LOAN NUMBER 3370-SRI

PROJECT AGREEMENT

(Small and Medium-Sized Enterprises Line of Credit Project)

between

ASIAN DEVELOPMENT BANK

and

SEYLAN BANK PLC

DATED 23 FEBRUARY 2016

PROJECT AGREEMENT

PROJECT AGREEMENT dated 23 February 2016 between ASIAN DEVELOPMENT BANK ("ADB") and SEYLAN BANK PLC ("PFI").

WHEREAS

(A) by a Loan Agreement between Democratic Socialist Republic of Sri Lanka ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of one hundred million Dollars ($100,000,000), on the terms and conditions set forth in the Loan Agreement, but only on the condition that a portion of the proceeds of the loan be made available to PFI and that PFI agrees to undertake certain obligations towards ADB as set forth herein; and

(B) PFI, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

ARTICLE II

Subloans

Section 2.01. (a) Except as ADB may otherwise agree, the SLR equivalent of the Loan proceeds shall be used only for making Subloans to Qualified Enterprises for Qualified Subprojects and shall be applied exclusively to the cost of Goods, Works and other items of expenditure required to carry out such Qualified Subprojects.

(b) Except as ADB may otherwise agree, all Goods and Works shall be procured in accordance with the provisions of Schedule 1 to the Loan Agreement.

Section 2.02. Each Subloan shall carry interest at an appropriate rate that reflects their cost of funds plus a spread to cover transaction costs and shall be made on terms whereby PFI shall obtain, by a Subloan agreement with the Qualified Enterprise, rights adequate to protect the interests of the Borrower, PFI and ADB.

Section 2.03. Without limiting the generality of the foregoing provisions of Section 2.02 of this Project Agreement and in addition to any other provisions which a prudent lender would request, each Subloan agreement shall include provisions to the effect that:

(a) the Qualified Enterprise shall carry out and operate the Qualified Subproject with due diligence and efficiency and in accordance with sound applicable technical, financial, business and development practices, including maintenance of adequate accounts and records;

(b) the proceeds of the Loan shall be used only for procurement in member countries of ADB, in accordance with procedures acceptable to ADB;

(c) the Goods and Works shall be used exclusively in the carrying out of the Qualified Subproject;

(d) ADB and PFI shall each have the right to inspect such Goods and Works, the Qualified Enterprise, the Qualified Subproject and any relevant records and documents;

(e) the Qualified Enterprise shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound business practice;

(f) ADB and PFI shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods, Works, the Qualified Subproject, the Qualified Enterprise and other related matters; and

(g) PFI shall be entitled to suspend or terminate further access by the Qualified Enterprise to the use of the proceeds of the Loan upon failure by the Qualified Enterprise to perform its obligations under its agreement with PFI.

Section 2.04. PFI shall promptly and effectively exercise its rights in relation to each Qualified Subproject in accordance with the standards of a prudent lender and in such manner as to protect the interests of the Borrower, PFI and ADB.

ARTICLE III

Particular Covenants

Section 3.01. (a) PFI shall carry out the Project with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Project and in the conduct of its business, PFI shall perform all the obligations set forth in the Loan Agreement to the extent that they are applicable to PFI.

Section 3.02. PFI shall not make a Subloan to any Qualified Enterprise unless such Qualified Enterprise has at its disposal, or has made appropriate arrangements to obtain as and when required, all local currency funds, including adequate working capital, and other resources which are required by such Qualified Enterprise for the carrying out of its Qualified Subproject in respect of which the Subloan is to be made.

Section 3.03. PFI shall maintain records and accounts adequate to record the progress of the Project and of each Qualified Subproject (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of PFI.

Section 3.04. (a) ADB and PFI shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) PFI shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and PFI shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, PFI and the Loan.

Section 3.05. (a) PFI shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Project; (iii) the Qualified Enterprises, the Qualified Subprojects and the Subloans; (iv) the administration, operations and financial condition of PFI; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, PFI shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of PFI. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request.

(c) Promptly after the Loan Closing Date, but in any event not later than 6 months after the said closing date or such later date as ADB may agree for this purpose, PFI shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the utilization of the Loan, the execution of the Qualified Subprojects, their costs, the performance by PFI of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 3.06. (a) PFI shall (i) maintain separate accounts and records for the Project; (ii) prepare annual statements of utilization of funds for the Project in accordance with accounting principles acceptable to ADB; (iii) have such statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the statements and the use of the Loan proceeds, and a management letter

(which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited statements of utilization of funds for the Project and the opinion of the auditors on the statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) In addition to the annual audited statements of utilization of funds referred to in subsection (a) hereinabove, PFI shall (i) provide its annual financial statements prepared in accordance with financial reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iii) as part of each such audit, have the auditors prepare the auditors' opinion(s) on the financial statements and compliance with the financial covenants of the Project Agreement; and (iv) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements and auditors' opinion(s), all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) PFI shall enable ADB, upon ADB's request, to discuss the statements of utilization of funds for the Project and the financial statements of PFI and its financial affairs where they relate to the Project with the auditors appointed by PFI pursuant to subsections (a)(iii) and (c)(ii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of PFI, unless PFI shall otherwise agree.

Section 3.07. PFI shall enable ADB's representatives to inspect any Qualified Enterprise, any Qualified Subproject, the Goods and Works, and any relevant records and documents.

Section 3.08. (a) PFI shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) PFI shall at all times conduct its business in accordance with sound applicable technical, financial, and business practices, and under the supervision of competent and experienced management and personnel.

(c) Except as ADB may otherwise agree, PFI shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 3.09. Except as ADB may otherwise agree, PFI shall duly perform all its obligations under the Subsidiary Loan Agreement and shall not take, or concur

in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

ARTICLE IV

Effective Date; Termination

Section 4.01. This Project Agreement shall come into force and effect on the date notified by ADB.

Section 4.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 4.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement. The provisions on cancellation and suspension are set forth in the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, and such loan regulations are incorporated by reference in the Loan Agreement.

ARTICLE V

Miscellaneous

Section 5.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2337

For PFI

Seylan Bank PLC
Seylan Towers
9 Galle Road
Colombo 03
Sri Lanka

Facsimile Number:

+94 11 2452539.

Section 5.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of PFI may be taken or executed by its Deputy General Manager – Branch Credit or by such other person or persons as he shall so designate in writing notified to ADB.

(b) PFI shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

Section 5.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.

ASIAN DEVELOPMENT BANK

By _____
SRI WIDOWATI
Country Director
Sri Lanka Resident Mission

SEYLAN BANK PLC

By _____
K D W ROHANA
Deputy General Manager –
Branch Credit

SCHEDULE

Execution of Project; Financial Matters

Implementation Arrangements

1. PFI shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the Project Administration Manual ("PAM"). Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and the Loan Agreement and the Project Agreement, the provisions of the Loan Agreement and the Project Agreement shall prevail.

Condition for Withdrawal and Disbursement Procedures

2. For each Auction, no withdrawal shall be made from the Loan Account for PFI until:

(a) a Project Agreement, in form and substance satisfactory to ADB, has been duly executed and delivered on behalf of ADB and PFI; and

(b) PFI has provided ADB a legal opinion specifying that the Project Agreement has been duly authorized, executed and delivered on behalf of PFI, and is legally binding on PFI in accordance with its terms.

3. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook. ADB shall finance 100% of the expenditures claimed under each Subloan.

PFI Eligibility Criteria

4. PFI shall satisfy and maintain the following eligibility criteria:

(a) confirmation from the CBSL that PFI is in good regulatory standing, including its corporate governance, reputation/integrity, and compliance with CBSL's combating money laundering and financing of terrorism requirements;

(b) ADB's financial and integrity due diligence requirements;

(c) compliance with CBSL's regulatory capital minimum as of PFI's last audited financial statements;

(d) a maximum net nonperforming loan ratio of 5%, or such ratio as determined by the Steering Committee and ADB from time to time, as of PFI's last audited financial statements;

(e) PFI was profitable as of its last audited financial statements;

(f) a minimum (tangible) equity of at least SLRs 1 billion as of PFI's last audited financial statements;

(g) PFI shall not have undisbursed funds from any other ADB project. However, if the PFI has an outstanding disbursed loan from ADB, it is eligible for the Project as long as it does not prepay the existing ADB loan (for the avoidance of doubt, such pre-payment is a breach of PFI eligibility criteria and ADB retains the right to discontinue with PFI for the Project);

(h) PFI shall maintain a management information system that can provide quarterly reports on Subloan disbursements, repayment performance, lending spreads, and Qualified Enterprises- and Qualified Subprojects-related information;

(i) PFI shall consent that ADB can publicly disclose the results of successful and unsuccessful auction bids, disbursements, repayment performance, lending spreads, lending to Qualified Enterprises, and any other such information on the use of Subloans; and

(j) in the event PFI failed to fully disburse the funds as subloans within 20 months from the date of the Applicable Auction, it shall pay the Borrower a penalty of 50% of the borrowed interest rate on the undisbursed portion of the funds (such penalty being in addition to the borrowed interest rate).

5. ADB shall confirm the participation of PFIs in the Project based on its assessment of its compliance with the eligibility criteria described in paragraph 4 of this Schedule. Further to such confirmation and allocation of SLR equivalent of Loan proceeds to PFI under the Auction Arrangement, ADB shall enter into a Project Agreement with PFI. Such Project Agreement is based on a standard form developed by ADB for the Project.

Qualified Enterprises

6. PFI shall ensure that each Qualified Enterprise:

(a) is economically and financially viable (as demonstrated by, for example, its capacity to repay the Subloan);

(b) is not a related party with respect to PFI under the Borrower's law and regulations or the CBSL's requirements, including with respect to PFI's board of directors or senior management;

(c) including any subsidiaries if it is a corporate group, has (i) an annual turnover of less than SLRs 750 million; or (ii) less than 300 employees if its business is in manufacturing or 200 employees if its business is in services;

(d) is not borrowing for the purpose of acquiring a "three-wheeler" for hiring; and

(e) shall provide contribution by way of equity to the Qualified Subproject in accordance with commercial norms.

Qualified Subproject

7. PFI shall ensure that each Qualified Subproject:

(a) is for activities that have minimal or no adverse environmental or social impacts under ADB's Safeguard Policy Statement (for the avoidance of doubt, activities with involuntary resettlement or indigenous peoples impact classified as Category A or B or environmental impact classified as Category A pursuant to ADB's Safeguard Policy Statement are excluded from the Project);

(b) does not entail any activities that are included in the list of prohibited activities provided in Appendix 5 of ADB's Safeguard Policy Statement; and

(c) is included in Attachment 1 of the Environmental Management System Framework (as may be updated by ADB from time to time during implementation subject to due diligence check).

Qualified Subprojects that are Classified as Category B for Environmental Impact

8. (a) Notwithstanding the generality of paragraph 7(a) and 7(c) of this Schedule, in the event PFI wishes to provide Subloans for Qualified Subprojects that are classified as Category B for environmental impact pursuant to ADB's Safeguard Policy Statement, PFI shall ensure that before any such Qualified Subproject is approved for financing:

(i) PFI's environmental management system is used to screen and categorize the significance of potential environmental impacts associated with the prospective Qualified Subproject and designated staff are trained in using the system, both acceptable to ADB; and

(ii) an Initial Environmental Examination ("IEE") and an Environmental Management Plan ("EMP") are prepared for such Qualified Subproject as required pursuant to the environmental management system.

(b) If PFI meets the requirements in subparagraph (a) hereinabove, it may also provide Subloans for Qualified Subprojects that do not meet the requirement in subparagraph 7(c) of this Schedule, provided that the requirements in subparagraphs 7(a) and (b) of this Schedule are met.

9. PFI shall ensure that the preparation, design, construction, implementation, operation and decommissioning of such Qualified Subproject comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; (c) the environment management system; and (d) all measures

and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a safeguards monitoring report.

10. PFI shall ensure that (a) necessary budgetary and human resources are made available to fully implement the environment management system; and (b) each Qualified Enterprise under the Qualified Subproject makes necessary budget and human resources to fully implement the respective EMP.

11. PFI shall do the following:

(a) submit annual safeguards monitoring reports to ADB;

(b) if any unanticipated environmental and/or social risks and impacts arise during Qualified Subproject implementation, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and

(c) report any actual or potential breach of compliance with the measures and requirements set forth in the environment management system and any EMP promptly after becoming aware of the breach.

Subloans

12. PFI shall ensure that:

(a) 10% of the total number of Subloans shall be made to Qualified Enterprises that have not previously borrowed from a licensed commercial bank or a licensed specialized bank;

(b) 5% of the total number of Subloans shall be made to Qualified Enterprises that are led by women or at least 51% of its ownership is controlled by women, or at least 60% of its senior managers are women, or at least 50% of its board members are women;

(c) 50% of the total Subloan amounts shall be made to Qualified Enterprises that are "targeted SMEs", namely SMEs that are:

(i) located outside of the Colombo District (i.e. the SME may be registered in the Colombo District as long as the Qualified Subproject is for activities outside that district);

(ii) using the Subloans for their working capital against which fixed or financial assets are not pledged;

(iii) led by women as described in subparagraph (b) hereinabove; or

(iv) has not previously borrowed from a licensed commercial bank or licensed specialized bank as described in subparagraph (a) hereinabove;

(d) for Subloans that are not described under subparagraph (c)(ii) hereinabove, less than 50% of such Subloan amounts shall be used for the Qualified Enterprise's working capital; and

(e) the maximum amount for each Subloan is SLRs 50 million.

Reflows to PFI

13. If Subloans are repaid to PFI prior to their repayment to the Borrower, PFI may onlend the funds to Qualified Enterprises provided it: (a) maintain a separate ledger for such onlending; and (b) onlends at a rate that is equal to or less than CBSL's most recently published monthly average weighted deposit rate plus the average weighted credit margin that PFI charged on the initial Subloans.

Financial Covenants

14. For the purposes of Section 3.06(c)(iii) of this Project Agreement, PFI shall ensure that the auditors' opinion(s) for its annual audited financial statements addresses the financial covenants in subparagraphs 4(c), (d), (e) and (f) of this Schedule.

Governance and Anticorruption

15. PFI shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Combating Money Laundering and Financing of Terrorism

16. PFI shall:

(a) comply with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;

(b) formulate and implement internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and

(c) promptly inform the Borrower and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs PFI of its concern that there has been such an alleged violation, such PFI shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.