



**NATIONAL DEVELOPMENT BANK PLC**  
**[Company Registration No. PQ 27]**

**EXTRAORDINARY GENERAL MEETING**

**to be held as a 'virtual' meeting on Thursday 7<sup>th</sup> October 2021, at 2.30 pm**

**from the Board Room of National Development Bank PLC**

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**National Development Bank PLC**

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## **CIRCULAR TO SHAREHOLDERS**

Dear Shareholder/s

### **ISSUE OF BASEL III COMPLIANT TIER 2 LISTED, RATED, UNSECURED, SUBORDINATED, REDEEMABLE DEBENTURES WITH A NON-VIABILITY CONVERSION OPTION TO ORDINARY SHARES WITH VOTING RIGHTS**

#### **1. BACKGROUND**

The Board of Directors of the National Development Bank PLC (Bank) having identified the need to strengthen the Tier 2 Capital Base as per Basel III requirements which will facilitate the Bank's forecasted asset growth, have by circulation of papers on 1 September 2021 decided and recommended the following:

**To raise a sum of Rupees Six Billion (LKR 6,000,000,000) by an issue of up to Sixty Million (60,000,000) Basel III compliant - Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures, with a Non-Viability Conversion, 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) of such Debentures in the event of an over subscription of the initial issue, at the discretion of the Bank (hereinafter called "the Debentures").** The non-viability conversion option will be invoked upon the occurrence of a Trigger Event referred to in Section 5, **if instructed by the Central Bank of Sri Lanka (CBSL).**

The tenure of the Debentures to be issued will be 5 years and 7 years. This was decided tentatively based on the prevailing market conditions and the Board of Directors of the bank has authorized the Group Chief Executive Officer, Vice President – Treasury and Vice President – Finance to finalise the terms of the issue at the time of signing the Trust Deed closer to the Issue opening date.

As such a maximum amount of Rupees Eight Billion (LKR 8,000,000,000) would be raised by the issue of a maximum of Eighty Million (80,000,000) Debentures each with a par value of LKR 100/-. (Debenture Issue)

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 2 capital of the Bank.

The issuance of the Debentures and trading of such Debentures in the secondary market is limited to "Qualified Investors" (please refer Section 6 for definition of Qualified Investor).

**THE ABOVE ISSUE IS SUBJECT TO THE APPROVAL OF THE COLOMBO STOCK EXCHANGE (CSE), CBSL AND ANY OTHER REGULATORY APPROVALS (AS APPLICABLE)**

Fitch Ratings Lanka Ltd. has issued an expected instrument rating of 'A-(lka)(EXP)' for the proposed Debenture Issue. The final rating for the proposed Debenture Issue which will have a convertible option in compliance with BASEL III requirements will be issued by Fitch Ratings Lanka Ltd., subsequent to the special resolution being passed by the shareholders at the Extra Ordinary General Meeting (EGM) convened and the final rating will be incorporated in the Debenture Prospectus.

## 2. OBJECTIVES OF THE ISSUE

The Bank proposes to utilize the entirety of the funds raised through this Issue for the purpose of achieving the following objectives;

### 2.1 Improve and further strengthen the Capital Adequacy Ratio (CAR) in line with the Basel III guidelines.

Funds raised from the Debenture Issue will be utilized to improve the Tier 2 capital of the Bank under the BASEL III regulations.

In December 2016, CBSL issued Banking Act Direction No. 1 of 2016 revising the minimum capital requirement for Banks with effect from 01<sup>st</sup> July 2017. Subsequently, on 20<sup>th</sup> December 2019, Banking Act Direction No. 11 of 2019 and on 25<sup>th</sup> January 2021 Banking Act Direction No. 03 of 2021 was issued by CBSL amending the directions on capital requirements under BASEL III for licensed commercial banks and licensed specialised banks.

In terms of the Direction No. 11 of 2019, Banks which are determined as Domestically Systemically Important Banks (D-SIBs) will require to maintain an additional Higher Loss Absorbency (HLA) requirement in the form of Common Equity Tier 1.

The revised requirement for banks commencing from 1<sup>st</sup> January 2020 is to be as follows:

Components of Capital	BASEL III- Minimum Regulatory Requirement with effect from January 2020	
	All Licensed Banks	Banks determined as Domestically Systemically Important Banks
Common Equity Tier 1 including Capital Conservation Buffer	7.0%	7.0% + HLA
Total Tier 1 including Capital Conservation Buffer	8.5%	8.5%+ HLA
Total Capital Ratio including Capital Conservation Buffer	12.5%	12.5%+ HLA

Further, through the press release dated 30<sup>th</sup> March 2020, as an extraordinary regulatory measure to facilitate Banks to support COVID-19 affected Businesses and Individuals, the CBSL decided to allow D-SIBs and non D-SIBs to drawdown their Capital Conservation Buffers by 100 bps and 50 bps. Based on an annual assessment carried out by the CBSL.

Accordingly, the minimum capital requirements from 30<sup>th</sup> March 2020, for NDB is as provided in the table below.

Components of Capital	Capital Adequacy Ratio to be maintained
Common Equity Tier 1 including Capital Conservation Buffer	6.5%
Total Tier 1 including Capital Conservation Buffer	8.0%
Total Capital Ratio including Capital Conservation Buffer	12.0%

However, it should be noted that the Bank has taken an internal policy decision to comply with the minimum capital adequacy ratios excluding the release of the Capital Conservation Buffer, on a prudence basis.

### **NDB's Capital Adequacy Ratio (CAR) under BASEL III**

The Bank has complied with the BASEL III minimum capital adequacy requirement as at 30<sup>th</sup> June 2021 with Tier 1 ratio of 10.43% and Total capital ratio of 14.73% respectively.

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

Components	As at 30 <sup>th</sup> June 2021	Minimum Regulatory Requirement as at 30 <sup>th</sup> June 2021	Expected (%), subsequent to the Debenture Issue	
			With LKR 6.0 Billion	With LKR 8.0 Billion
Common Equity Tier 1 including Capital Conservation Buffer	10.43%	6.5%	10.43%	10.43%
Total Tier 1 including Capital Conservation Buffer	10.43%	8.0%	10.43%	10.43%
Total Capital Ratio including Capital Conservation Buffer	14.73%	12.0%	16.03%	16.47%

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 of CAR.

The Bank has sought approval from CBSL to include the Debentures as Tier 2 capital.

The Bank's intention herein is to obtain shareholders' approval for the issuance of any shares which may be created by the CBSL instructing the Bank to exercise the convertible option attached to these Debentures upon the occurrence of a "Trigger Event" referred to in Section 5.

In order for the Debentures to be recognized as Tier 2 capital of the Bank under BASEL III as detailed in the Banking Act Direction 01 of 2016 and Banking Act Direction No. 11 of 2019 issued by the CBSL, the Debentures are required to have the following minimum features:

- Listed on a recognized Stock Exchange
- Redeemable
- Subordinated
- Of a minimum tenor of 5 years
- Rated by an acceptable Rating Agency
- Having an option where, in the event the Monetary Board of the CBSL deeming it appropriate that the debentures being converted into ordinary voting shares of the Bank (ranking equal and *pari passu* with the existing ordinary voting shares of the Bank) through issuance of new shares to cover the total outstanding under the debentures is in the best interests of the Bank, directs the Bank to convert the debentures into ordinary voting shares of the Bank (ranking equal and *pari passu* with the existing ordinary voting

shares of the Bank) through issuance of new shares to cover the total outstanding under the debentures as per the Trigger Event referred to in Section 5.

## **2.2 To facilitate future expansion of business activities of the Bank**

Funds generated through the Debenture Issue will also be used to facilitate future expansion of business activities of the Bank. Accordingly, the Bank will use these funds to mobilize/ raise medium/long term funds to match medium/long term lending of the Bank and to minimize the interest rate risk and manage the gap exposures of the Bank's assets and liabilities.

Any lending to/with related parties will be carried out in compliance with all applicable statutes, direction and regulations. The Bank, as at the date of this Shareholder Circular has not recognized related parties for the lending of the proceeds of the Issue. As such, the Bank will disburse the proceeds of the Issue in the ordinary course of business. However, in the event, funds are lent to related parties in future, such lending will be done in accordance with Section 9 of the CSE Listing Rules.

It is the understanding of the Bank that the entire quantum of funds will be utilized within a period of twelve months from the Date of Allotment of the Debentures. In the interim period these funds will be invested in Government Securities at zero risk at the current market rates, which would generate a return at the rate of 5.75% p.a.- 6.25% p.a.

## **3. DISCLOSURE IN THE INTERIM FINANCIAL STATEMENTS AND 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. Please refer the past Annual Reports and interim financial statements of the Bank, for further details in this regard. Further information and relevant disclosures on utilization of proceeds will be more fully disclosed in the Prospectus.

## **4. SPECIFIC RISKS RELATING TO OBJECTIVES OF THE DEBENTURE 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 such as different types of deposits and borrowings.

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 Qualified Investors.

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

Based on the audited financials, during the year 2019, the Bank's gross loans and receivable portfolio recorded a growth of 16% from Sri Lanka Rupees Three Hundred and Fifty Three Billion and Three Hundred and Sixty Nine Million Six Hundred and Forty Nine Thousand (LKR 353,369,649,000/-) to Sri Lanka Rupees Four Hundred Nine Billion and Two Hundred Twenty One Million Four Hundred and Thirty Two Thousand (LKR 409,221,432,000/-). During the year 2020, the Bank's gross loans and receivables recorded a growth of 8% from Sri Lanka Rupees Four Hundred Nine Billion and Two Hundred Twenty One Million Four Hundred and Thirty Two Thousand (LKR 409,221,432,000/-) to

Sri Lanka Rupees Four Hundred and Forty Three Billion and Five Hundred Thirty Six Million Nine Hundred and Seventy Seven Thousand (LKR 443,536,977,000/-). Based on the unaudited interim financials, the Bank's gross loans and receivable portfolio recorded a growth of 10% during the first half of 2021 from the 2020 position to LKR Four Hundred and Eighty Seven Billion Eleven Million Seven Hundred and Ninety Seven Thousand (LKR 487,011,797,000) despite the challenging operating environment. The Bank has also maintained a four-year compound annual growth rate (CAGR) of 18% in its gross loans over the period 2016 – 2020, well above the industry growth average. As such, based on Bank's past experience and the growth achieved as at date, the Bank does not perceive any risk factor that may lead to non-achievement of expanding the Bank's loans and advances portfolio within the specified timeline via the proceeds of the Issue up to a maximum of Sri Lanka Rupees Eight Billion (LKR 8,000,000,000/-).

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 A TRIGGER EVENT

A 'Trigger Event' is determined by and at the sole discretion of the Monetary Board of CBSL, 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 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 have become non-viable, as determined by the Monetary Board.”

Upon the occurrence of a 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 without any requirement of approval by the Debenture Holders (as mentioned in item 10(iii) of Rule 20.2.3.1.1.1 of the Banking Act Direction No.1 of 2016 dated 29<sup>th</sup> December 2016 as amended from time to time) and the shareholders of the Bank. **The issue price for such ordinary voting shares 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 CSE during the said three (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 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 three (3) months preceding a Trigger Event as opposed to a shorter window closer to the Trigger Event, is aimed at smoothening out changes in price movements thus minimizing the extent of the dilution impact of the conversion.

The Board of Directors of the National Development Bank PLC (Bank) via circulation of papers on 1<sup>st</sup> September 2021 has resolved that the above price mechanism pertaining to the issue of shares at the point of non-viability conversion is fair and reasonable to the existing shareholders and the Bank.

However, if there is an issuance of ordinary voting shares to the Debenture Holders upon the occurrence of a 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 voting shareholders with voting rights after the date of allotment of new shares to such shareholders (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 CBSL.

The ordinary shares (with voting rights) arising from the conversion of Debentures will be listed on the CSE.

In the event of the Debenture Holders becoming shareholders of the Bank due to the occurrence of a 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 existing shareholders. 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 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 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.

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 Securities and Exchange Commission 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. there will be 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 CBSL 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 the strong performance of the Bank as per the previously published financial statements.**

## **6. QUALIFIED INVESTOR**

‘Qualified Investor’ shall mean,

- a commercial bank licensed by the CBSL in terms of the Banking Act No. 30 of 1988 (as amended);
- a specialized bank licensed by the CBSL 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 CBSL in terms of the Finance Business Act No. 42 of 2011 (as amended);
- a company licensed by the CBSL 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 Rupees five million (Rs. 5,000,000/-).

## **7. IMPACT OF COVID 19 ON THE BANK AND ITS BUSINESS OPERATIONS**

The COVID-19 pandemic has affected the business of banking, similar to other aspects of the local and global economies and day-to-day life. Banking being an essential service in Sri Lanka, the Bank continues its operations within health and safety guidelines issued by the Government and health authorities. The Bank has placed safety and well-being of its employees and customers as priority whilst continuing business operations. The Bank’s digital banking channels have been deployed in full force and customers are encouraged and to use these channels to conduct their banking transactions in a safe and secure environment. The Bank has strengthened its cyber risk management measures in tandem with the increase in digital banking volumes.

The Bank has also taken in to account the Bank’s customers affected by the pandemic and has deployed multiple measures to support them. Participation in CBSL’s Saubhagya COVID-19 Renaissance Facility, granting of various moratoria as per CBSL guidelines and Bank’s own measures, launch of banking proposition combining financial and advisory support to SMEs, exporters and innovators dubbed as “NDB Jayagamu Sri Lanka” are some examples.

Furthermore, the Bank has taken in to consideration, the elevated risks stemming from deteriorating macro-economic conditions as a result of the pandemic, which will impact debt serviceability of the Bank’s customers. The Bank has strengthened its risk management framework and practices to preserve asset quality.

With the recently concluded Rights Issue and Private placement which netted LKR 9.5 Bn, the Bank is soundly capitalized, maintains sufficient liquidity and is stably funded even amidst the challenges brought by the pandemic, as reflected in regulator mandated capital, liquidity and net stable funding ratios, with the Bank’s ratios well above regulator stipulated minimum requirements.



The Bank remains committed to provide support to its customers and the national economy in the revival from the effects of the pandemic, whilst being guided by and delivering on the Bank's five year strategy towards generating sound results to its shareholders and other stakeholders.

## 8. REDMPTION OF DEBENTURES

The proposed Debentures will be redeemed at maturity and the principal sum and unpaid and 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.

## 9. EXTRAORDINARY GENERAL MEETING

As per rule No.2.2.1.1 of the Listing Rules of the CSE 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 subject to obtaining required regulatory approvals. Further, it will also be necessary to obtain, by way of a duly passed special resolution, the approval of the shareholders for the proposed ordinary share issue (with voting rights) which arises pursuant to the conversion of the Debentures, which may affect the rights attached to the Bank's existing ordinary voting shares, in compliance with Section 99 of the Companies Act No. 7 of 2007 (as amended).

An Extraordinary General Meeting of the Bank (EGM) is being convened in accordance with the Notice of Meeting attached hereto which will be conducted via digital means / virtually, for the purpose of passing the special resolution set out herein.

Shareholders who wish to connect to the EGM via digital means through a Microsoft Teams meeting platform or a similar method are requested to forward the duly completed Form 1 (attached hereto) via email to the Company Secretary (**companysecretary@ndbbank.com**) or to facsimile number – 011 2341050 no later than 12 noon on 30th September 2021 to enable the Bank to share login information for the meeting.

In the current circumstances due to the Covid-19 pandemic, shareholders who cannot connect to the virtual EGM via digital means detailed in the Notice of Meeting are encouraged to opt to duly complete the Form of Proxy clearly setting out their preference of vote in the Form of Proxy and to appoint one of the Directors of the Bank to act on their behalf in order that each shareholder's vote may be identified and recorded as if such shareholder were participating at the meeting.

This virtual meeting/EGM option is being proposed to all shareholders in the best interest of protecting society against the spread of Covid-19 and with a view to maintaining social distancing at the EGM, as advised by the authorities.

For further queries on the arrangements made by the Bank you may contact one of the following persons who will be happy to assist you.

Name	Contact No.
Shehani Benjamin	0112 448448 Ex 35010
Teloma Liyanage	0112 448448 Ex 35012

Any additional arrangements made by the Bank, apart from the details set out above, will be communicated via announcements on the websites of the Colombo Stock Exchange and of the Bank.

We request all shareholders to check the CSE ([www.cse.lk](http://www.cse.lk)) or NDB Bank ([www.ndbbank.com](http://www.ndbbank.com)) websites for further updates as published by the Bank.

By Order of the Board  
NATIONAL DEVELOPMENT BANK PLC



Shehani Ranasinghe  
Company Secretary

14<sup>th</sup> September 2021

**National Development Bank PLC**

No 40, Nawam Mawatha, Colombo 02, Sri Lanka

Tel: +94 11 2448888; Fax: +94 11 2341050

Website: [www.ndbbank.com](http://www.ndbbank.com); Email: [contact@ndbbank.com](mailto:contact@ndbbank.com)

## **NOTICE OF EXTRAORDINARY GENERAL MEETING**

Notice is hereby given that an Extraordinary General Meeting of National Development Bank PLC will be held as a ‘virtual meeting’ from the Board Room of the Bank, 14th Floor, DHPL Building, No. 42, Nawam Mawatha, Colombo 02 at 02.30 p.m. on Thursday, the seventh (7th) day of October, Two Thousand and Twenty One (2021) for the purpose of considering, and if thought fit, to pass the following Special Resolution.

### **SPECIAL RESOLUTION**

“ THAT the Directors of the National Development Bank PLC (Bank) be and are hereby authorized to issue a maximum of eighty million (80,000,000) **Basel III compliant - Tier 2**, Listed, Rated, Unsecured, Subordinated, Redeemable Debentures of Rupees One Hundred (LKR 100/-) each **with a non-convertibility option to ordinary shares with voting rights** (“Debentures”) subject to Banking Act Direction 01 of 2016 dated 29.12.2016 and 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 .

The Directors of the Bank are hereby further authorized to issue and allot ordinary voting shares of the Bank to the holders of the said Debentures in the event the Monetary Board of Sri Lanka considers that a ‘Trigger Event’ has occurred and has deemed it appropriate that the total outstanding of the Debentures be 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 interests of the Bank, without which the Bank would become non-viable, to cover the total outstanding under the Debentures. 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 voting shareholders of the Bank with voting rights pari passu to their shareholding.

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 2 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:

- Listed on a recognized Stock Exchange
- Redeemable
- Subordinated
- Of a minimum tenor of 5 years
- Rated by an acceptable Rating Agency
- 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 voting shares of the

Bank (ranking equal and pari passu with the existing ordinary voting shares of the Bank) through issuance of new shares to cover the total outstanding under the Debenture is in the best interest of the Bank, directs the Bank to convert the Debentures into ordinary voting shares of the Bank (ranking equal and pari passu with the existing ordinary voting shares of the Bank) through issuance of new shares to cover the total outstanding under the Debentures (the Trigger Event above referred to).

By Order of the Board



Shehani Ranasinghe  
Company Secretary

14<sup>th</sup> September 2021

**NOTE:**

All Shareholders proposing to participate at the virtual meeting / EGM must complete and share with the Company Secretary Form 1 (attached hereto) via email to the Company Secretary ([companysecretary@ndbbank.com](mailto:companysecretary@ndbbank.com)) or to facsimile number – 011 2341050 no later than 12 noon on 30th September 2021 to enable the Bank to share login information for the meeting.

All Shareholders proposing to appoint a Proxy may do so by submitting both Form 1 and the duly completed Form of Proxy following the instructions provided with the Form of Proxy below.

**NATIONAL DEVELOPMENT BANK PLC**  
**PQ 27**

**FORM OF PROXY**

I/We.....  
(holder/s of NIC/s .....OR bearing company registration No .....)  
of.....

.....  
being a Shareholder/Shareholders of the above-named Bank, hereby  
appoint .....  
(holder of NIC No.....)  
of .....  
.....or failing him/her

- Eshana De Silva (Chairman of the Bank) of Colombo or failing him,
- Sriyan Cooray of Colombo or failing him,
- Bernard Sinniah of Colombo or failing him,
- Sujeewa Mudalige of Colombo or failing him,
- Hiran Perera of Colombo or failing him,
- Kushan D’Alwis P.C of Colombo or failing him,
- Piyachatr Chetnakarnkul of Colombo or failing her,
- Chandima Dilrukshi of Colombo or failing her,
- Dimantha Seneviratne (GCEO/Director of the Bank) of Colombo

as my/our Proxy to represent me/us and to vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Bank to be held on Thursday, the seventh (7<sup>th</sup>) day of October 2021 and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference indicated below:

	<b>For</b>	<b>Against</b>
To pass the <b>Special Resolution</b> set out in the notice convening the meeting	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... 2021

.....  
Signature(s) of Shareholder(s)

## **Instructions for Completion of Form of Proxy**

1. In order to appoint a Proxy holder, kindly complete the Form of Proxy. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy and should be signed and dated by the shareholder. The duly completed Form of Proxy must be deposited at the Registered Office of the Bank, at No. 40, Navam Mawatha, Colombo 2 or preferably via email to the Company Secretary (**companysecretary@ndbbank.com**) or by facsimile No. 0112 341050, not less than twenty four (24) hours before the time appointed for the meeting.

For the Bank's administrative convenience the Bank would very much appreciate and requests all shareholders to send in their Proxy Forms along with their Registration Form (Form 1) to reach the Bank no later than 12 noon on 30 September 2021 as this would enable the Bank to efficiently make all arrangements for the virtual meeting / EGM.

2. Shareholders/ proxy holders who are unable to connect to the virtual meeting / EGM are strongly encouraged to appoint one of the Directors of the Bank to act on their behalf in order that each shareholder's vote may be identified and recorded as if such shareholder were participating at the meeting. **FOR FURTHER DETAILS PLEASE CAREFULLY READ THE CIRCULAR TO SHAREHOLDERS.**

Shareholders should duly complete the Form of Proxy clearly setting out their preference of vote in the Form of Proxy.

Please indicate an "X" in the cage provided how your proxy should vote the resolution. If no indication is given, or if there is, in the view of the proxy holder, any doubt (by reason of the manner in which the instructions contained in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder in his/her discretion may vote as he/she thinks fit.

3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if the Power of Attorney has not already been registered with the Bank.
4. If you wish to appoint a person other than the Chairman or a Director of the Bank as your Proxy, please insert the relevant information in the Form of Proxy and forward same to the Company Secretary together with Form 1 as detailed above so that the Login information can be shared with your proxy holder to connect to the virtual meeting / EGM.
5. The Proxy holder appointed need not be a shareholder of the Bank.
6. In case of a corporate member, the Proxy must be executed under its Common Seal (if applicable) or in such other manner prescribed by the Articles of Association or other constitutional documents.
7. The first joint holder shall have the power to sign the Form of Proxy without the concurrence of the other joint holder/s.