

A HERITAGE OF TRUST
SINCE 1888

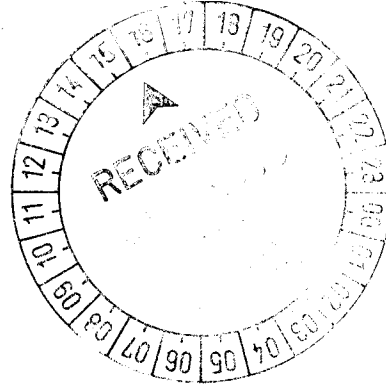


Hatton National Bank

Hatton National Bank PLC (PQ82)

March 6, 2019

Mr Renuke Wijayawardhane
Chief Operating Officer
Colombo Stock Exchange,
04-01 West Block,
World Trade Centre,
COLOMBO 1.



Dear Sir,

HATTON NATIONAL BANK PLC ("THE BANK") – SCRIP DIVIDEND

As per the Regulation of the Colombo Stock Exchange (CSE), we are sending herewith 50 copies of each of the following circulars to be sent to the share holders during this week in connection with the Dividend, Annual Report and EGM.

1. Circular to share holders – Annual Report 2018
2. Circular to share holders - Final Dividend 2018
3. Full Booklet of documents relating to the EGM – 2019 – Debenture Issue

Yours faithfully
HATTON NATIONAL BANK PLC

Thushari Ranaweera (Mrs)
DEPUTY GENERAL MANAGER (LEGAL)/BOARD SECRETARY
-/sl

Encl:

YA
pls circulate now
6/3



Please reply to : Assistant General Manager (Legal)/Board Secretary, Level 18, HNB Towers, No. 479, T.B. Jayah Mawatha, Colombo 10. Tel : 2661804 Fax : 2662831 E-mail : thushari.ranaweera@hnb.lk

HNB Your Partner in Progress



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,

06th March 2019

FINAL DIVIDEND FOR THE FINANCIAL YEAR 2018

As reflected in the audited Financial Statements as at 31st December 2018, Hatton National Bank PLC (the "Bank" or the "Company") has recorded yet another year of significant growth with a profit after tax of Rs. 15,518,203,000.00 for the year ended 31st December 2018 (Group Rs. 19,149,462,000.00). 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 2018. Having paid an interim dividend of Rs. 1.50 per share on 19th December 2018, the total dividend paid/to be paid to you for the financial year ended 31st December 2018 will increase to Rs. 8.50 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.1,724,277,061.50 which constitutes a total of Rs. 1,384,079,368.00 to be distributed to the holders of ordinary voting shares and Rs. 340,197,693.50 to be distributed to the holders of ordinary non-voting shares. The cash dividend will be paid out of the exempt dividends received (if any), dividends received on which withholding tax has already been paid by the paying companies (if any), and the balance out of the profits of the Bank, which balance would be liable to a withholding tax of fourteen per centum (14%).

(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 21st February 2019.

	Voting	Non-Voting
Existing Ordinary shares as at 21.02.2019	395,451,248	97,199,341
The number of shares to be issued (this is on the basis of Rs. 3.50 per existing share after providing for 14% withholding tax)	5,892,615	1,863,503
Amount to be capitalized	Rs. 1,384,079,368.00	Rs. 340,197,693.50
Amount to be capitalized (net of withholding tax)	Rs. 1,190,308,256.48	Rs. 292,570,016.41
Value of a share as at 20.02.2019	Rs. 202.00	Rs. 157.00
The proportion with which the shares are to be issued	1 for 67.1096360444	1 for 52.1594765342
Total number of shares in the capital of the Bank after the scrip dividend	401,343,863	99,062,844

(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) The scrip dividend referred to herein will be paid out of profits of the Bank, which would be liable to a withholding tax of fourteen per centum (14%).

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 29th March 2019 (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
67.1096360444

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
52.1594765342

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. 202.00 per share in the case of ordinary voting shares and Rs. 157.00 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 2018. 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 67.1096360444 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 52.1594765342 shares held by them, under the proposed scrip dividend, the percentage of ordinary voting shares as against the total shares issued in the Bank (both voting and non-voting shares) will decrease from 80.270% to 80.204%.

(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 2018, 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.

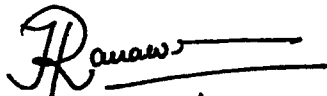
The above matters which require the approval of the shareholders of the Bank will be taken up at the Annual General Meeting of the shareholders of the Bank to be held on 29th March 2019.

Uploading of Shares into CDS Accounts

(i) As required in terms of 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**

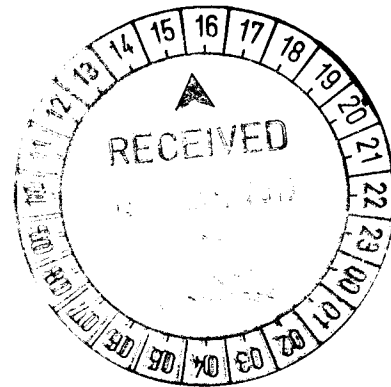


**K A L THUSHARI RANAWEERA (MRS)
DEPUTY GENERAL MANAGER (LEGAL)/BOARD SECRETARY**



Hatton National Bank

[Reg. No. PQ 82]



EXTRA-ORDINARY GENERAL MEETING

To be held on Friday, 29th March 2019 at 11.30 a.m. or immediately after
the Annual General Meeting to be held at 11.00 a.m.

At the Auditorium, Level 22, "HNB Towers", Colombo 10

CONTENTS

Notice of Meeting
Form of Proxy
Circular to Shareholders

Notice of Extra-Ordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of Hatton National Bank PLC will be held at 11.30 a.m. immediately after the conclusion of the Annual General Meeting ("AGM") which has been convened for 29th March 2019 at 11.00 in the forenoon at the Auditorium, Level 22, HNB Towers, No. 479, T B Jayah Mawatha, Colombo 10, for the following purpose:

To consider and if thought fit to pass the following Resolutions as Special Resolutions:

1. Approval under Rule 2.2.1.k. of the Listing Rules of the Colombo Stock Exchange of the PROPOSED DEBENTURE ISSUE (Special Resolution No. 1 to be passed by Ordinary Voting Shareholders)

THAT THE BOARD OF DIRECTORS (DIRECTORS) OF HATTON NATIONAL BANK PLC ("THE BANK") BE AND HEREBY AUTHORIZED

1. To issue and allot a maximum of One Hundred Million (100,000,000) Basel III compliant Tier II Listed Rated Unsecured Subordinated Redeemable Debentures of Rupees One Hundred (LKR100/-) each with a term of up to 7 years with a Non-Viability conversion option to Ordinary Shares with voting rights ("Debentures") subject to Banking Act Direction 01 of 2016 dated 29.12.2016 issued by the Central Bank of Sri Lanka, the laws and regulations of the Colombo Stock Exchange and the Companies Act of Sri Lanka and such other applicable laws and regulations.
2. to issue and allot Ordinary Voting Shares of the Bank to the holders of such Debentures to the extent of the amounts due and payable on such Debentures through a Non Viability Conversion option of the Debentures and issuance of new Ordinary Shares with Voting rights to cover the total outstanding under the Debentures in the event the Monetary Board of the Central Bank of Sri Lanka ("CBSL") considers that a 'Trigger Event' has occurred and has deemed it appropriate that the total outstanding of the Debentures being converted to Ordinary Voting Shares of the Bank (rank equal and pari passu with the existing Ordinary Voting Shares of the Bank) in the best interest of the Bank, without which the Bank would become non-viable. The consequent conversion of the Debentures to Ordinary Voting Shares and issuance of new Ordinary Voting Shares to cover the total outstanding under the Debentures is required under the Banking Act Direction No. 1 of 2016 dated 29 December 2016 (as may be amended from time to time), and that the issue price for such conversion (conversion price) to Ordinary Voting Shares shall be the Volume Weighted Average Price (VWAP) of an Ordinary Voting Share of the Bank during the three (03) months period (The calculation of the VWAP would be based on the simple average of the daily VWAP of an Ordinary Voting Share as published by the Colombo Stock Exchange during the said 3 month period), immediately preceding the date on which the CBSL has determined as aforesaid and that such shares be offered to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the Debentures without such shares being in the first instance offered to the then existing Ordinary Shareholders of the Bank with Voting rights pari passu to their shareholding.

In the event the conversion price based on the above VWAP formula at the time of the Trigger Event is low, this would result in a comparatively higher number of Ordinary Shares (with voting rights) being required to be issued by the Bank which would further dilute the holding percentage of existing shareholders. On the contrary, if a higher VWAP prevails at the time of a Trigger Event, this would result in comparatively low number of ordinary shares (with voting rights) requiring to be issued which would lead to a lesser degree of dilution in the holding percentage of existing shareholders.

The Ordinary Shares (with voting rights) arising from the conversion of Debentures will be listed in the CSE.

The issuance of the BASEL III compliant Tier II Debt Securities ("the Debentures") and trading of such Debentures in the secondary market is limited to "Qualified Investors".

The Subject BASEL III compliant Debenture Issue is subject to regulatory approvals from the CBSL, the Colombo Stock Exchange and any other regulatory approvals (as applicable).

In order for the Debentures to be recognized as Tier II Capital of the Bank under BASEL III as detailed in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- Issued and fully paid-in cash
- Subordinated to the claims of depositors and general creditors
- Neither secured nor covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the Bank
- Prior approval of the Monetary Board is required to for inclusion of capital instruments/term debt in Tier II Capital
- Listed on a recognized Stock Exchange
- The total approved Tier II Capital instruments/term debt shall not exceed 50 per cent of total Common Equity Tier I Capital
- Redeemable
- Of a minimum original maturity of at least 5 years
- Having an option where, in the event the Monetary Board of the Central Bank of Sri Lanka deeming it appropriate that the Debentures being converted into Ordinary Shares of the Bank (ranking equal and pari passu with the existing Ordinary Shares of the Bank) through issuance of new Shares to cover the total outstanding under the Debentures is in the best interest of the Bank, directs the Bank to convert the Debentures into Ordinary Shares of the Bank (ranking equal and pari passu with the existing Ordinary Shares of the Bank) through issuance of new shares to cover the total outstanding under the Debentures (the Trigger Event above referred to)
- Neither Bank nor a banking group over which the Bank exercises control or significant influence will purchase the instrument and the Bank will not directly or indirectly fund the purchase of the instrument.

2. Approval under Rule 2.2.1.k. of the Listing Rules of the Colombo Stock Exchange, Section 99 of the Companies Act No. 07 of 2007 and Article 7 of the Articles of Association of the PROPOSED DEBENTURE ISSUE (Special Resolution No 2 - To be passed by Ordinary Non-Voting shareholders)

THAT THE BOARD OF DIRECTORS (DIRECTORS) OF HATTON NATIONAL BANK PLC ("THE BANK") BE AND HEREBY AUTHORIZED

1. To issue and allot a maximum of One Hundred Million (100,000,000) Basel III compliant Tier II Listed Rated Unsecured Subordinated Redeemable Debentures of Rupees One Hundred (LKR100/-) each with a term of up to 7 years with a Non-Viability conversion option to Ordinary Shares with voting rights ("Debentures") subject to Banking Act Direction 01 of 2016 dated 29.12.2016 issued by the Central Bank of Sri Lanka, the laws and regulations of the Colombo Stock Exchange and the Companies Act of Sri Lanka and such other applicable laws and regulations.
2. To issue and allot Ordinary Voting Shares of the Bank to the holders of such Debentures to the extent of the amounts due and payable on such Debentures through a Non Viability conversion option of the Debentures and issuance of new Ordinary Shares with voting rights to cover the total outstanding under the Debentures in the event the Monetary Board of the Central Bank of Sri Lanka ("CBSL") considers that a 'Trigger Event' has occurred and has deemed it appropriate that the total outstanding of the

Debentures being converted to Ordinary Voting Shares of the Bank (rank equal and pari passu with the existing Ordinary Voting Shares of the Bank) in the best interest of the Bank, without which the Bank would become non-viable. The consequent conversion of the Debentures to Ordinary Voting Shares and issuance of new Ordinary Voting Shares to cover the total outstanding under the Debentures is required under the Banking Act Direction No. 1 of 2016 dated 29 December 2016 (as may be amended from time to time), and that the issue price for such conversion (conversion price) to Ordinary Voting Shares shall be the Volume Weighted Average Price (VWAP) of an Ordinary Voting Share of the Bank during the three (03) months period (The calculation of the VWAP would be based on the simple average of the daily VWAP of an Ordinary Voting Share as published by the Colombo Stock Exchange during the said 3 month period), immediately preceding the date on which the CBSL has determined as aforesaid and that such shares be offered to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the Debentures without such Shares being in the first instance offered to the then existing Ordinary Shareholders of the Bank with Voting rights pari passu to their shareholding.

In the event the conversion price based on the above VWAP formula at the time of the Trigger Event is low, this would result in a comparatively higher number of Ordinary Shares (with voting rights) being required to be issued by the Bank which would further dilute the holding percentage of existing Shareholders. On the contrary, if a higher VWAP prevails at the time of a Trigger Event, this would result in comparatively low number of Ordinary Shares (with voting rights) requiring to be issued which would lead to a lesser degree of dilution in the holding percentage of existing Shareholders.

The Ordinary Shares (with Voting rights) arising from the conversion of Debentures will be listed in the CSE.

The issuance of the BASEL III compliant Tier II Debt Securities ("the Debentures") and trading of such Debentures in the secondary market is limited to "Qualified Investors".

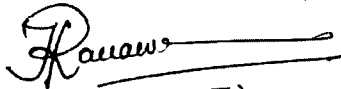
The Subject BASEL III compliant Debenture Issue is subject to regulatory approvals from the CBSL, the Colombo Stock Exchange and any other regulatory approvals (as applicable).

In order for the Debentures to be recognized as Tier II Capital of the Bank under BASEL III as detailed in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- Issued and fully paid-in cash
- Subordinated to the claims of depositors and general creditors
- Neither secured nor covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the Bank
- Prior approval of the Monetary Board is required to for inclusion of capital instruments/term debt in Tier II Capital
- Listed on a recognized Stock Exchange
- The total approved Tier II Capital instruments/term debt shall not exceed 50 per cent of total Common Equity Tier I Capital
- Redeemable
- Of a minimum original maturity of at least 5 years
- Having an option where, in the event the Monetary Board of the Central Bank of Sri Lanka deeming it appropriate that the Debentures being converted into Ordinary Shares of the Bank (ranking equal and pari passu with the existing Ordinary Shares of the Bank) through issuance of new Shares to cover the total outstanding under the Debentures is in the best interest of the Bank, directs the Bank to convert the Debentures into Ordinary Shares of the Bank (ranking equal and pari passu with the existing Ordinary Shares of the Bank) through issuance of new Shares to cover the total outstanding under the Debentures (the Trigger Event above referred to)

- Neither Bank nor a banking group over which the Bank exercises control or significant influence will purchase the instrument and the Bank will not directly or indirectly fund the purchase of the instrument.

By order of the Board
HATTON NATIONAL BANK PLC,



K A L Thushari Ranaweera (Mrs)
Deputy General Manager (Legal)/Board Secretary
Colombo, Sri Lanka.

01st March 2019

Notes :

1. A member entitled to attend or attend and vote at the meeting, is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at No. 479, T.B. Jayah Mawatha, Colombo 10 (at "HNB Towers", Level 18), not less than 24 hours before the time appointed for holding the meeting.

Summary of Article 22 of the Articles of Association of Hatton National Bank PLC

PROCEDURE ON VOTING AND HOW A POLL IS TO BE TAKEN

1. Voting at a meeting of shareholders shall, unless a poll is demanded, be by a show of hands, or voting by voice as may be determined by the Chairman.
2. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands or voting by voice as aforesaid every member who is present at the meeting shall have one (01) vote, and on a poll every member who is present in person at the meeting shall be entitled to one (01) vote for each voting share held by him.
3. A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded.
4. At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Companies Act No.7 of 2007 by,
 - the Chairman;
 - not less than five (5) shareholders having the right to vote at the meeting; or
 - a shareholder or shareholders representing not less than ten per centum (10%) of the total voting rights of all shareholders having the right to vote at the meeting.
5. A poll may be demanded either before or after the vote is taken on a resolution. A demand for a poll may be withdrawn any time before the poll is taken.
6. If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
7. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
8. A declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost, and an entry made to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such a resolution.



Hatton National Bank

[Registration No. PQ 82]

Company Secretarial Division
HNB Towers, No 479, T B Jayah Mawatha,
Colombo 10, Sri Lanka
Tel: +94 11 2664664; Fax: +94 11 2662832
Website: www.hnb.net;
Email: moreinfo@hnb.net

CIRCULAR TO SHAREHOLDERS

Date : 06.03.2019

Dear Shareholder/s

Having identified the need to strengthen the Tier II capital Base as per BASEL III requirements which will facilitate the Bank's forecasted asset growth, the Board of Directors of Hatton National Bank PLC (Bank) at its meeting held on 26 September 2018, 24 January 2019, 14 February 2019 and 1 March 2019 decided and recommend the following:

ISSUE OF LISTED, RATED, UNSECURED, SUBORDINATED, REDEEMABLE DEBENTURES (BASEL III COMPLIANT TIER II DEBT SECURITIES) WITH A TERM OF UP TO 7 YEARS, WITH A NON-VIABILITY CONVERSION OPTION TO ORDINARY SHARES WITH VOTING RIGHTS BY THE BANK SOLELY, IF INSTRUCTED BY THE CENTRAL BANK OF SRI LANKA. THE NON-VIABILITY CONVERSION OPTION WILL BE INVOKED UPON THE OCCURRENCE OF THE TRIGGER EVENT (THE TRIGGER EVENT IS REFERRED TO IN SECTION 5).

To raise a sum of Rupees Five Billion (LKR 5,000,000,000) by an initial issue of up to Fifty Million (50,000,000) Debentures, each with a par value of LKR 100/- and to raise a further sum of Rupees Two Billion (LKR 2,000,000,000) by an issue of a further Twenty Million (20,000,000) Debentures and to raise a further sum of Rupees Three Billion (LKR 3,000,000,000) by an issue of a further Thirty Million (30,000,000) Debentures (hereinafter collectively called "the Debentures") in the event of an over subscription of the issue at the discretion of the Bank

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

Given the available options, the Bank chose to proceed with the issue of a BASEL III compliant convertible debenture taking into consideration that Capital raised through such an issue will enhance the Tier II capital of the Bank.

The issuance of the BASEL III compliant Tier II Debt Securities (“the Debenture Issue”) and trading of such Debentures in the secondary market is limited to “Qualified Investors” (please refer section 6 for the definition of Qualified Investor).

THE ABOVE ISSUE IS SUBJECT TO THE APPROVAL OF THE COLOMBO STOCK EXCHANGE (CSE), CENTRAL BANK OF SRI LANKA (CBSL) & ANY OTHER REGULATORY APPROVALS (AS APPLICABLE)

The final rating for the proposed Debenture Issue which will have a convertible option in compliance with BASEL III requirements and will be issued by Fitch Ratings Lanka Ltd., subsequent to the special resolution being passed by the Shareholders at the Extraordinary General Meeting (EGM) convened and the final rating will be incorporated in the Prospectus to be issued in respect of the Debenture Issue (hereinafter referred to as the “Debenture Prospectus”).

1. OBJECTIVES OF THE ISSUE

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

1.1 Improve the Capital Adequacy Ratio (CAR) in the light of the new and enhanced regulatory requirements introduced in line with the Basel III accord.

Funds raised from the Debenture Issue will be utilized to improve the Tier II capital of the Bank as required under the BASEL III regulations.

In December 2016, the Central Bank of Sri Lanka (CBSL) issued Banking Act Direction No.1 of 2016 revising the minimum capital requirement for Banks with effect from 1 July 2017.

The new requirement the minimum Capital Adequacy Ratios applicable to the Bank for Tier I capital ratio and Total Capital Ratio under BASEL II which stood at 5% and 10% respectively in 2017 has been progressively increased to 10.0% and 14.0% respectively by 1 January 2019.

The revised requirement for Banks with assets of LKR 500 billion and over commencing 1 July 2017 is to be as follows:

Components of Capital	Minimum Regulatory Requirements %		
	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier 1 Capital with buffers (CCB* & Surcharge on D-SIB**)	6.25	7.375	8.50
Total Tier I Capital with buffers (CCB* & Surcharge on D-SIB**)	7.75	8.875	10.00
Total Capital Ratio (Tier I + Tier 2) with buffers (CCB* & Surcharge on D-SIB**)	11.75	12.875	14.00

*CCB – Capital Conservation Buffer

**D-SIB – Domestic Systemically Important Bank

Banks Capital Adequacy Ratio (CAR) under BASEL III

The Bank has complied with the CBSL BASEL III minimum capital adequacy requirement as at 31 December 2018 with Tier I ratios of 12.80% and Total Capital Ratio of 15.22%.

The forecasted ratios taking into account the intended proceeds of Debenture Issue computed under BASEL III will be as follows:

Components	As at 31st December 2018	Minimum Regulatory Requirement as at 01st January 2019	Expected (%), subsequent to the Debenture Issue		
			With LKR 5.0 Billion	With LKR 7.0 Billion	With LKR 10.0 Billion
Common Equity Tier 1 Capital with buffers (CCB & Surcharge on D-SIB)	12.80%	8.50%	12.62%	12.62%	12.62%
Total Tier I Capital with buffers (CCB & Surcharge on D-SIB)	12.80%	10.00%	12.62%	12.62%	12.62%
Total Capital Ratio (Tier I + Tier 2) with buffers (CCB & Surcharge on D-SIB)	15.22%	14.00%	15.07%	15.28%	15.60%

In addition to the above requirements the banks are required to maintain adequate buffers to cover pillar 2 risks under Basel III regulations.

As a result of its asset growth, the CAR of the Bank has declined in recent years and will decline further by March 2019 (under Basel III). The Bank is of the view that the CAR of the Bank should be maintained at a level above the minimum requirement in order to accommodate the projected asset growth.

In the unlikely event of any shortfall of funds to be generated from the proposed Debenture Issue, the bank will adjust the asset growth to maintain the desired level in CAR.

The Bank's intention herein is to obtain shareholders' approval for the issuance of any Ordinary Voting Shares which may be caused by the Central Bank of Sri Lanka instructing the Bank to exercise the convertible option attached to these Debentures (The occurrence of the "Trigger Event" referred to in section 5).

In order for the Debentures to be recognized as Tier II Capital of the Bank under BASEL III as detailed in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- Issued and fully paid-in cash
- Subordinated to the claims of depositors and general creditors

- Neither secured nor covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the Bank
- Prior approval of the Monetary Board is required for inclusion of capital instruments/term debt in Tier II Capital
- Listed on a recognized Stock Exchange
- The total approved Tier II Capital instruments/term debt shall not exceed 50 per cent of total Common Equity Tier I Capital
- Redeemable
- Of a minimum original maturity of at least 5 years
- Having an option where, in the event the Monetary Board of the Central Bank of Sri Lanka deeming it appropriate that the Debentures being converted into ordinary shares of the Bank (ranking equal and *pari passu* with the existing Ordinary Shares of the Bank) through issuance of new shares to cover the total outstanding under the Debentures is in the best interest of the Bank, directs the Bank to convert the Debentures into ordinary shares of the Bank (ranking equal and *pari passu* with the existing Ordinary Shares of the Bank) through issuance of new Shares to cover the total outstanding under the Debentures (the Trigger Event referred to in section 5)
- Neither Bank nor a banking group over which the Bank exercises control or significant influence will purchase the instrument and the Bank will not directly or indirectly fund the purchase of the instrument.

1.2 Support the Bank's balance sheet growth

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.

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

Considering the historical numbers (monthly average loan disbursement of LKR 35 billion during the FYE 2018), it is the understanding of the Bank that the entire quantum of funds will be utilized within a period of 12 months from the date of allotment of the Debentures. In the interim period these funds will be invested in Government Securities at zero credit risk at the current market rates, which would generate a return at the rate of 8.06% p.a. - 8.80% p.a.

2. DISCLOSURE IN THE INTERIM FINANCIAL STATEMENTS & THE ANNUAL REPORT

The utilization of the proceeds of the Debenture Issue will be disclosed in the Annual Report and the Interim Financial Statements from the allotment Date and until the objectives of the Debenture Issue are achieved. The Bank has utilized the proceeds of all previous Debenture Issues towards achieving the objectives of the respective Issues. Further information and relevant disclosures on utilization of proceeds will be more fully disclosed in the Prospectus.

3. BENEFITS OF THE DEBENTURE ISSUE TO THE BANK

- Issuance of BASEL III compliant Debentures will improve the capital adequacy ratios of the Bank.
- Issuance of BASEL III compliant Debentures will raise funds for expansion of the lending portfolio.
- The funds raised through the proposed Debenture Issue being of a medium to long-term nature will reduce maturity mismatches in the assets and liabilities portfolios of the Bank.
- The cost of capital attributable to Debentures is less than the cost of capital attributable to equity and issuance of Debentures thereby enables a reduction in the overall cost of capital relative to the situation that would prevail if an equity issuance were made instead of an issuance of Debentures.
- Convertible Debentures have the effect of acting as a buffer if balance sheet distress were to arise thereby resulting in a Trigger Event since under these circumstances the claims of liability holders (Debenture holders) will be reduced since the convertible Debentures would then be converted to Ordinary Voting Shares thereby replacing the Debentures.
- Voting rights of existing Ordinary Voting Shareholders are not altered as long as the convertible Debentures are not converted into Ordinary Voting Shares of the Bank, and to the extent that a Trigger Event does not occur the issuance of these Debentures is a suitable instrument to improve capital adequacy and fund growth without resorting to a new issue of equity.

4. SPECIFIC RISKS RELATING TO OBJECTIVES OF THE DEBENTURE ISSUE (the Issue)

Dependence of proceeds of the Issue to achieve the objectives is marginal, as the Bank in the ordinary course of business has access to multiple sources of funds.

Further, the risk of under subscription of the Debenture Issue will be greatly mitigated through appointing experienced Managers to the Issue, pre-marketing and building a pipeline of potential investors.

No further Shareholder approval will need to be sought in the event the Debenture Issue is not fully subscribed.

The Bank's portfolio of loans and advances recorded a growth of LKR 54 billion and LKR 122 billion respectively during the year 2017 and 2018. As such, based on the Bank's past experience and the growth achieved as at date there is no specific risk factor that may lead to non-achievement of expanding the Bank's loans and advances portfolio within the specified time line via the proceeds of the Issue up to a maximum of LKR 10 billion. 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 current market rates.

5. OCCURRENCE OF THE 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 which is the earlier of;

- (a) " 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 become non-viable, as determined by the Monetary Board."

Upon the occurrence of the Trigger Event, the non-viability conversion option will be invoked and 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 up to the outstanding balance of such Debentures including the total par value of the Debentures and unpaid accrued Debenture Interest at an issue **price for such Ordinary Voting Shares which will be based on the Volume Weighted Average Price (VWAP) of an Ordinary Voting Share of the Bank during the three months (03) period, immediately preceding the date of the Trigger Event.** The calculation of the VWAP would be based on the simple average of the daily VWAP of an Ordinary Voting Share as published by the Colombo Stock Exchange during the said 3 month period. 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 Ordinary Voting Share within fourteen (14) market days from the date of allotment of the said Ordinary Voting Shares.

Averaging out of the VWAP over a period of 3 months preceding the Trigger Event as opposed to a shorter window closer to the Trigger Event, is aimed at smoothening out changes in Ordinary Voting Share price movements thus minimizing the extent of the dilution impact of the conversion.

However, if there is an issuance of Ordinary Voting Shares to the Debenture Holders upon the occurrence of the Trigger Event, 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 with voting rights after the date of allotment of new shares to such Ordinary Shareholders with voting rights (i.e. the previous Debenture Holders). In the event of the conversion, the shares will be allotted to the respective Debenture Holders in accordance with the applicable laws and regulations as guided by the instructions of the Monetary Board of the Central Bank of Sri Lanka with regard to the application of the Single Holder Limit.

The Ordinary Shares (with voting rights) arising from the conversion of Debentures will be listed in the CSE.

In the event of the Debenture Holders becoming Ordinary Shareholders (with voting rights) of the Bank due to the occurrence of the Trigger Event, they would be entitled to exercise such rights as are exercisable by the other Shareholders of the Bank holding Ordinary Voting Shares. In the event of conversion to Ordinary Voting Shares, there would be a dilution of the existing shareholding percentage held by the current Shareholders as at the date of allotment of Debentures, however the extent of dilution will be dependent on several factors that cannot be determined at this point, due to the following;

- (a) The number of Ordinary Voting Shares to be issued resulting from such conversion will be determined by the 'conversion price' at the 'Trigger point' as detailed above.
- (b) The extent of dilution of existing Shareholders will need to be determined by how many shares are in issue at the time of such conversion. Such a number can vary due to issuance of new shares by way of scrip dividends, capitalization of reserves or rights issues during the tenure of the subject Debenture.

In the event the conversion price based on the above VWAP formula at the time of the Trigger Event is low, this would result in a comparatively higher number of Ordinary Voting Shares (with voting rights) being required to be issued by the Bank which would further dilute the holding percentage of current shareholders as at the date of allotment of Debentures. On the contrary, if a higher VWAP prevails at the time of a Trigger Event, this would result in comparatively low number of Ordinary Shares (with voting rights) requiring to be issued which would lead to a lesser degree of dilution in the holding percentage of existing Shareholders.

In the event of there being a likelihood of an occurrence of a 'Trigger event', then the existing shareholders will be first called upon to bring in additional capital (subject to CSE & SEC approval as applicable), and only, **if they are unable to infuse fresh capital, (i.e.; Tier I Capital) will the proposed Debentures get converted to ordinary voting share capital (Tier I capital) upon the determination of the non-viability point by the Monetary Board of CBSL.**

Reduction of the Debenture liability of the Bank will reduce the strain on the assets of the Bank in the event of liquidation. i.e. more assets leftover for distribution to the Shareholders though on a diluted basis with the inclusion of newly converted Debenture Holders (existing Shareholders plus newly converted Shareholders).

With the reduction of the interest bearing liabilities as stated above, the financing cost will reduce and improve the bottom line of the Bank.

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 "price" and "dates" (i.e. Trigger Event date, date of allotment) pertaining to such conversion of Debentures to Ordinary Voting Shares.

