



Hatton National Bank

[Registration No. PQ 82]

Company Secretarial Division,
Legal Department,
Level 18, "HNB Towers"
No.479, T B Jayah Mawatha
Colombo 10, Sri Lanka

CIRCULAR TO SHAREHOLDERS

Dear Shareholder/s,

05th March 2020

FINAL DIVIDEND FOR THE FINANCIAL YEAR 2019

As reflected in the audited Financial Statements as at 31st December 2019, Hatton National Bank PLC (the "Bank" or the "Company") has recorded a profit after tax of Rs. 14,032,252,000.00 for the year ended 31st December 2019 (Group Rs. 15,029,072,000.00). The Board of Directors (the "Board") has decided to recommend, subject to approval of the shareholders, to pay a final dividend of Rs. 7.00 per share which will consist of Rs. 3.50 per share in cash and Rs. 3.50 per share in the form of a scrip dividend, on both ordinary voting shares and ordinary non-voting shares of the Bank, for the financial year ended 31st December 2019. Having paid an interim dividend of Rs. 1.00 per share on 08th January 2020, the total dividend paid/to be paid to you for the financial year ended 31st December 2019 will increase to Rs. 8.00 per share.

The amount of dividends to be paid in cash and the number of shares to be issued

(i) The total sum that the Bank proposes to distribute to the shareholders in cash is Rs. 1,751,423,474.50 which constitutes a total of Rs. 1,404,703,520.50 to be distributed to the holders of ordinary voting shares and Rs. 346,719,954.00 to be distributed to the holders of ordinary non-voting shares.

(ii) With regard to the scrip dividend, the following table sets out the number of shares to be allotted, the proportion and consideration at which shares are to be issued out of the profits earned during the year, which is to be set aside for the scrip dividend based on the number of issued shares as at 20th February 2020.

	Voting	Non-Voting
Existing Ordinary shares as at 20.02.2020	401,343,863	99,062,844
The number of shares to be issued (this is on the basis of Rs. 3.50 per existing share)	8,975,741	2,593,268
Amount to be capitalized	Rs. 1,404,703,520.50	Rs. 346,719,954.00
Value of a share as at 19.02.2019	Rs. 156.50	Rs. 133.70
The proportion with which the shares are to be issued	1 for 44.7142874332	1 for 38.2000024679
Total number of shares in the capital of the Bank after the scrip dividend	410,319,604	101,656,112

(iii) The new ordinary voting shares to be issued under the proposed scrip dividend will rank equal and pari passu in all respects with the existing ordinary voting shares of the Bank and the new ordinary non-voting shares to be issued under the proposed scrip dividend will rank equal and pari passu in all respects with the existing ordinary non-voting shares, immediately after the issue and allotment of such shares.

(iv) The new ordinary voting shares and ordinary non-voting shares arising from the scrip dividend shall not be eligible for the payment of the final dividend referred to herein.

(v) Currently there are no Employee Share Option Plan (ESOP) Schemes in operations.

Entitled Shareholders

(i) The shareholders entitled to the final dividend shall be those shareholders (holders of both ordinary voting shares and ordinary non-voting shares), whose names have been duly registered in the Register of Shareholders and those shareholders whose names appear on the Central Depository Systems (Private) Limited ('CDS') as at end of trading on 30th March 2020 (date of the Annual General Meeting/ AGM Date).

(ii) In determining the number of shares held by a shareholder as at the relevant date for the proposed dividend, the shareholding of the shareholder as appearing in the CDS and the Register of Shareholders maintained by the Bank will not be aggregated for the purpose of calculation. However, if a shareholder holds shares with multiple stockbrokers, such shares will be aggregated for calculation purposes and the shares arising as a result of the scrip dividend will be uploaded proportionately to the respective CDS accounts held with each broker.

Residual Fractions of Shares

(i) The residual fractions arising upon the scrip dividend will be aggregated and subject to receiving the approval of the shareholders, fractional shares/entitlement arising therefrom will, therefor be allotted to trustees to be nominated by the Board, who will hold the said shares in trust until they are sold in the market and the sale proceeds shall be distributed to charities approved by the Board. The sale of such shares will be effected within a reasonable period of time, following the date on which the aforesaid approval of the shareholders has been obtained.

(ii) Fractional shares/entitlement referred to herein will mean the fractions arising after applying the following formula:

In the context of ordinary voting shares

Number of shares held by a shareholder as at end of trading on the AGM Date x 1
44.7142874332

In the context of ordinary non-voting shares

Number of shares held by a shareholder as at end of trading on the AGM Date x 1
38.2000024679

Compliance with the Law

i) Compliance with the Companies Act No 7 of 2007 ("the Companies Act")

(a) In terms of section 52 of the Companies Act, the Board has decided that the shares to be issued to shareholders under the proposed scrip dividend issue shall be issued at a consideration of Rs. 156.50 per share in the case of ordinary voting shares and Rs. 133.70 per share in the case of ordinary non-voting shares.

(b) The Board of Directors has also opined that the aforesaid consideration for which the shares are to be issued under the scrip dividend is fair and reasonable to the Bank and to all existing shareholders of the Bank.

(c) Section 53 (1) of the Companies Act provides that subject to the Articles of Association, where a company issues shares which rank equally with or above the existing shares in relation to voting or distribution rights, those shares must first be offered to the holders of existing shares in a manner which would, if the offer was accepted, maintain the relative voting and distribution rights of those shareholders, Vide (ii) below.

(d) Section 56 of the Companies Act provides that unless the Company's Articles provide otherwise, every distribution must be approved by shareholders by ordinary resolution, Vide (ii) below.

(e) The proposed dividend is paid out of profits of the Bank as at 31st December 2019. The Bank also conducted the solvency test as required by section 56 of the Companies Act and obtained a certificate of solvency from the auditors. The Board is satisfied that the Bank will, immediately after the dividend is paid, meet the solvency test in terms of the provisions of the Companies Act.

ii) Compliance with Articles of Association

(a) Paragraph (iv) of Article 7 of the Articles of Association of the Bank provides that, where the Bank issues shares which rank equally with or above existing shares in relation to voting or distribution rights, those shares must be offered to the holders of existing shares in a manner which would, if the offer was accepted, maintain the relative voting and distribution rights of those shareholders as nearly as possible in proportion to the shares already held by them.

(b) Pursuant to the issuance of (i) ordinary voting shares to the holders of ordinary voting shares on the basis of one (1) share for every 44.7142874332 shares currently held by them, and (ii) ordinary non-voting shares to the holders of ordinary non-voting shares on the basis of one (1) share for every 38.2000024679 shares held by them, under the proposed scrip dividend, the number of ordinary voting shares in the Bank will increase from 401,343,863 to 410,319,604 and the total number of shares in the Bank (inclusive of the ordinary non-voting shares) will increase from 500,406,707 to 511,975,716. This will result in the percentage of ordinary voting shares as against the total shares issued in the Bank (both voting and non-voting shares) decreasing from 80.204% to 80.144%.

(c) Given that the ordinary voting shares rank equal and *pari passu* with ordinary non-voting shares with regard to dividend rights, the issue of shares under the proposed scrip dividend at the above ratios will affect the pre-emptive rights of the holders of ordinary voting shares (the relative distribution rights of the holders of ordinary voting shares will decrease as referred to above, pursuant to the issue of shares under the scrip dividend). Section 99 of the Companies Act provides that a company cannot take any action that would affect the rights attached to shares (which include pre-emptive rights) unless that action has been approved by a special resolution of the group of shareholders whose rights are affected. The issue of shares under the proposed scrip dividend issue therefore requires the approval of the holders of ordinary voting shares by a special resolution in terms of section 99 of the Companies Act.

(d) Article 15(iii) of the Articles of Association of the Bank provides that except where a distribution is a final dividend, the approval of the shareholders by way of an ordinary resolution or otherwise shall not be required before such distribution is made. Given that the proposed dividend of Rs 7/- is a final dividend payable for the year ended 31st December 2019, the approval of the shareholders of the Bank is required therefor by ordinary resolution.

iii) Compliance with the rules of the Colombo Stock Exchange

The Company has:

- (a) taken necessary steps to comply with all relevant provisions of the Listing Rules of the Colombo Stock Exchange in relation to the final dividend referred to in this circular.
- (b) obtained in-principal approval from the Colombo Stock Exchange for the issue and listing of the ordinary voting shares and ordinary non-voting shares under the proposed scrip dividend.

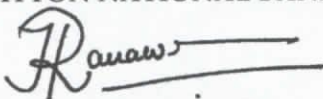
The above matters which require the approval of the shareholders of the Bank will be taken up at the Annual General Meeting of the shareholders of the Bank to be held on 30th March 2020.

Uploading of Shares into CDS Accounts

(i) As required in terms of a Directive issued by the Securities and Exchange Commission of Sri Lanka ("SEC") under Circular No. 08/2010 dated 22nd November 2010 and Circular No. 13/2010 dated 30th November 2010 issued by the Central Depository Systems (Private) Limited ("CDS"), all new shares to be issued under the proposed scrip dividend, will be directly uploaded to the securities accounts of shareholders maintained with the CDS, within seven (7) Market days from the date of the Annual General Meeting (but excluding the date on which the Annual General Meeting is held where the relevant resolutions are to be passed by the shareholders). If a shareholder holds multiple CDS accounts, the total entitlement will be directly deposited to the respective CDS accounts proportionately.

(ii) No share certificate will be issued to any shareholder. In the event of the non-availability of a CDS account number, the new shares to be allotted to any shareholder, will only be registered in the share ledger/register maintained by the Bank. Such shareholder **will not be entitled** to a share certificate **nor be able to trade** the new shares until such time these shares are deposited with the CDS. Therefore, the shareholders must ensure strict adherence to the aforementioned Directives and Circulars. Consequent to the opening of the CDS account by such shareholder, the new shares will be credited to such CDS account. Direct uploads pertaining to written requests received from shareholders to deposit such shares will be done every fortnight.

By Order of the Board of
HATTON NATIONAL BANK PLC



K A L THUSHARI RANAWEERA (MRS)
DEPUTY GENERAL MANAGER (LEGAL)/BOARD SECRETARY

