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December 16, 2016

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

Dear Sir,

**SANASA DEVELOPMENT BANK PLC**

**PROPOSED FUND RAISINGS VIA PRIVATE PLACEMENT OF ORDINARY VOTING SHARES, SUBORDINATED CONVERTIBLE TERM LOAN FACILITIES AND SENIOR TERM LOAN FACILITY**

The Board of Directors of SANASA Development Bank PLC (herein referred to as "SDB" or "the Bank") has resolved on December 15, 2016 to raise funds from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden ("FMO"), SBI-FMO Emerging Asia Financial Sector Fund PTE. Limited ("SBI-FMO") and International Finance Corporation ("IFC") (hereinafter jointly referred to as "Investors") in the following manner:

Investor	Facility	Amount (LKR)
FMO	Private Placement of Ordinary Voting Shares	292,520,060
	Subordinated Convertible Term Loan Facility	292,520,060
	Senior Term Loan Facility in USD	892,350,000
SBI-FMO	Private Placement of Ordinary Voting Shares	658,169,960
	Subordinated Convertible Term Loan Facility	658,169,960
IFC	Private Placement of Ordinary Voting Shares	510,650,000
<b>Total</b>		<b>3,304,380,040</b>

Senior Term Loan Facility of USD 6 Million was converted at LKR 148.7250/USD. However, this USD Facility will be converted at the mid-rate of exchange (as quoted by the Central Bank of Sri Lanka) two (02) business days prior to date of disbursement.

The Board of Directors of SDB on December 15, 2016 has entered into the relevant agreements in relation to the above fund raisings with FMO and SBI-FMO, subject to shareholder approval and all regulatory approvals and waivers where applicable.

With respect to IFC, the agreement pertaining to the fund raising is being finalised at present. A further announcement will be made by SDB immediately upon the execution of this agreement with IFC.

In compliance with Sections 5 and 8 of the CSE Listing Rules, the Bank wishes to make the following announcements in relation to the aforesaid fund raising activities.

## 1. PRIVATE PLACEMENT OF ORDINARY VOTING SHARES

The Bank proposes to issue 10,438,143 ordinary voting shares of the Bank at a price of LKR 140/- per share resulting in 19.88% of the shares of the Bank in issue (post Private Placement) in the following manner:

Investor	Number of Shares to be Issued	Subscription Amount (LKR)	Shareholding Pre - Private Placement	Shareholding Post - Private Placement
FMO	2,089,429	292,520,060	-	3.98%
SBI-FMO	4,701,214	658,169,960	-	8.95%
IFC	3,647,500	510,650,000	2.39%	8.86%
<b>Total</b>	<b>10,438,143</b>	<b>1,461,340,020</b>	<b>2.39%</b>	<b>21.79%</b>

<sup>1</sup>The subscription amount by FMO and SBI-FMO will be subject to a maximum investment of USD 2.04 Million and USD 4.60 Million respectively as at the date of subscription

In accordance with Section 52 of the Companies Act No. 7 of 2007, the Board of Directors of the Bank are of the view that the consideration for the ordinary voting shares to be issued under the aforesaid Private Placement is fair and reasonable to the Bank and to all existing shareholders.

## 2. SUBORDINATED CONVERTIBLE TERM LOAN FACILITIES

The Subordinated Convertible Loan Facilities would confer upon FMO and SBI-FMO, as lenders of the facilities, the right to convert all or part of the outstanding amounts under the said facilities into ordinary voting shares of the Bank (up to a maximum combined shareholding of FMO and SBI-FMO of 22.91%) at a conversion price which will be the lower of LKR 140/- (Fixed Conversion Price) or 1.1x the Book Value Per Share at the time of conversion. The conversion may take place within any time commencing from the fifth anniversary of utilisation/disbursement date and ending on the date falling 66 months after the utilisation date. The conversion may take place prior to the above mentioned period only with prior written consent of the Bank unless an event of default occurs in accordance with the terms of the Subordinated Term Facility Agreements.

The breakup of the share issuance assuming FMO and SBI-FMO exercise the conversion option in full at Fixed Conversion Price is as follows:

Investor	Subscription Amount (LKR) <sup>1</sup>	Shares to be Issued Upon Conversion at Fixed Conversion Price	Shareholding Post Private Placement and Conversion of Subordinated Term Loan
FMO	292,520,060	2,089,429	7.05%
SBI-FMO	658,169,960	4,701,214	15.86%
<b>Total</b>	<b>950,690,020</b>	<b>6,790,643</b>	<b>22.91%</b>

<sup>1</sup>The subscription amount by FMO and SBI-FMO will subject to a maximum investment of USD 2.04 Million and USD 4.60 Million respectively as at the date of utilisation/disbursement

In accordance with Section 52 of the Companies Act No. 7 of 2007, the Board of Directors of the Bank are of the view that the conversion price of the ordinary voting shares to be issued upon conversion of all or part of the outstanding amounts under the said Subordinated Convertible Term Loan Facilities is fair and reasonable to the Bank and to all existing shareholders.

The Subordinated Convertible Term Loan Facilities will be considered as Tier II Capital subject to approval of the Central Bank of Sri Lanka.

### 3. CURRENT STATED CAPITAL

The stated capital of SDB as at September 30, 2016 amounts to LKR 4,062,961,714/-.

### 4. PURPOSE FOR WHICH PROCEEDS OF THE AFORESAID FUND RAISINGS ARE TO BE UTILISED

The proposed fund raisings via the Private Placement of Ordinary Shares and the Subordinated Convertible Term Loan Facilities will enhance the Tier I and Tier II capital levels of the Bank and further strengthen the Bank's capital adequacy ratios. The capital enhancement along with the proceeds raised by the Bank will ensure that the Bank is well geared to pursue loan book growth whilst maintaining healthy capital adequacy levels and thereby improving the profitability of the Bank.

Further, Licensed Specialised Banks will be required to increase their Core Capital to LKR 7.5 Billion. SDB's Core Capital as at September 30, 2016 was reported at LKR 5.1 Billion, as such, SDB will require further Tier I funding in order to comply with the stipulated regulatory limit. The aforementioned Private Placement of Ordinary Voting Shares would facilitate SDB to increase its present Core Capital to LKR 6.6 Billion.

The growth in the loan portfolio of SDB is expected to be driven by the rising demand for credit by SMEs which has shown a significant progress in the recent past and forms an integral component of SDB's customer base. The funds raised through the issue of shares and loan facilities mentioned above will be utilised in the lending activities of the Bank in the ordinary course of business with a view to cater to the anticipated demand and thereby enhance the lending portfolio of the Bank.

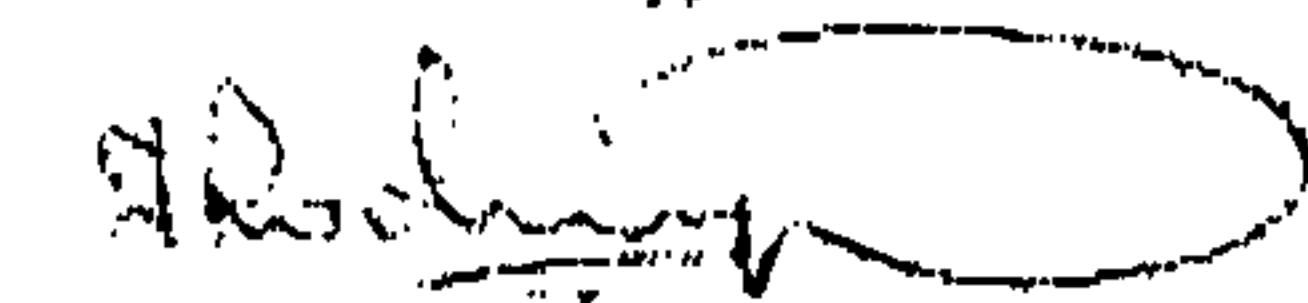
Further, it is believed that by obtaining funds from parties such as FMO, SBI-FMO and IFC, the Bank will be better positioned to establish and secure ties with other international development financial institutions, which could be the catalyst in securing future funding requirements of this nature to support the growth of the Bank.

### 5. FUND RAISINGS SUBJECT TO APPROVALS

The aforesaid fundraisings are subject to necessary approvals being obtained from the shareholders of the Bank, the Monetary Board of the Central Bank of Sri Lanka, the Controller of Exchange, the Colombo Stock Exchange and where necessary, waivers being obtained from the Securities and Exchange Commission of Sri Lanka.

Without prejudice to the generality of the paragraph above, the issue of ordinary voting shares via private placement to FMO, SBI-FMO and IFC and the issue of ordinary voting shares upon conversion of the Subordinated Convertible Loan Facilities to FMO and SBI-FMO are subject to the Colombo Stock Exchange approving in-principle the issue and listing of such shares and obtaining shareholder approval at a General Meeting.

Yours faithfully,



Company Secretary

SANASA Development Bank PLC

FINANCIAL ADVISORS TO THE FUND RAISING  
NDB INVESTMENT BANK LIMITED