORT AND FIVE-YEAR SUMMARY OF FINANCIAL STATEMENTS



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

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The Board of Directors
Hatton National Bank PLC
HNB Towers
Level 21
No. 479, T.B. Jayah Mawatha
Colombo 10

24 April 2024

Dear Sirs

ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF HATTON NATIONAL BANK PLC

This report has been prepared for the inclusion in the Prospectus issued in connection with the Public Offer of Listed, Rated, BASEL III compliant, Tier II, Unsecured Subordinated Redeemable Debentures with a feature for Non-viability Conversion which said debenture issue comprises **an issue of 80 million of such Debentures of LKR 100/- each amounting to LKR 8 Billion; with the option to issue further 40 Million Debentures of LKR 100/- each amounting to LKR 4 Billion** in the event of an oversubscription of such initial issue.

We have examined the financial statements included in the annual reports of Hatton National Bank PLC ("Bank") for the financial years ended 31 December 2019 to 2023. Extracts of these financial statements have been included in the prospectus and report as follows;

1. INCORPORATION

Hatton National Bank PLC (the "Bank") is a public quoted company incorporated on 05 March 1970 with limited liability and domiciled in Sri Lanka. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at No 479, T B Jayah Mawatha, Colombo 10. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The unsecured subordinated debentures of the Bank are also listed on the Colombo Stock Exchange.

The Bank does not have an identifiable parent of its own. The Hatton National Bank PLC is the ultimate parent of the Group.

The Bank is licensed by the Central Bank of Sri Lanka to conduct banking and related activities. The principal activities of the Bank are banking and related activities such as deposit acceptance, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, leasing, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, dealing in government securities and treasury-related products, export and domestic factoring, pawning, margin trading, digital banking services, bancassurance and Islamic banking products and services etc.

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilake FCA
Ms. S. Joseph FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekera FCA

T. J. S. Rajakarier FCA
W. K. D. C. Abeyaratne FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R.W.M.O.W.D.B. Rathnadiwakara FCA

W. W. J. C. Perera FCA
G. A. U. Karunaratne FCA
R. H. Rajan FCA
A.M.R.P. Alahakoon ACA

Principals: S.R.I. Perera FCMA(UK), LL.B, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA(UK), FCIT
K. Somasundaram ACMA(UK)



2. FINANCIAL STATEMENTS

2.1 Five years summary of financial statements

A summary of Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows of the Bank for the years ended 31 December 2019 to 2023, based on the audited financial statements of the Bank are set out in Annexure 1.

Summaries presented for Operating Results, Assets, Liabilities and Shareholders' funds for financial years ended 31 December 2019 to 2023 are based on the financial statements prepared in accordance with SLFRSs and LKASs, effective from 01 January 2012 applied from the date of transition of 01 January 2011 and the amendments there to, which were applicable up to the financial year ended 31 December 2023.

2.2 Audit reports

We have audited the financial statements of the Bank for the years ended 31 December 2020 to 2023 and the predecessor auditor has audited the financial statements for the financial year ended 31 December 2019. Unqualified audit opinions have been issued for the said financial years by both auditors.

2.3 Application of accounting standards and accounting policies

The financial statements of the Bank for the financial years ended 31 December 2019 to 2023 complied with and prepared in accordance with Sri Lanka Accounting Standards (commonly referred as "SLFRS"/"LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007.

The accounting policies of the Bank are stated in detail in the audited financial statements of the Bank for the year ended 31 December 2023. The adoption of revised/ new accounting standards and a summary of related amendments to the accounting policies of the Bank from financial years ended 31 December 2019 to 2023 are given below.

Financial year	Adoption of revised Accounting Standards, and related changes in Accounting Policies
31 December 2019	<p>The Bank adopted Sri Lanka Accounting Standard - SLFRS 16 on "Leases" and IFRIC Interpretation 23 - "Uncertainty over Income Tax Treatment" which became effective for the annual reporting periods beginning on or after 1st January 2019, for the first time.</p> <p>Sri Lanka Accounting Standard SLFRS 16 - "Leases" (SLFRS 16) became effective for annual periods beginning on or after 01 January 2019. SLFRS 16 supersedes LKAS 17 "Leases", IFRIC interpretation 4 - "Determining whether an Arrangement contains a Lease, SIC - 15 "Operating Leases - Incentives" and SIC - 27 "Evaluating the Substance of Transactions involve in the legal form of a Lease" This standard replaced Sri Lanka Accounting Standard</p> <p>LKAS 17 - "Leases" (LKAS 17), sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the balance sheet. Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17 whereby lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17.</p>

	<p>Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.</p> <p>The Bank adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application as 01 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application. The Bank elected to use the transitional practical expedient to not reassess whether a contract is or contains a lease at 01 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.</p> <p>The Bank recognised right of use of assets and lease liabilities for those leases previously classified as operating leases. The right of use of assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate on the date of initial application.</p> <p>Right-of-use asset recognised as at 01 January 2019, varies from the same derived based on lease commitments disclosed in prior year, mainly due to revisions to lease terms under SLFRS 16.</p> <p>2. IFRIC Interpretation 23 - “Uncertainty over Income Tax Treatment”</p> <p>The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard LKAS 12 - “Income Taxes”. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> • Whether an entity considers uncertain tax treatments separately <p>The assumptions an entity makes about the examination of tax treatments by taxation authorities.</p> <ul style="list-style-type: none"> • How an entity determines taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates. • How an entity considers changes in facts and circumstances <p>The Bank applied significant judgement in identifying uncertainties over income tax treatments. The Bank determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the financial statements of the Bank.</p>
31 December 2020	<p>The Bank initially adopted definition of the Business (Amendments to SLFRS 3) from 01 January 2020. A number of other new standards are also effective from 01 January 2020 that did not have a material effect on the financial statements.</p>

	<ul style="list-style-type: none"> • Definition of a business <p>The Bank applied Definition of a Business (Amendments to SLFRS3) to business combinations whose dates of acquisition are on or after 01 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Bank's financial statements because the Bank has not acquired any subsidiaries during the year. However, the Bank has amended its accounting policies for acquisition on or after 01 January 2020.</p>
31 December 2021	<p>1. Specific Policies applicable from 1 January 2021 for Interest Rate Benchmark Reform ("IBOR") (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)</p> <p>A fundamental reform of major interest rate benchmark is being undertaken globally, replacing certain interbank offered rates ("IBORs") with alternative nearly risk-free rates (referred to as "IBOR reform"). The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.</p> <p>The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform Phase 1 and Phase 2. The effective date of both IBOR reform Phase 1 and Phase 2 amendments are for annual reporting periods beginning on or after 01 January 2021 in the Sri Lankan context and the requirements under phase 2 amendments have to be applied retrospectively.</p> <p>The Bank commenced a process to evaluate the impact from this reform on its financial instruments. This process will involve evaluating the extent to which loans advanced, loan commitments, liabilities, and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform, how to manage communication about IBOR reform with counterparties and the changes required for the existing credit policies.</p> <p>As at 31 December 2021, the IBORs for certain key currencies to which the Bank had exposure to were in the process of reforming. However, there was no material impact to the Bank financial statements.</p>
31 December 2022	<p>1. Reclassification of Debt portfolio from Fair value through Other Comprehensive Income to Amortized Cost</p> <p>The Bank re-classified its debt securities portfolio measure at fair value through other comprehensive income category to amortized cost category with effect from 01 April 2022 in accordance with "Statement of Alternative Treatment (SOAT) on Reclassification on Debt Portfolio" issues by CA Sri Lanka.</p>



However, there was no impact on the statement of financial position because the balances qualify for offset under LKAS 12. There was also no impact on the opening retained earnings as at 01 January 2022 as a result of the change. The key impact for the Bank relates to disclosure of the deferred tax assets and liabilities recognised.

2. Material accounting policy information

The Bank also adopted Disclosure of Accounting Policies (Amendments to LKAS1) from 01 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of 'material', rather than 'significant', accounting policies.

The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

3. Events after reporting date

There were no significant events occurred after the last audit report date other than mentioned below.

• Proposed dividends

The Directors recommended a final dividend of Rs. 8.00/= per share which consist of a cash dividend of Rs. 4.00/= and a scrip dividend of Rs. 4.00/= on both voting and non-voting shares of the Bank which will be applicable to financial year ended 31 December 2023. In accordance with Sri Lanka Accounting Standard – LKAS 10 on “Events after the reporting period”, the final dividend has not been recognized as a liability as at 31 December 2023.

The final dividend approved by the shareholders at the Annual General Meeting held on 28 March 2024.

4. Dividends

The Bank had declared the following dividends in respect of ordinary shares for the years ended 31 December 2019 to 31 December 2023.

Year ended. 31 December	Dividend Per Share Rs.
2019	8.00*
2020	8.00**
2021	9.00***
2022	5.00****
2023	8.00*****

* Rs.8.00/- by way of cash dividend

** Rs. 4.50/- by way of cash dividend and Rs.3.50/- by way of a scrip dividend.

*** Rs. 6.50/- by way of a cash dividend/ Rs. 2.50/- by way of a scrip dividend.



**** Rs. 5.00/- by way of a scrip dividend.

***** Rs. 4.00/- by way of a cash dividend/ Rs. 4.00/- by way of a scrip dividend.

5. Change in the Key Management Personnel

Retirement of Managing Director/Chief Executive Officer

Managing Director/Chief Executive Officer of the Hatton National Bank PLC who will be retiring from the service of the Bank with effect from 23 August 2024 availed his prior to retirement leave w.e.f. 06 April 2024.

Appointment of Acting Chief Executive Officer

The Board of Directors at its meeting held on 04 March 2024 approved the appointment of Acting Chief Executive Officer w.e.f. 06 April 2024 for the interim period subject to approval of his fit and propriety from Central Bank of Sri Lanka. Subsequently the Central Bank of Sri Lanka vide their letter dated 8th April 2024 granted approval for the fit and propriety of the Acting Chief Executive Officer.

6. Restriction on Use

This report is made solely for the purpose of the Board of Directors of Hatton National Bank PLC in usage in the application for the purpose of issuance of Listed, Rated, BASEL III compliant, Tier II, Unsecured Subordinated Redeemable Debentures with a feature for Non-viability Conversion which said debenture issue comprises **an issue of 80 million of such Debentures of LKR 100/- each amounting to LKR 8 Billion; with the option to issue further 40 Million Debentures of LKR 100/- each amounting to LKR 4 Billion** in the event of an oversubscription of such initial issue.

This report should not be used for any other purpose than mentioned above and should not be distributed to or used by parties other than the Bank. Our report is not modified in respect of this matter.

Yours faithfully,

Chartered Accountants
Colombo

Annexure 1
INCOME STATEMENT

For the year ended 31st December	2019	2020	BANK 2021	2022	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross Income	125,998,086	115,813,618	115,047,325	242,412,491	299,139,347
Interest Income	115,210,769	103,944,602	98,600,557	207,019,354	284,097,697
Less Interest Expense	65,997,133	59,235,456	49,041,200	104,142,478	179,755,441
Net Interest Expense	49,213,636	44,709,146	49,559,357	102,876,876	104,342,256
Fees & Commission Income	9,206,399	7,794,929	9,893,263	15,520,113	16,308,907
Less Fee & commission expense	213,176	249,880	270,702	345,863	467,572
Net fee & commission income	9,993,223	7,545,049	9,622,561	15,174,250	15,841,335
Net interest, fee and commission income	58,206,859	52,254,195	59,181,918	118,051,126	120,183,591
Net gain/(loss) from trading	(2,280,969)	(837,108)	(522,039)	4,898,719	(11,951,627)
Net gain from financial investments	187,512	207,321	195,927	22,619	271,537
Net gains arising on de-recognition of financial assets	-	1,053,543	-	-	-
Other operating income	3,674,375	3,650,331	6,879,617	14,951,686	10,412,833
Total operating income	59,787,777	56,328,282	65,735,423	137,924,150	118,916,334
Less impairment charge	9,656,010	15,258,468	18,778,047	90,461,305	40,589,311
Net operating income	50,131,767	41,069,814	46,957,376	47,462,845	78,327,023
Less operating expenses					
Personnel Expenses	11,444,259	11,459,352	10,757,563	15,025,888	16,944,206
Other operating expenses	12,313,978	10,659,633	11,875,964	15,361,679	18,559,609
Total operating expenses	23,758,237	22,118,985	22,633,527	30,387,567	35,503,815
Operating profit before taxes on financial services	26,373,530	18,950,829	24,323,849	17,075,278	42,823,208
Less: Taxes on financial services	7,910,527	3,869,649	4,498,822	5,101,372	10,134,513
Profit before income tax	18,463,003	15,081,180	19,825,027	11,973,906	32,688,695
Less: Income tax expense	4,430,751	3,618,544	2,525,260	(2,059,587)	12,335,577
Profit for the year	14,032,252	11,462,636	17,299,767	14,033,493	20,353,118



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Annexure 1
STATEMENT OF FINANCIAL POSITION

As at 31st December	BANK				
	2019	2020	2021	2022	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets					
Cash and cash equivalents	29,089,189	34,123,562	38,185,254	80,238,881	73,148,596
Balances with Central Bank of Sri Lanka	22,795,332	7,212,395	25,820,489	32,344,341	12,734,361
Placements with banks	7,602,543	-	-	54,371,028	55,991,134
Derivative financial instruments	527,193	1,032,318	927,487	5,370,501	452,193
Financial investments measured at fair value through profit or loss	1,013,374	84,499	103,365	111,517	115,641
Financial assets measured at amortised cost - loans and advances to customers	741,769,073	772,580,720	876,254,693	974,131,252	954,880,316
Financial assets measured at amortised cost - debt and other financial instruments	149,720,834	186,605,516	150,677,520	448,791,874	549,772,155
Financial assets measured at fair value through other comprehensive income	127,894,982	249,271,658	203,426,433	2,706,660	189,325,958
Investment in joint venture	755,000	755,000	755,000	755,000	755,000
Investment in subsidiaries	3,017,285	3,017,285	3,017,285	3,017,285	3,017,285
Investment properties	480,444	475,109	469,774	464,439	459,104
Property, plant and equipment	21,076,762	20,705,056	24,953,738	24,835,729	25,418,520
Right-of-use assets	5,482,679	5,356,868	5,439,384	5,397,734	5,081,338
Intangible assets and goodwill	1,076,641	1,309,172	1,429,544	1,250,154	1,560,099
Deferred tax assets	-	805,539	4,461,561	30,471,351	33,944,563
Other assets	12,907,234	8,515,830	12,415,094	26,281,118	28,096,221
Total assets	1,125,008,565	1,291,851,536	1,358,336,621	1,690,538,964	1,934,252,484
Liabilities					
Due to banks	86,396,304	89,746,709	17,075,502	6,104,578	9,019,582
Derivative financial instruments	573,365	337,014	353,356	25,632	1,365,523
Securities sold under repurchase agreements	17,569,394	10,361,383	33,524,226	6,540,014	61,793,694
Financial liabilities measured at amortised cost - due to depositors	810,035,114	967,821,404	1,075,709,287	1,407,800,492	1,579,780,228
Dividends payable	1,449,472	962,185	989,212	1,008,325	974,790
Financial liabilities measured at amortised cost - other borrowings	22,604,039	30,526,261	24,747,869	32,350,594	24,933,215
Debt securities issued	1,797,644	1,875,042	1,962,749	2,062,950	87,569
Current tax liabilities	5,348,985	7,725,731	10,051,689	30,025,919	23,953,823
Deferred tax liabilities	1,381,754	-	-	-	-
Other provisions	3,599,739	3,917,784	3,928,598	5,000,513	9,079,375
Other liabilities	14,053,378	16,278,033	14,400,456	17,378,270	19,325,052
Subordinated term debts	32,695,221	28,298,366	23,552,323	22,914,299	18,961,556
Total liabilities	997,504,409	1,157,849,911	1,206,295,267	1,531,211,586	1,749,275,307
Equity					
Stated capital	33,820,905	35,572,329	37,364,244	38,679,005	40,955,116
Statutory reserve fund	7,060,000	7,660,000	8,560,000	9,310,000	10,410,000
Retained earnings	17,980,160	22,665,227	35,186,607	40,706,963	56,311,574
Other reserves	68,643,091	68,104,069	70,930,593	79,632,410	77,900,487
Total shareholders' equity	127,504,156	134,001,625	152,041,354	169,327,378	184,977,177
Total equity and liabilities	1,125,008,565	1,291,851,536	1,358,336,621	1,690,538,964	1,934,252,484
Contingent liabilities and commitments	673,230,812	631,318,220	676,212,350	800,328,057	882,033,112
Net assets value per ordinary share* (Rs.)	227.79	239.40	271.63	284.65	330.47

*Number of shares used in net assets value per ordinary share calculation has been adjusted by the number of shares issued as scrip dividends according to the most recent financial statements



Annexure 1
STATEMENT OF CHANGES IN EQUITY
BANK

	Stated Capital		Statutory Reserve	Other Reserves				General Reserve	ESOP Reserve	Retained Earnings	Total
	Voting Shares Rs 000	Non-Voting Shares Rs 000		Capital Reserve Rs 000	Available-For-Sale Reserve Rs 000	Fair Value Reserve Rs 000					
Balance as at 1st January 2019	26,849,460	5,888,566	7,260,000	10,790,994	-	1,352,433	-	40,100,000	-	15,728,513	115,743,972
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2019	-	-	-	-	-	-	-	-	-	14,032,252	14,032,252
Other comprehensive income, net of tax	-	-	-	-	-	1,352,578	-	-	-	(1,198,486)	154,092
Total comprehensive income for the year	-	-	-	-	-	1,352,578	-	-	-	12,833,766	14,186,344
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-
Final dividend 2018 - Cash	-	-	-	-	-	-	-	-	-	(1,724,277)	(1,724,277)
Final dividend 2018 - Scrip	1,190,308	292,571	-	-	-	-	-	-	-	(1,724,277)	(241,398)
Interim dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	(500,407)	(500,407)
Total contributions by and distributions to equity holders	1,190,308	292,571	-	-	-	-	-	-	-	(3,948,951)	(2,456,072)
Realised gain from maturity of investment in units	-	-	-	-	-	(136,920)	-	-	-	136,920	-
Transfer of unclaimed dividends	-	-	-	-	-	-	-	6,000,000	-	(5,800,000)	-
Transfers during the year 2019	-	-	800,000	-	-	-	-	-	-	29,922	29,922
Balance as at 31st December 2019	27,839,768	5,981,137	7,060,000	10,790,994	-	2,762,097	-	55,100,000	-	17,980,150	127,504,156
Balance as at 1st January 2020	27,839,768	5,981,137	7,060,000	10,790,994	-	2,762,097	-	55,100,000	-	17,980,150	127,504,156
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2020	-	-	-	-	-	-	-	-	-	11,462,636	11,462,636
Other comprehensive income, net of tax	-	-	-	-	-	(1,530,734)	-	-	-	(1,705,874)	(3,237,508)
Total comprehensive income for the year	-	-	-	-	-	(1,530,734)	-	-	-	9,756,762	8,225,028
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-
Final dividend 2019 - Cash	-	-	-	-	-	-	-	-	-	(1,751,424)	(1,751,424)
Final dividend 2019 - Scrip	1,404,704	346,720	-	-	-	-	-	-	-	(1,751,424)	-
Total contributions by and distributions to equity holders	1,404,704	346,720	-	-	-	-	-	-	-	(3,502,848)	(1,751,424)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	1,000,000	-	32,153	32,153
Transfers during the year 2020	-	-	500,000	-	(8,288)	-	-	-	-	(1,600,000)	(1,288)
Balance as at 31st December 2020	29,244,472	6,327,857	7,560,000	10,782,706	-	1,231,363	-	56,100,000	-	22,665,227	134,001,625
Balance as at 1st January 2021	29,244,472	6,327,857	7,560,000	10,782,706	-	1,231,363	-	56,100,000	-	22,665,227	134,001,625
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2021	-	-	-	-	-	-	-	-	-	17,299,767	17,299,767
Other comprehensive income, net of tax	-	-	-	-	-	(2,475,416)	-	-	-	1,217,686	3,044,180
Total comprehensive income for the year	-	-	-	-	-	(2,475,416)	-	-	-	18,517,453	20,343,887
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-
Final dividend 2020 - Cash	-	-	-	-	-	-	-	-	-	(2,303,891)	(2,303,891)
Final dividend 2020 - Scrip	1,436,119	355,796	-	-	-	-	-	-	-	(1,791,915)	-
Total contributions by and distributions to equity holders	1,436,119	355,796	-	-	-	-	-	-	-	(4,095,806)	(2,303,891)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	1,000,000	-	(267)	(267)
Transfers during the year 2021	-	-	900,000	-	-	-	-	-	-	(1,600,000)	-
Balance as at 31st December 2021	30,680,591	6,683,653	8,460,000	15,084,556	-	(1,254,053)	-	57,100,000	-	35,186,607	152,041,354

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Annexure 1
STATEMENT OF CHANGES IN EQUITY
BANK

	Stated Capital		Statutory Reserve	Other Reserves				Retained Earnings	Total
	Voting Shares Rs 000	Non-Voting Shares 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 2022	30,680,591	6,683,653	8,560,000	15,084,556	-	(1,254,053)	57,100,000	-	152,041,354
Adjustment for surcharge tax levied under the surcharge tax Act No.14 of 2022	-	-	-	-	-	-	-	-	(3,611,625)
Adjusted balance as at 1st January 2022	30,680,591	6,683,653	8,560,000	15,084,556	-	(1,254,053)	57,100,000	-	148,429,729
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Net profit for the year 2022	-	-	-	-	-	-	-	-	14,033,493
Transfer of fair value losses on debt instruments measured at FVOCI upon reclassification to amortised cost measurement category	-	-	-	-	-	1,477,057	-	-	1,477,057
Other comprehensive income, net of tax	-	-	-	(3,157,240)	-	(1,618,510)	-	-	(4,775,750)
Total comprehensive income for the year	-	-	-	(3,157,240)	-	(1,618,510)	-	-	(4,775,750)
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Final dividend 2021 - Cash	-	-	-	-	-	-	-	-	(3,418,380)
Final dividend 2021 - Scrip	1,052,150	262,611	-	-	-	-	-	-	(3,418,380)
Total contributions by and distributions to equity holders	1,052,150	262,611	-	-	-	-	-	-	(3,418,380)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	20,022
Transfers during the year 2022	-	-	-	750,000	-	-	1,000,000	-	(3,750,000)
Balance as at 31st December 2022	31,732,741	6,946,264	9,310,000	13,927,316	-	(1,395,905)	58,100,000	-	159,327,378
Balance as at 1st January 2023	31,732,741	6,946,264	9,310,000	13,927,316	-	(1,395,905)	58,100,000	-	159,327,378
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Net profit for the year 2023	-	-	-	-	-	-	-	-	20,353,118
Other comprehensive income, net of tax	-	-	-	-	-	5,669,077	-	-	5,669,077
Total comprehensive income for the year	-	-	-	-	-	5,669,077	-	-	26,022,195
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Final dividend 2022 - Cash	-	-	-	-	-	-	-	-	(2,677,777)
Final dividend 2022 - Scrip	1,820,883	455,228	-	-	-	-	-	-	(401,666)
Total contributions by and distributions to equity holders	1,820,883	455,228	-	-	-	-	-	-	(2,677,777)
Transfer of unclaimed dividends	-	-	-	-	-	-	-	-	29,270
Transfers during the year 2023	-	-	-	1,100,000	-	-	1,000,000	-	(2,100,000)
Balance as at 31st December 2023	33,553,624	7,401,492	10,410,000	13,927,316	-	4,273,171	59,100,000	-	189,777,177



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Annexure 1

STATEMENT OF CASH FLOWS

For the year ended 31st December	2019	2020	BANK 2021	2022	2023
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash flows from operating activities					
Interest receipts	111,784,834	103,914,685	99,044,623	204,741,871	278,180,411
Interest payments	(66,961,896)	(59,963,150)	(50,890,505)	(78,077,951)	(154,092,480)
Net commission receipts	8,914,171	7,326,950	9,948,665	15,080,565	15,738,388
Trading income	765,683	1,130,075	(600,577)	-	-
Payments to employees	(10,191,482)	(11,531,908)	(12,327,246)	(14,787,910)	(14,832,343)
Taxes on financial services	(7,765,237)	(3,486,833)	(4,824,723)	(3,857,416)	(7,494,176)
Receipts from other operating activities	3,586,902	1,886,621	4,974,996	12,094,882	(13,335,103)
Payments for other operating activities	(10,957,980)	(9,355,244)	(10,978,088)	(10,738,450)	(17,147,410)
Operating profit before changes in operating assets and liabilities	29,174,995	29,941,196	34,347,145	124,455,591	87,017,281
(Increase)/decrease in operating assets					
Balances with Central Bank of Sri Lanka	11,111,725	15,582,937	(18,608,094)	(6,523,852)	20,107,567
Financial assets measured at amortised cost - loans and advances to customers	608,737	(43,396,238)	(114,928,093)	(58,431,085)	(3,338,089)
Reverse repurchase agreements	90,000	-	-	-	-
Other assets	2,297,875	2,396,134	(1,286,482)	(6,107,771)	(1,087,315)
	14,108,337	(25,417,167)	(134,802,669)	(71,062,708)	15,682,183
Increase/(decrease) in operating liabilities					
Financial liabilities measured at amortised cost - due to depositors	8,992,084	158,515,740	108,560,558	149,135,812	183,203,524
Financial liabilities measured at amortised cost - other borrowings	6,837,511	5,783,038	(77,713,587)	(14,013,993)	(4,491,892)
Securities sold under repurchase agreements	859,696	(7,228,435)	23,193,118	(27,224,146)	55,144,079
Other liabilities	(391,694)	1,034,401	2,100,303	(16,324,873)	2,555,130
	16,297,597	158,084,744	55,140,392	91,572,800	236,410,841
Net cash generated from/(used in) operating activities before income tax	59,580,929	162,608,773	(45,315,132)	144,965,683	339,110,305
Income tax paid	(9,084,423)	(3,202,642)	(3,545,047)	(9,520,889)	(22,852,568)
Net cash generated from/(used in) operating activities	50,496,506	159,406,131	(48,860,179)	135,444,794	316,257,737
Cash flows from investing activities					
Purchase of property, plant and equipment	(1,148,451)	(890,286)	(706,891)	(1,173,458)	(2,082,288)
Proceeds from the sale of property, plant and equipment	21,530	6,188	12,801	13,295	12,692
Net proceeds from sale, maturity and purchase of financial investments	(46,300,863)	(158,797,770)	50,084,178	(33,860,569)	(312,813,721)
Net purchase of intangible assets	(499,079)	(507,094)	(504,339)	(229,884)	(760,637)
Dividend received from joint venture	75,500	50,000	-	-	-
Dividends received from investment in subsidiaries	236,794	179,958	251,941	287,933	288,473
Dividends received from other investments	148,843	191,261	60,778	41,771	33,497
Net cash generated from/(used in) investing activities	(47,465,726)	(159,767,743)	59,198,408	(34,526,943)	(345,321,954)
Cash flows from financing activities					
Net proceeds from the issue of subordinated debt	9,965,069	-	7,000,000	-	-
Repayment of subordinated debt/debt securities issued	(2,757,240)	-	(11,000,000)	(700,000)	(6,000,000)
Dividend paid to shareholders of the parent company	(1,081,600)	(2,306,558)	(2,278,607)	(2,309,227)	(4,056,012)
Net cash generated from/(used in) financing activities	5,226,329	(2,306,558)	(6,278,607)	(4,099,227)	(6,405,932)
Net increase/(decrease) in cash and cash equivalents	8,257,109	(2,568,170)	4,051,592	96,424,655	(5,470,179)
Cash and cash equivalents at the beginning of the year	28,434,623	36,001,792	34,123,562	38,185,254	134,609,909
Cash and cash equivalents at the end of the year	36,691,732	34,123,562	38,185,254	134,609,909	129,139,730





Maninda Wickramasinghe
Country Head MD/CEO



Fitch Assigns Hatton National Bank's Basel III Subordinated Debt Final 'BBB+(lka)'

Fitch Ratings - Colombo - 05 Aug 2024: Fitch Ratings has assigned Hatton National Bank PLC's (HNB, A(lka)/Stable) proposed Sri Lankan rupee-denominated Basel III-compliant subordinated debentures of up to LKR12 billion a final National Long-Term Rating of 'BBB+(lka)'.

The final rating is the same as the expected rating assigned on 4 April 2024 and follows the receipt of documents conforming to information already received.

KEY RATING DRIVERS

The proposed debentures will mature in five, seven and 10 years and will be listed on the Colombo Stock Exchange. HNB plans to use the proceeds to further strengthen its Tier 2 capital base, support loan growth and reduce maturity mismatches in the balance sheet.

The bank expects the proposed debentures to qualify as Basel III-compliant regulatory Tier 2 capital. The debentures include a non-viability clause whereby they convert to ordinary voting shares upon the occurrence of a trigger event, as determined by the Monetary Board of Sri Lanka.

HNB's Sri Lankan rupee-denominated subordinated debt is rated two notches below the bank's National Long-Term Rating anchor. This reflects Fitch's baseline notching for loss severity for this type of debt and expectation of poor recoveries. There is no additional notching for non-performance risk, as the notes do not incorporate going-concern loss-absorption features.

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

For details of the key rating drivers and rating sensitivities of HNB's National Long-Term Rating, see [Fitch Affirms Hatton National Bank at 'A\(lka\)'; Outlook Stable](#), published on 6 June 2024.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

HNB's subordinated debt would be downgraded if the bank's National Long-Term Rating is downgraded.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

HNB's subordinated debt would be upgraded if the bank's National Long-Term Rating is upgraded.



DISCLAIMER & DISCLOSURES

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The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

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Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)
- [Potential Conflicts Resulting from Revenue Concentrations](#)

ENDORSEMENT STATUS

Hatton National Bank PLC -

ANNEXURE II - COLLECTION POINTS

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 (011) 266 4664, +94 (011) 266 2772, +94 (011) 476 4764 Fax: +94 (011) 266 2832	Joint Managers and Placement Agents to the Issue Acuity Partners (Private) Limited Acuity House No. 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 Fax: +94 11 2 437 149 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
Registrars to the Issue S S P Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 03, Sri Lanka. 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 (011) 266 4664, +94 (011) 266 2772, +94 (011) 476 4764 Fax: +94 (011) 266 2832

Branch Network of Hatton National Bank PLC

Copies of the Application Form can be obtained free of charge from all branches of Hatton National Bank PLC.

Trading Participants of the CSE

<p>Acuity Stockbrokers (Private) Limited</p> <p>No. 53, Dharmapala Mawatha, Colombo 03.</p> <p>Tel: +94 11 2 206 206 Fax: +94 11 2 206 298-9 E-mail: sales@acuitystockbrokers.com</p>	<p>Asha Securities Limited</p> <p>No.60, 5th Lane, Colombo 03.</p> <p>Tel: +94 11 2 429 100 Fax: +94 11 2 429 199 E-mail: asl@ashasecurities.net</p>
<p>Asia Securities (Private) Limited</p> <p>4th Floor, Lee Hedges Tower, No.349, Galle Road, Colombo 03.</p> <p>Tel: +94 11 7 722 000 Fax: +94 11 258 4864 E-mail: inquiries@asiasecurities.lk</p>	<p>Almas Equities (Private) Limited</p> <p>Westin Tower, 5th Level, No 2 - 4/1, Lake Drive, Colombo 8.</p> <p>Tel: +94 11 707 1445 51 Fax: +94 11 2 673 908 E-mail: info@almasequities.com</p>
<p>Bartleet Religare Securities (Private) Limited</p> <p>Level "G", "Bartleet House" 65, Braybrooke Place, Colombo 02.</p> <p>Tel: +94 11 4 221 000 Fax: +94 11 2 434 985 E-mail: info@bartleetstock.com</p>	<p>Capital Trust Securities (Private) Limited</p> <p>42, Mohamed Macan Markar Mawatha, Colombo 03.</p> <p>Tel: +94 11 2 174 174/ +94 11 2 174 175 Fax: +94 11 2 174 173 E-mail: inquiries@capitaltrust.lk</p>
<p>CT CLSA Securities (Private) Limited</p> <p>4-14, Majestic City, 10, Station Road, Colombo 04.</p> <p>Tel: +94 11 2 552 290-4 Fax: +94 11 2 552 289 E-mail: info@ctclsa.lk</p>	<p>First Capital Equities (Pvt) Limited</p> <p>No.2, Deal Place, Colombo 03.</p> <p>Tel: +94 11 2 639 898 / +94 11 2 651 651 Fax: +94 11 2 576 866 / +94 11 2 639 899 E-mail: equity@firstcapital.lk</p>
<p>J B Securities (Private) Limited</p> <p>No. 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>

Lanka Securities (Private) Limited 3rd Floor, " M2M Veranda Offices", No34, W.A.D. Ramanayeke Mawatha, Colombo 2. Tel: +94 11 4 706 757, +94 11 2 554 942 Fax: +94 11 4 706 767 E-mail: info@lankasec.com	Nation Lanka Equities (Private) Limited No. 44, Guildford Crescent, Colombo 07. Tel: +94 11 789 8302 Fax: E-mail: info@nlequities.com
NDB Securities (Private) Limited Level 2, NDB Capital Building, No. 135, Bauddhaloka Mawatha, Colombo 04. Tel: +94 11 2 131 000 Fax: +94 11 2 314 181 E-mail: mail@ndbs.lk	SC Securities (Private) Limited 5 th Floor, No. 26B, Alwis Place, Colombo 03. Tel: +94 11 4 711 000/ / +94 11 4 711 001 Fax: +94 11 2 394 405 E-mail: itdivision@sampathsecurities.lk
Somerville Stockbrokers (Private) Limited No. 410/95,1/1, Bauddhaloka Mawatha, Colombo 7 Tel: +94 112 502 858 / +94 112 502 862 Fax: +94 11 2 502 852 E-mail: contact@somerville.lk	SEYLAN BANK PLC Level 3, Seylan Towers, 90, Galle Road, Colombo 03. Tel: +94 11 245 6300 Fax: +94 11 245 2215 E-Mail: info@seylan.lk
Softlogic Stockbrokers (Private) Limited Level 16, One Galle Face Tower, Colombo 02. Tel: +94 11 7 277 000 Fax: +94 11 7 277 099 Email: info@softlogicstockbrokers.lk	Capital Alliance Securities (Private) Limited Level 5, "Millennium House" 46/58, Navam Mawatha, Colombo 02. Tel: +94 11 2 317 777 Fax: +94 11 2 317 788 Email: info@cal.lk
Senfin Securities Limited 4 th Floor, No.180, Bauddhaloka Mawatha, Colombo 04. Tel: +94 11 2 359 100 Fax: +94 11 2 305 522 E-mail: info@senfinsecurities.com	First Guardian Equities (Private) Limited 32 nd Floor, East Tower, World Trade Centre, Colombo 01. Tel: +94 11 446 4400 Fax: E-mail: info@fge.lk

ACAP Stock Brokers (Private) Limited No. 46/46, 7th Floor, Greenlanka Towers, Nawam Mawatha, Colombo 02. Tel: +94 117 564 000 Fax: +94 112 331 756 E-mail: info@acapstockbrokers.lk	Ambeon Securities (Private) Limited 2nd Floor, No. 10, Gothami Road, Colombo 08. Tel: +94 11 5 328 200 / +94 11 5 328 100 Fax: +94 11 5 328 177 E-mail: info@ambeonsecurities.lk
LOLC Securities (Private) Limited No.481, T.B. Jayah Mawatha, Colombo 10. Tel: +94 11 5 889 889 Fax: +94 11 2 662 883 E-mail: info@lolcsecurities.com	Richard Pieris Securities (Pvt) Limited No 310, Highlevel Road, Nawinna, Maharagama. Tel: +94 11 4 310 500 Fax: +94 11 2 802 385 E-mail: communication@rpsecurities.com
Enterprise Ceylon Capital (Private) Limited 2 nd Floor-4B, Liberty Plaza, 250, R. A. De Mel Mawatha, Colombo 3 Tel: +94 11 2 445 644/ +94 112 301 861 Fax: - E-mail: info@ecc.lk	Nestor Stock Brokers (Private) Limited No. 428, 2/1, R.A. De Mel Mawatha, Colombo 3. Tel: +94 11 475 8813 Fax: +94 11 2 550 100 E-mail: info@nestorstockbrokers.lk
ACAP Stock Brokers (Private) Limited No. 46/46, 7th Floor, Greenlanka Towers, Nawam Mawatha, Colombo 02. Tel: +94 117 564 000 Fax: +94 112 331 756 E-mail: info@acapstockbrokers.lk	Ambeon Securities (Private) Limited 2nd Floor, No. 10, Gothami Road, Colombo 08. Tel: +94 11 5 328 200 Fax: +94 11 5 328 177 E-mail: info@ambeonsecurities.lk
Capital Alliance PLC Level 5, "Millenium House" 46/58, Nawam Mawatha, Colombo 02. Tel: +94 11 2 317 777 Fax: +94 11 2 317 788 E-Mail: info@cal.lk	Wealthtrust Securities Limited No. 102/1, Dr. N.M. Perera Mawatha, Colombo 8. Tel: +94 11 2 675 091 – 4 Fax: +94 11 2 689 605 E-Mail: info@wealthtrust.lk

ANNEXURE III - CUSTODIAN BANKS

Bank of Ceylon¹ (Head Office) 11th Floor, 04, Bank of Ceylon Mawatha, Colombo 01 T: +94 11 2 204 064	Citi Bank, N A 65 C, Dharmapala Mawatha, Colombo 07 T: +94 11 4 794 733
Commercial Bank of Ceylon PLC Commercial House, 21, Sir Razik Fareed Mawatha, Colombo 01 T: +94 11 2 486 000/ +94 11 4 486 000/ +94 11 7 486 000/ +94 11 5 486 000	Deutsche Bank AG 86, Galle Road, Colombo 03 T: +94 11 2 447 062, 2 438 057
Hatton National Bank PLC HNB Towers, 479, T. B. Jayah Mawatha, Colombo 10 T: +94 77 7 712 406	The Hong Kong and Shanghai Banking Corporation Limited 24, Sir Baron Jayathilake Mawatha, Colombo 01 T: +94 11 2325435, 2446591, 2446303
People's Bank (Head Office) Treasury, 5th Floor, Sir Chittampalam A Gardiner Mawatha, Colombo 02 T: +94 11 2 206 782	Standard Chartered Bank 37, York Street, Colombo 01 T: +94 11 2 480 450
Sampath Bank PLC 110, Sir James Peiris Mawatha, Colombo 02 T: +94 11 5 331 458, +94 11 4 730 662	State Bank of India 16, Sir Baron Jayathilake Mawatha, Colombo 01 T: +94 11 4 622 350
Seylan Bank PLC Level 8, Ceylinco Seylan Towers, 90, Galle Road, Colombo 03 T: +94 11 4 701 812, +94 11 4 701 819	Union Bank of Colombo PLC 64, Galle Road, Colombo 03 T: +94 11 2 374 205
Nations Trust Bank PLC 256, Sri Ramanathan Mawatha, Colombo 15 T: +94 11 4 313 131	Pan Asia Banking Corporation PLC (Head Office) 450, Galle Road, Colombo 03 T: +94 11 2 565 565
National Development Bank PLC No.40, Navam Mawatha, Colombo 02 T: +94 (0) 11 2 448 448	DFCC Bank PLC No.73/5, Galle Road, Colombo 03. T: +94 112 442 031

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