



# Hatton National Bank PLC

## Interim Financial Statements as at 30th September 2008

### INCOME STATEMENT

|   | BANK  |            |                       | GROUP                                     |           |                       |
|---|---|------------|-----------------------|---|-----------|-----------------------|
|   | For the Nine months ended 30th September 2008 | 2007       | % Increase/(Decrease) | For the quarter ended 30th September 2008 | 2007      | % Increase/(Decrease) |
| <b>Income</b>   | <b>26,993,253</b>                             | 21,315,132 | 27                    | <b>9,374,935</b>                          | 7,786,401 | 20                    |
| <b>Interest Income</b>  | <b>23,427,527</b>                             | 18,804,611 | 25                    | <b>8,116,167</b>                          | 6,931,977 | 17                    |
| Interest income on Loans and advances                                       | 20,822,625                                    | 16,867,343 | 23                    | 7,187,667                                 | 6,254,712 | 15                    |
| Interest income on other Interest Earning assets                            | 2,604,902                                     | 1,937,268  | 34                    | 2,928,500                                 | 677,265   | 37                    |
| <b>Less: Interest expense</b>   | <b>14,359,592</b>                             | 10,681,704 | 34                    | <b>5,030,523</b>                          | 4,085,553 | 23                    |
| Interest Expenses on Deposits   | 11,842,395                                    | 8,290,726  | 43                    | 4,160,873                                 | 3,186,749 | 31                    |
| Interest Expenses on other Interest   | 2,517,197                                     | 2,390,978  | 5                     | 869,650                                   | 898,804   | (3)                   |
| Bearing Liabilities   | 9,067,935                                     | 8,122,907  | 12                    | 3,085,644                                 | 2,846,424 | 8                     |
| Net Interest income   | 3,565,726                                     | 2,510,521  | 42                    | 1,258,768                                 | 854,424   | 47                    |
| <b>Non-Interest income</b>  | <b>851,073</b>                                | 780,823    | 9                     | <b>271,267</b>                            | 282,785   | (4)                   |
| Foreign exchange income   | 2,714,653                                     | 1,729,698  | 57                    | 987,501                                   | 571,549   | 73                    |
| Other income  | 12,633,661                                    | 10,633,428 | 19                    | 4,344,412                                 | 3,700,848 | 17                    |
| <b>Less: Non-Interest Expenses</b>  | <b>6,800,265</b>                              | 6,304,215  | 8                     | <b>2,317,504</b>                          | 2,078,489 | 11                    |
| Personnel costs   | 2,607,948                                     | 2,380,163  | 10                    | 874,514                                   | 797,773   | 10                    |
| Provision for staff retirement benefits                                     | 370,662                                       | 337,079    | 10                    | 125,122                                   | 113,554   | 10                    |
| Premises, equipment & establishment expenses                                | 1,771,889                                     | 1,541,355  | 15                    | 626,324                                   | 520,941   | 20                    |
| Loss on Trading/Investment Securities                                       | 9,707   | 165,778    | (94)                  | -   | 2,916     | (100)                 |
| Amortization of Intangible Assets   | 55,710  | 48,905     | 14                    | 22,921                                    | 15,742    | 46                    |
| Other Operating expenses  | 1,984,349                                     | 1,830,935  | 8                     | 668,623                                   | 627,563   | 7                     |
| <b>Less: Provision for Bad &amp; Doubtful Debts &amp; Loans written off</b> | <b>580,002</b>                                | 732,879    | (21)                  | <b>156,152</b>                            | 136,897   | 14                    |
| Provisions - General  | 259,282                                       | 251,648    | 3                     | 81,654                                    | 23,507    | 247                   |
| Provisions - Specific   | 467,016                                       | 580,278    | (20)                  | 122,052                                   | 144,094   | (15)                  |
| Recoveries - I  | (146,585)                                     | (100,111)  | 46                    | (47,210)                                  | (31,437)  | 50                    |
| Loans Written - Off   | 289   | 1,064      | (73)                  | (344)                                     | 733       | (147)                 |
| <b>Less: Provision for Decline in Value of Investments (Net)</b>            | <b>242,945</b>                                | -          | 100                   | <b>1,026</b>                              | -         | 100                   |
| <b>Operating Profit on ordinary Activities Before Taxes</b>                 | <b>5,010,449</b>                              | 3,596,334  | 39                    | <b>1,869,730</b>                          | 1,495,461 | 28                    |
| <b>Less: Value Added Tax on Financial Services</b>                          | <b>1,322,739</b>                              | 919,773    | 44                    | <b>459,744</b>                            | 306,591   | 50                    |
| <b>Operating Profit on ordinary Activities Before Corporate Tax</b>         | <b>3,687,710</b>                              | 2,676,561  | 38                    | <b>1,409,986</b>                          | 1,178,870 | 20                    |
| <b>Share of Associate Companies profit</b>                                  | <b>3,687,710</b>                              | 2,676,561  | 38                    | <b>1,409,986</b>                          | 1,178,870 | 20                    |
| <b>Operating profit before corporate tax</b>                                | <b>3,687,710</b>                              | 2,676,561  | 38                    | <b>1,409,986</b>                          | 1,178,870 | 20                    |
| <b>Less: Tax on Profits on Ordinary Activities</b>                          | <b>1,126,782</b>                              | 929,860    | 21                    | <b>420,083</b>                            | 397,930   | 6                     |
| <b>Operating Profit After Corporate Tax</b>                                 | <b>2,560,928</b>                              | 1,746,701  | 47                    | <b>989,903</b>                            | 781,780   | 27                    |
| <b>Less: Minority interest</b>  | <b>2,560,928</b>                              | 1,746,701  | 47                    | <b>989,903</b>                            | 781,780   | 27                    |
| <b>Extraordinary Items (net)</b>  | <b>Rs. 10,87</b>                              | Rs. 7,42   | 47                    | <b>Rs. 4,20</b>                           | Rs. 3,32  | 27                    |
| <b>Earnings per Ordinary Share</b>  | <b>Rs. 10,87</b>                              | Rs. 7,42   | 47                    | <b>Rs. 4,20</b>                           | Rs. 3,32  | 27                    |

1. There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year 2007.  
2. There are no changes in contingent liabilities of a material nature and composition of assets and liabilities during the period. All known expenditure items have been provided for.  
3. When required, comparative figures have been reclassified to conform to Central Bank of Sri Lanka publication requirements.  
4. Bank's other income include interim dividend of Rs. 264.3Mn (net), Rs. 24.7Mn (net) and 20.3Mn (net) declared by its subsidiaries HNB Securities Ltd., HNB Stock Brokers (Pvt.) Ltd and HNB Assurance PLC respectively during the period under review.  
5. The consolidated financial statements of the Bank cover the Bank and its subsidiaries HNB Assurance PLC, Sithma Development (Pvt) Ltd, the Group's interest in its associate company Lanka Ventures PLC & the Group's interest in Joint venture Acuity Partners (Pvt) Ltd. Bank has invested in a subsidiary company, Majan Exchange LLC which is a limited liability company incorporated in Oman and an Associate company Delma Exchange, a simple limited partnership company incorporated in UAE. Commercial operations of these two entities have not been commenced as at 30th September 2008.  
6. On 1st of July 2008 Acuity Partners (Pvt) Ltd an investment banking joint venture was formed by HNB PLC & DFCC Bank. Since then Acuity Partners (Pvt) Ltd became the holding company of DFCC Stock Brokers (Pvt) Ltd, HNB Securities Ltd & HNB Stock Brokers (Pvt) Ltd. Accordingly HNB Securities Ltd & HNB Stock Brokers (Pvt) Ltd ceased to be subsidiaries of HNB PLC from 1st July 2008. HNB continues to hold 49.99% of shares of HNB Securities Ltd which has been classified as Investments Held to maturity.  
7. The Bank's figures have been extracted from six months accounts for the period ended 30th June 2008 reviewed by external auditors M/s KPMG Ford, Rhodes, Thornton & Co and the unaudited financial statements for the 3 months ended 30th September 2008 while the group figures are unaudited. Accordingly certified profits of the Bank for the period ended 30th June 2008 have been incorporated in the Capital Adequacy computation as at 30th September 2008.

### DEBENTURE INFORMATION

|   | Market Value                       |               | Yield to Maturity of last trade done (% p.a.) |               |
|---|------------------------------------|---------------|---|---------------|
|   | 9 months ended 30th September 2008 | 2007          | 9 months ended 30th September 2008            | 2007          |
| <b>HNB DEBENTURES 2002</b>              | <b>Highest</b>                     | <b>Lowest</b> | <b>Highest</b>                                | <b>Lowest</b> |
| 7 year Fixed Rate (14.00% p.a.)         | 94.05                              | 88.00         | 94.05   | 88.00         |
| 7 year Floating Rate (TB + 1.10% p.a.)  | 99.75                              | 99.75         | 99.75   | 99.75         |
| 10 year Fixed Rate (14.20% p.a.)        | 85.00                              | 84.00         | 85.00   | 84.00         |
| 10 year Floating Rate (TB + 1.25% p.a.) | 90.00                              | 90.00         | 90.00   | 90.00         |

\*\* The yield to maturity calculation is not applicable for floating rate debentures.

### SELECTED PERFORMANCE INDICATORS

|   | As at 30.09.2008 |        | As at 31.12.2007 |        |
|---|------------------|--------|------------------|--------|
|   | Bank             | Group  | Bank             | Group  |
| <b>Regulatory Capital Adequacy</b>  |                  |        |                  |        |
| Core Capital (Tier 1 Capital) Rs. Mn  | 14,824           | 15,418 | 14,943           | 15,751 |
| Total Capital Base Rs. Mn   | 18,419           | 18,041 | 18,378           | 18,538 |
| Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)   | 8.53%            | 10.32% | 8.29%            | 10.20% |
| Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%) | 10.60%           | 12.08% | 10.39%           | 12.00% |
| <b>Assets Quality (Quality of Loan Portfolio)</b>                                     |                  |        |                  |        |
| Gross Non-Performing Advances Ratio, % (Net of Interest in Suspense)                  |                  | 7.13%  |                  | 5.91%  |
| Net Non-Performing Advances Ratio, % (Net of Interest in Suspense and provisions)     |                  | 2.53%  |                  | 1.41%  |
| <b>Profitability (Annualized)</b>   |                  |        |                  |        |
| Interest Margin, %  | 5.08%            | 3.73%  | 5.08%            | 3.73%  |
| Return on Assets (before Tax), %  | 2.07%            | 1.99%  | 2.07%            | 1.99%  |
| Return on Equity, %   | 17.82%           | 19.45% | 17.82%           | 19.45% |
| <b>Regulatory Liquidity</b>   |                  |        |                  |        |
| Statutory Liquid Assets, Rs. Mn   | 45,053           | 38,929 | 45,053           | 38,929 |
| Domestic Banking Unit   | 4,800            | 4,980  | 4,800            | 4,980  |
| Off-Shore Banking Unit  | -                | -      | -                | -      |
| Statutory Liquid Assets, Ratio % (Minimum Requirement 20%)                            | 21.64%           | 20.29% | 21.64%           | 20.29% |
| Domestic Banking Unit   | 21.32%           | 22.66% | 21.32%           | 22.66% |
| Off-Shore Banking Unit  | -                | -      | -                | -      |

### CERTIFICATION:

We, the undersigned, being the Chairman, the Chief Executive Officer and the Chief Financial Officer of Hatton National Bank certify that :-  
(a) the above statements have been prepared in compliance with the formats and definitions prescribed by the Central Bank of Sri Lanka and rule 8.3 of Colombo Stock Exchange.  
(b) the information contained in these statements have been extracted from the unaudited statements of the bank, its associate, subsidiary and joint venture companies as explained in explanatory note 7, unless indicated as audited.  
(Sgd) Rienze T. Wijetilleke Chairman  
(Sgd) Rajendra Theagarajah Managing Director/Chief Executive Officer  
(Sgd) Nihal Kekulawala Chief Financial Officer  
26th November 2008 26th November 2008 26th November 2008

### INFORMATION TO INVESTORS

|  | 30.09.2008       | 30.09.2007       |
|--|------------------|------------------|
| <b>Market Value per share as at 30th September</b> |                  |                  |
| Voting   | Rs. 99.00        | Rs. 101.25       |
| Non-voting   | Rs. 45.75        | Rs. 44.75        |
| <b>Highest price per share for the quarter</b>     |                  |                  |
| Voting   | Rs. 107.75       | Rs. 106.25       |
| Non-voting   | Rs. 51.00        | Rs. 48.75        |
| <b>Lowest price per share for the quarter</b>      |                  |                  |
| Voting   | Rs. 98.00        | Rs. 90.25        |
| Non-voting   | Rs. 45.25        | Rs. 37.75        |
| <b>Ratios of Debt</b>                              |                  |                  |
|  | As at 30.09.2008 | As at 31.12.2007 |
| Debt Equity Ratio %                                | 13.15%           | 24.76%           |
| Interest Cover (Times)                             | 9.0              | 6.1              |
| Comparable 5-year Govt. bond rate (% p.a.)         | 18%              | 17.25%           |
| Comparable 10-year Govt. bond rate (% p.a.)        | 15.75%           | NT               |

### STATEMENT OF CHANGES IN EQUITY 2008 - Bank

|   | Ordinary Voting |         | Stated Capital Ordinary Non-Voting |           | Share Premium | Capital Reserve | Repair & Renovation Reserve | Reserve Reserve Fund | General Reserve | Income Statement | Total      |
|---|-----------------|---------|------------------------------------|-----------|---------------|-----------------|-----------------------------|----------------------|-----------------|------------------|------------|
|   | Rs.000          | Rs.000  | Rs.000                             | Rs.000    |               |                 |                             |                      |                 |                  |            |
| Balance as at 01.01.2008                | 1,893,294       | 462,000 | 2,704,096                          | 3,001,440 | -             | -               | 6,700                       | 821,707              | 6,782,353       | 2,747,440        | 18,419,030 |
| Final dividend for 2007                 | -               | -       | -                                  | -         | -             | -               | -                           | -                    | -               | (824,353)        | (824,353)  |
| Deferred tax liability for Rev. Reserve | -               | -       | -                                  | 2,107     | -             | -               | -                           | -                    | -               | -                | 2,107      |
| Net profit for the Nine months          | -               | -       | -                                  | -         | -             | -               | -                           | -                    | -               | 2,560,928        | 2,560,928  |
| Balance as at 30.09.2008                | 1,893,294       | 462,000 | 2,704,096                          | 3,003,547 | -             | -               | 6,700                       | 821,707              | 6,782,353       | 4,484,015        | 20,157,712 |

### STATEMENT OF CHANGES IN EQUITY 2007 - Bank

|   | Ordinary Voting |         | Stated Capital Ordinary Non-Voting |           | Share Premium | Capital Reserve | Repair & Renovation Reserve | Reserve Reserve Fund | General Reserve | Income Statement | Total      |
|---|-----------------|---------|------------------------------------|-----------|---------------|-----------------|-----------------------------|----------------------|-----------------|------------------|------------|
|   | Rs.000          | Rs.000  | Rs.000                             | Rs.000    |               |                 |                             |                      |                 |                  |            |
| Balance as at 01.01.2007                | 946,647         | 231,000 | 2,704,096                          | 240,262   | -             | -               | 6,700                       | 669,707              | 6,395,000       | 1,736,396        | 12,929,808 |
| Final dividend for 2006                 | -               | -       | -                                  | -         | -             | -               | -                           | -                    | -               | (294,412)        | (294,412)  |
| Bonus issue                             | 946,647         | 231,000 | -                                  | -         | -             | -               | -                           | -                    | -               | (1,177,647)      | -          |
| Revaluation Surplus (net)               | -               | -       | -                                  | 2,760,300 | -             | -               | -                           | -                    | -               | -                | 2,760,300  |
| Deferred tax liability for Rev. Reserve | -               | -       | -                                  | (81,570)  | -             | -               | -                           | -                    | -               | -                | (81,570)   |
| Net profit for the Nine months          | -               | -       | -                                  | -         | -             | -               | -                           | -                    | -               | 1,746,701        | 1,746,701  |
| Balance as at 30.09.2007                | 1,893,294       | 462,000 | 2,704,096                          | 2,918,992 | -             | -               | 6,700                       | 669,707              | 5,217,353       | 3,188,685        | 17,060,827 |

### STATEMENT OF CHANGES IN EQUITY 2008 - Group

|  | Ordinary Voting |         | Stated Capital Ordinary Non-Voting |           | Share Premium | Capital Reserve | Repair & Renovation Reserve | Statutory Reserve Fund | Reserve General Reserve | Income Statement | Minority Interest | Total      |
|--|-----------------|---------|------------------------------------|-----------|---------------|-----------------|-----------------------------|------------------------|-------------------------|------------------|-------------------|------------|
|  | Rs.000          | Rs.000  | Rs.000                             | Rs.000    |               |                 |                             |                        |                         |                  |                   |            |
| Balance as at 01.01.2008               | 1,893,294       | 462,000 | 2,704,096                          | 5,768,262 | -             | -               | 6,700                       | 821,707                | 6,782,353               | 2,861,252        | 219,659           | 21,519,323 |
| Deferred tax liability for Rev Reserve | -               | -       | -                                  | 2,107     | -             | -               | -                           | -                      | -                       | -                | -                 | 2,107      |
| Final dividend                         | -               | -       | -                                  | -         | -             | -               | -                           | -                      | -                       | 2,116,236        | 19,302            | 2,135,538  |
| Disposal of subsidiaries               | -               | -       | -                                  | -         | -             | -               | -                           | -                      | -                       | (154,287)        | -                 | (154,287)  |
| Balance as at 30.09.2008               | 1,893,294       | 462,000 | 2,704,096                          | 5,770,369 | -             | -               | 6,700                       | 821,707                | 6,782,353               | 3,998,848        | 223,959           | 22,663,326 |

### STATEMENT OF CHANGES IN EQUITY 2007 - Group

|   | Ordinary Voting |         | Stated Capital Ordinary Non-Voting |           | Share Premium | Capital Reserve | Repair & Renovation Reserve | Statutory Reserve Fund | Reserve General Reserve | Income Statement | Minority Interest | Total      |
|---|-----------------|---------|------------------------------------|-----------|---------------|-----------------|-----------------------------|------------------------|-------------------------|------------------|-------------------|------------|
|   | Rs.000          | Rs.000  | Rs.000                             | Rs.000    |               |                 |                             |                        |                         |                  |                   |            |
| Balance as at 01.01.2007                | 946,647         | 231,000 | 2,704,096                          | 240,262   | -             | -               | 6,700                       | 669,707                | 6,395,000               | 1,722,195        | 180,326           | 12,095,933 |
| Final dividend 2006                     | -               | -       | -                                  | -         | -             | -               | -                           | -                      | -                       | (294,412)        | (10,000)          | (304,412)  |
| Bonus issue                             | 946,647         | 231,000 | -                                  | -         | -             | -               | -                           | -                      | -                       | (1,177,647)      | -                 | -          |
| Revaluation Surplus (net)               | -               | -       | -                                  | 5,527,122 | -             | -               | -                           | -                      | -                       | -                | -                 | 5,527,122  |
| Deferred tax liability for Rev. Reserve | -               | -       | -                                  | (81,570)  | -             | -               | -                           | -                      | -                       | -                | -                 | (81,570)   |
| Net profit for the nine months          | -               | -       | -                                  | -         | -             | -               | -                           | -                      | -                       | 1,787,139        | 14,490            | 1,801,629  |
| Balance as at 30.09.2007                | 1,893,294       | 462,000 | 2,704,096                          | 5,685,814 | -             | -               | 6,700                       | 669,707                | 5,217,353               | 3,214,922        | 157,921           | 12,456,974 |

### STATEMENT OF CHANGES IN EQUITY 2008 - Group

|  | Ordinary Voting |         | Stated Capital Ordinary Non-Voting |           | Share Premium | Capital Reserve | Repair & Renovation Reserve | Statutory Reserve Fund | Reserve General Reserve | Income Statement | Minority Interest | Total      |
|--|-----------------|---------|------------------------------------|-----------|---------------|-----------------|-----------------------------|------------------------|-------------------------|------------------|-------------------|------------|
|  | Rs.000          | Rs.000  | Rs.000                             | Rs.000    |               |                 |                             |                        |                         |                  |                   |            |
| Balance as at 01.01.2008               | 1,893,294       | 462,000 | 2,704,096                          | 5,768,262 | -             | -               | 6,700                       | 821,707                | 6,782,353               | 2,861,252        | 219,659           | 21,519,323 |
| Deferred tax liability for Rev Reserve | -               | -       | -                                  | 2,107     | -             | -               | -                           | -                      | -                       | -                | -                 | 2,107      |
| Final dividend                         | -               | -       | -                                  | -         | -             | -               | -                           | -                      | -                       | 2,116,236        | 19,302            | 2,135,538  |
| Disposal of subsidiaries               | -               | -       | -                                  | -         | -             | -               | -                           | -                      | -                       | (154,287)        | -                 | (154,287)  |
| Balance as at 30.09.2008               | 1,893,294       | 462,000 | 2,704,096                          | 5,770,369 | -             | -               | 6,700                       | 821,707                | 6,782,353               | 3,998,848        | 223,959           | 22,663,326 |