

Notice of Extra-Ordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of Hatton National Bank PLC (the "Bank") will be held at the Auditorium, Level 22, HNB Towers, No. 479, T B Jayah Mawatha, Colombo 10 on this 28th day of March 2024 at 11.00 in the forenoon, or immediately after the conclusion of the Annual General Meeting ("AGM") of the Bank to conduct the following business:

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

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

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

1. To issue and allot up to a maximum of One Hundred and Twenty Million (120,000,000) Basel III compliant Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures of Rupees One Hundred (LKR 100/-) each with a term of 5 years, 7 years and 10 years with a Non-Viability conversion option to Ordinary Shares with voting rights ("Debentures") subject to Banking Act Direction No. 01 of 2016 dated 29.12.2016 and the Banking Act Direction No. 11 of 2019 dated 20.12.2019 issued by the Central Bank of Sri Lanka, the laws and regulations of the Colombo Stock Exchange and the Securities Exchange & Commission of Sri Lanka, 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 (ranking 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 29.12.2016 (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) month 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 2 debt securities ("the Debentures") and trading of such Debentures in the secondary market is limited to "Qualified Investors".

The proposed BASEL III compliant Debenture Issue is subject to regulatory approvals from the CBSL, the CSE 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 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, the Monetary Board of the Central Bank of Sri Lanka could, in the event the Monetary Board considers 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)
 - The Investors in the Debentures have no rights to accelerate the repayment of future scheduled coupons, except in bankruptcy and liquidation of the Bank
 - Neither Bank nor a Banking group over which the Bank exercise 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.(m) 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 (THE "DIRECTORS") OF HATTON NATIONAL BANK PLC (THE "BANK") BE AND ARE HEREBY AUTHORIZED

1. To issue and allot up to a maximum of One Hundred and Twenty Million (120,000,000) Basel III compliant Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures of Rupees One Hundred (LKR100/-) each with a term of up to 5 years, 7 years and 10 years with a Non-Viability conversion option to Ordinary Shares with voting rights ("Debentures") subject to Banking Act Direction No. 01 of 2016 dated 29.12.2016 and the Banking Act Direction No 11 of 2019 dated 20.12.2019 issued by the Central Bank

of Sri Lanka, the laws and regulations of the Colombo Stock Exchange and the Securities & Exchange Commission of Sri Lanka, 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 29.12.2016 (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) month 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 a 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 proposed 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 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, the Monetary Board of the Central Bank of Sri Lanka could, in the event the Monetary Board considers 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)
- The Investors in the Debentures have no rights to accelerate the repayment of future scheduled coupons, except in bankruptcy and liquidation of the Bank
- 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.

3. PROXIES

- (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 emailed to info@hnb.lk or 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.

By order of the Board
HATTON NATIONAL BANK PLC,



Shiromi Halloluwa (Ms)
Head of Legal/Board Secretary
Colombo, Sri Lanka.
4th March 2024

**SUMMARY OF ARTICLES 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 PLC (PQ82)

Hatton National Bank PLC

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Colombo 10, Sri Lanka

Tel: +94 11 2664664; Fax: +94 11 2662832

Website: www.hnb.net;

Email: info@hnb.lk

CIRCULAR TO SHAREHOLDERS

Dear Shareholder/s,

ISSUE OF BASEL III COMPLIANT, TIER 2, LISTED, RATED, UNSECURED, SUBORDINATED, REDEEMABLE 5 YEARS, 7 YEARS AND 10 YEARS DEBENTURES, WITH A NON-VIABILITY CONVERSION FEATURE TO ORDINARY VOTING SHARES BY THE BANK SOLELY, UPON THE OCCURRENCE OF A TRIGGER EVENT AS DETERMINED BY THE CENTRAL BANK OF SRI LANKA.

The Board of Directors of Hatton National Bank PLC (hereinafter referred to as "the Bank" or "HNB") at its meeting held on 31st August 2023, decided to raise a sum of Rupees Eight Billion (Rs. 8,000,000,000) by an initial issue of up to Eighty Million (80,000,000) Basel III Compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures, each with a par value of Rs. 100/- and to raise a further sum of Rupees Four Billion (Rs. 4,000,000,000) by an issue of a further Forty Million (40,000,000) Debentures (hereinafter collectively called "the Debentures") in the event of an over subscription of the initial issue, at the discretion of the Bank.

As such a maximum amount of Rupees Twelve Billion (Rs. 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 a par value of Rs. 100/-.

The issuance of the BASEL III compliant Tier 2 debentures ("the Debenture Issue") and trading of such Debentures in the secondary market is limited to "Qualified Investors" (please refer section 3 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 Bank is currently in the process of obtaining an expected issue rating from Fitch Ratings Lanka Ltd for the proposed Debenture Issue.

The final rating for the proposed Debenture Issue 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**”).

This Circular to the Shareholders is issued to provide details of the Debenture Issue to the Shareholders including with regard to the requirement for the Bank to seek approval of the shareholders for the issuance of the Debentures. In the event of there being a ‘Trigger Event’ as defined in the Banking Act Direction No. 1 of 2016, the Debentures require to be converted into ordinary voting shares of the Bank. This is referred to as ‘Non-Viability Conversion’ in the said Banking Act Direction. The features of the Debentures and further information in this regard are described in this Circular under section 7.

1. OBJECTIVES OF THE ISSUE

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

1.1 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.

1.2 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. 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.

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. 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. 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 the prevailing market rates at such point of time.

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.

Applicable Capital Adequacy Ratio (CAR) 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 Central Bank of Sri Lanka (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 I including Capital Conservation Buffer	7.00%	7.00%+HLA **	8.00%
Total Tier I 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 (D-SIB) the High Loss Absorbency (HLA) applicable to HNB is 100 bps higher than that for a licensed commercial bank.

Banks Capital Adequacy Ratio (CAR) under BASEL III

The Bank has complied with the CBSL BASEL III minimum capital adequacy requirement as at 31st December 2023 with a Tier I capital adequacy ratio of 13.66% and total capital adequacy ratio of 17.13%.

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

Components	As at 31 st December 2023	Regulatory Requirement As at December 2023	With Rs. 8 billion in new Debentures	With Rs. 12 billion in new Debentures
Common Equity Tier I capital with buffers (CCB & Surcharge on D-SIBs)	13.66%	8.00%	13.66%	13.66%
Total Tier I capital with buffers (CCB & Surcharge on D-SIBs)	13.66%	9.50%	13.66%	13.66%
Total Capital Ratio (Tier I + Tier 2) with buffers (CCB & Surcharge on D-SIBs)	17.13%	13.50%	17.99%	18.42%

Tier II capital adequacy ratios move in relation to the risk-weighted assets and total capital of the Bank which include qualified Tier II 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 proposed debenture issue does not amount to a major transaction for the Bank.

2. PROPOSED ISSUANCE OF BASEL III COMPLIANT DEBENTURES

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, the Monetary Board of the Central Bank of Sri Lanka could, in the event the Monetary Board considers 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)
- The investors in the Debentures have no rights to accelerate the repayment of future scheduled coupons, except in bankruptcy and liquidation of the Bank
- 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.

The Bank may consider allotting up to seventy-five per centum (75%) of the Debentures on a preferential basis to identified Qualified Investors of strategic importance.

3. QUALIFIED INVESTOR

Investment and trading in Basel III compliant Debentures will be limited to Qualified Investors, as per Colombo Stock Exchange Listing Rule No. 2.2.1 (n).

'Qualified Investor' shall mean,

- a commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended);
- a specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended);
- a mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund;
- a venture capital fund/company and private equity company;
- a finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011 (as amended);
- 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);
- a company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended);
- a corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 7 of 2007;
- an investment trust or investment company;
- a non-resident institutional investor; and,
- an individual with a minimum initial investment of Rs. 5,000,000/-.

4. BENEFITS OF THE DEBENTURE ISSUE TO THE BANK

The Issuance of proposed BASEL III compliant Debentures will result in the following benefits to the Bank:

- Further strengthen the capital adequacy ratios of the Bank.
- Enable expansion of the lending book
- Reduce maturity mismatches in the assets and liabilities portfolios of the Bank.
- Upon the occurrence of a Trigger Event, any outstanding balance of these Debentures including the total par value of the Debentures and Debenture Interest accrued and unpaid as at that date will be converted to ordinary voting shares of the Bank. As a result, the non-viability conversion has the effect of acting as a buffer by reducing outstanding claims from liability holders (Debenture holders) in the event of an occurrence of a Trigger Event.
- Voting rights of existing ordinary voting shareholders are not altered as long as the 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.

5. 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.

6. SPECIFIC RISKS RELATING TO OBJECTIVES OF THE DEBENTURE ISSUE

As of the end of December 2023 (based on the audited financial statements), the Bank's overall assets amounted to Rs. 1,934.3 billion, while its liabilities were Rs. 1,749.3 billion. In comparison, the proposed Debenture issue has a maximum size of Rs. 12 billion. 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 Rs. 75.3 billion 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 Rs 56.2 billion 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 Rs. 12 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 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.

7. 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."

The Banking Act Directions No. 1 of 2016 dated 29th December 2016, on the web based returns specify in index reference 20.2.3.1.1.1. (10) (i) that, for such Debentures to be qualified as Tier 2 Capital (under Basel III guidelines) they should have a convertibility clause which enables the Debentures to be converted to ordinary voting shares on the occurrence of a Trigger Event. Furthermore, the Bank is of the view that any conversion of debt to equity upon conversion should have the same rights and privileges of the then existing holders of ordinary voting shares (ranking equal and *pari passu* with the then existing ordinary voting shares) and hence consider it appropriate to effect conversion of the proposed Debentures to Ordinary Voting Shares.

The Bank on receipt of a Trigger Event notification from the Monetary Board of the Central Bank of Sri Lanka will immediately make a market announcement of such notification and thereafter announce the "price" and "dates" (such as the Trigger Event date and the date of allotment) pertaining to the pending conversion of Debentures to ordinary voting shares.

Conversion Ratio

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 month (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. The Central Depository System (CDS) upload pertaining to ordinary voting shares will be completed within ten (10) market days from the date of allotment of such 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 ordinary voting share within fourteen (14) market days from the date of allotment of the said ordinary voting shares.

Conversion and Trigger

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.

If there is a conversion of the Debentures into ordinary voting shares 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 the new ordinary voting shares issued to him/her and will rank equal and *pari passu* with existing holders of ordinary voting shares with regard to voting and distribution rights. 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 voting shares arising from the conversion of Debentures will be listed in the CSE.

Dilution of Shareholding upon a Conversion of Debentures

In the event of the Debenture Holders becoming holders of ordinary voting shares 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 Debentures.

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 shareholding 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 shareholding 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 and approval of the Securities and Exchange Commission of Sri Lanka 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 shares (Tier I capital) upon the determination of the non-viability point by the Monetary Board of Central Bank of Sri Lanka.**

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.

However, it is unlikely that a 'Trigger Event' would occur given the high credit rating of the Bank (i.e. A (Ika)/Stable by Fitch Ratings Lanka Ltd.) and resilient performance demonstrated by the Bank during unprecedented times.

7. REDEMPTION OF DEBENTURES

The proposed Debentures will be redeemed at maturity and the principal sum and unpaid accrued interest (if any) payable on the redemption of Debentures will be paid not later than three (03) Market days from the date of redemption, unless a 'Trigger Event' occurs as detailed above.

8. EXTRAORDINARY GENERAL MEETING

Pre-emptive Subscription Rights and Risks associated with Debentures

The Bank's intention is to obtain Shareholder approval for the issuance of ordinary voting shares which may be required to be issued in the event of the Monetary Board of Central Bank of Sri Lanka instructing the Bank to exercise the convertible feature attached to these Debentures (the occurrence of the Trigger Event) and to waive the pre-emptive rights of the existing ordinary voting and non-voting shareholders.

As per rule No.2.2.1.(m) of the Listing Rules of the Colombo Stock Exchange and the Articles of Association of the Bank, the Bank is required to obtain the approval of the shareholders for the proposed Debenture Issue by way of a special resolution. Further, it will also be necessary to obtain, by way of a duly passed special resolution, the approval of the shareholders for the issue of ordinary voting shares by the conversion of the Debentures and the approval of the shareholders (both Voting and Non-Voting) for the proposed ordinary voting share issue which arises pursuant to the conversion of debentures, which may affect the rights attached to the Bank's existing ordinary and non-voting shares, in compliance with Section 99 of the Companies Act No. 7 of 2007.

Therefore, an Extraordinary General Meeting of the Bank is being convened in accordance with the Notice of Meeting attached hereto, for the purpose of passing the special resolutions set out therein.

Shareholders who are unable to attend the meeting in person are kindly requested to complete the enclosed Form of Proxy (in accordance with the instructions specified therein) and deposit it at the Registered Office of the Bank not less than 24 hours before the time appointed for the meeting.

By Order of the Board
Hatton National BANK PLC



Shiromi Halloluwa (Ms)
Head of Legal / Board Secretary
Colombo, Sri Lanka

04th March 2024