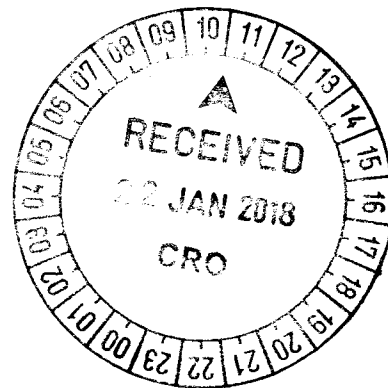




DFCC BANK PLC
[Company Registration No. PQ 233]

EXTRAORDINARY GENERAL MEETING

to be held on 19 February 2018 at 10.00 am

at the Oak Room,

Cinnamon Grand, Colombo

No.77, Galle Road, Colombo 3

ME
Pls circulate
96
22/01

CONTENTS

Circular to Shareholders
Notice of Meeting
Form of Proxy
Attendance Slip

DFCC Bank PLC

73/5, Galle Road, Colombo 00300, Sri Lanka
Tel: +94 11 2442442; Fax: +94 11 2440376
Website: www.dfcc.lk; Email: info@dfccbank.com

CIRCULAR TO SHAREHOLDERS

Dear Shareholder/s

Your Bank has made a profit of LKR 3,418 million for the nine months ended 30 September 2017 (Group LKR 3,391 million). Total shareholders' funds increased from LKR 45,850 million to LKR 47,206 million (Group equity increased from LKR 46,850 million to LKR 48,314 million) as reflected in the Interim Published Financial Statements as at 30 September 2017.

Having identified the need to strengthen the Tier II capital base as per BASEL III requirements which will facilitate the Banks forecasted asset growth, the Board of Directors of DFCC Bank PLC (Bank) at its meeting held on 4 January 2018 decided and recommend the following:

ISSUE OF RATED, UNSECURED, SUBORDINATED, REDEEMABLE DEBENTURES (BASEL III COMPLIANT TIER 2 DEBT SECURITIES) WITH A TERM OF UP TO 7 YEARS, WITH A NON-VIABILITY CONVERSION OPTION TO ORDINARY SHARES WITH VOTING RIGHTS BY THE BANK SOLELY, IF INSTRUCTED BY THE CENTRAL BANK OF SRI LANKA. THE NON-VIABILITY CONVERSION OPTION WILL BE INVOKED UPON THE OCCURRENCE OF THE TRIGGER EVENT (THE TRIGGER EVENT IS REFERRED TO IN SECTION 4).

To raise a sum of Rupees Five Billion (LKR 5,000,000,000) by an initial issue of up to Fifty Million (50,000,000) Debentures, 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) Debentures in the event of an over subscription of the initial issue at the discretion of the Bank (Hereinafter collectively called "the Debentures").

As such a maximum amount of Rupees Seven Billion (LKR 7,000,000,000) would be raised by the issue of a maximum of Seventy Million (70,000,000) Debentures each with a par value of LKR 100/-.

Given the available options, the Bank chose to proceed with the issue of a BASEL III compliant convertible debenture taking into consideration the following:

- (a) Capital raised through such an issue will enhance the Tier 2 capital of the Bank
- (b) Issue will not dilute the Return on Equity (ROE) of the Bank. However, if the non-viability conversion option is invoked, it will then result in a dilution of the ROE.

The issuance of the BASEL III compliant Tier 2 debt securities ("the Debentures") and trading of such Debentures in the secondary market is limited to "Qualified Investors" (please refer section 5 for definition of qualified investor).

ABOVE ISSUE IS SUBJECT TO THE APPROVAL OF THE COLOMBO STOCK EXCHANGE (CSE), CENTRAL BANK OF SRI LANKA & ANY OTHER REGULATORY APPROVALS (AS APPLICABLE)

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 EGM convened and the final rating will be incorporated in the Debenture Prospectus.

1. OBJECTIVES OF THE ISSUE

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

1.1 Improve the capital adequacy ratio (CAR) in the light of the new regulatory requirements introduced in line with the Basel III accord.

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

In December 2016, Central Bank of Sri Lanka (CBSL) issued Banking Act Direction No.1 of 2016 revising the minimum capital requirement for Banks with effect from 1 July 2017. With this new requirement the minimum capital adequacy ratios applicable to the Bank for Tier I capital ratio and Total capital ratio under BASEL II which stood at 5% and 10% respectively is to gradually increase to 8.5% and 12.5% by 1 January 2019.

The revised requirement for Banks with assets less than LKR 500 billion commencing 1 July 2017 is to be as follows:

Components of Capital	BASEL III- Minimum Regulatory Requirement, %		
	1 July 2017	1 Jan 2018	1 Jan 2019
Common Equity Tier 1 capital with buffers	5.75	6.375	7.0
Total Tier 1 capital with buffers	7.25	7.875	8.5
Total capital ratio with buffers	11.25	11.875	12.5

Banks Capital Adequacy Ratio (CAR) under BASEL III

The Bank has complied with the CBSL BASEL III minimum capital adequacy requirement as at 1 July 2017 and 1 Oct 2017 with Tier I ratios of 12.37% & 11.37% and Total capital ratio of 16.28% and 15.04% respectively.

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

	01 Jan 2019	
	Requirement, %	Estimated, %
Common Equity Tier 1 capital with buffers	7.0	12.6
Total Tier 1 capital with buffers	8.5	12.6
Total capital ratio with buffers	12.5	16.7

As a result of the growth in business, the CAR of the Bank has declined in recent years and will decline further by December 2018 (under Basel III). 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 in CAR.

The Bank's intention herein is to obtain shareholders' approval for the issuance of any shares which may be caused by the Central Bank of Sri Lanka instructing the Bank to exercise the convertible option attached to these Debentures (The occurrence of the "Trigger Event" referred to in section 4).

In order for the Debentures to be recognized as Tier II Capital of the Bank under BASEL III as detailed in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- 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 shares of the Bank (ranking equal and *pari passu* with the existing ordinary shares of the Bank) through issuance of new shares to cover the total outstanding under the Debentures is in the best interest of the Bank, directs the Bank to convert the Debentures into ordinary shares of the Bank (ranking equal and *pari passu* with the existing ordinary shares of the Bank) through issuance of new shares to cover the total outstanding under the Debentures (the Trigger Event referred to in section 4)

1.2 Support the Bank's balance sheet growth

Funds generated through the Debenture Issue will also be used to support the lending activities of the Bank as part of its normal course of business. The Bank will use these funds to support lending.

The proceeds from the Issue will be added to the Bank's pool of funds. This pool is available for on-lending to all parties. Transactions with related parties will be carried out in compliance with all applicable Statutes, Directions and Regulations.

It is the understanding of the Bank that the entire quantum of funds will be utilized within a period of 12 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 8.06% - 8.80%

2. DISCLOSURE IN THE INTERIM FINANCIAL STATEMENTS & THE ANNUAL REPORT

The utilization of the proceeds of the Debenture Issue will be disclosed in the Annual Report and the Interim Financial Statements from the allotment date and until the objectives of the Debenture Issue are achieved. The Bank has utilized the proceeds of all previous Debenture Issues towards achieving the objectives of the respective Issues.

3. SPECIFIC RISKS RELATING TO OBJECTIVES OF THE DEBENTURE ISSUE (the 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 investors.

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

The Bank's portfolio of loans and advances recorded a growth of LKR 25,439 million and LKR 16,891 million respectively during the year 2016 and the nine months ended 30 September 2017. As such, based on Banks past experience and the growth achieved as at date there is no specific risk factor that may lead to non-achievement of expanding the Bank's loans and advances portfolio within the specified time line via the proceeds of the Issue up to a maximum of LKR 7 billion. However, in the highly unlikely event of the Bank failing to lend these funds due to an unforeseen reason, these funds would be invested in Government Securities at zero risk at the current market rates.

4. OCCURRENCE OF THE TRIGGER EVENT

A 'Trigger Event' is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1. (10) (iii) (a & b) as a point /event 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 the Trigger Event, the non-viability conversion option will be invoked and the Bank shall be required and entitled to issue and within twenty (20) market days to allot ordinary shares of the Bank ranking equal and *pari-passu* with the existing ordinary shares to the Debenture Holders up to the outstanding balance of such Debentures including the total par value of the Debentures and unpaid accrued Debenture Interest at an issue **price for such ordinary shares which will be based on the Volume Weighted Average Price (VWAP) of an ordinary 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 share as published by the Colombo Stock Exchange during the said 3 month period. In the event of any Debenture Holder being entitled to a fractional allotment of an ordinary 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 shares.

Averaging out of the VWAP over a period of 3 months preceding the Trigger Event as opposed to a shorter window closer to the Trigger Event, is aimed at smoothening out changes in price movements thus minimizing the extent of the dilution impact of the conversion.

However, if there is an issuance of ordinary shares to the Debenture Holders upon the occurrence of the Trigger Event, a Debenture Holder would cease to be a Debenture Holder and would become a shareholder of the Bank to the extent of such issuance and will rank equal and *pari passu* with existing ordinary 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 Central Bank of Sri Lanka with regard to the application of the Single Holder Limit.

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

In the event of the Debenture Holders becoming shareholders of the Bank due to the occurrence of the Trigger Event, they would be entitled to exercise such rights as are exercisable by the other shareholders of the Bank holding ordinary shares. In the event of conversion to ordinary 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', the then existing shareholders will be first called upon to bring in additional capital (subject to CSE & SEC approval as applicable), and only, **if they are unable to infuse fresh capital, (i.e.; Tier I Capital) will the proposed debenture get converted to ordinary share capital (Tier I capital) upon the determination of the non-viability point by the Monetary Board.**

Reduction of the Debenture liability of the Bank will reduce the strain on the assets of the Bank in the event of liquidation. i.e. more assets leftover for distribution to the shareholders though on a diluted basis with the inclusion of newly converted Debenture Holders (existing shareholders plus newly converted shareholders).

With the reduction of the interest bearing liabilities as stated above, the financing cost will reduce and improve the bottom line of the Bank.

The Bank on receipt of a Trigger Event notification from the Central Bank of Sri Lanka will immediately make a market announcement of the same and further announce the "price" and "dates" (i.e. trigger event date, date of allotment) pertaining to such conversion of debentures to ordinary shares.

However, it is unlikely that the 'trigger point' would occur given the high credit rating of the Bank and the strong performance of the Bank.

5. QUALIFIED INVESTOR

'Qualified Investor' shall mean,

- a commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended);
- a specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended);
- a mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund;
- a venture capital fund/company and private equity company;
- a finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011(as amended);
- a company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act No. 56 of 2000 (as amended);
- a company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended);
- a corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 7 of 2007;
- an investment trust or investment company;
- a non-resident institutional investor; and,
- an individual with an initial investment of Rs. 5,000,000/-.

6. 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.

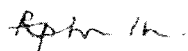
7. EXTRAORDINARY GENERAL MEETING

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

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

Shareholders who are unable to attend the meeting in person are kindly requested to complete the enclosed Form of Proxy (in accordance with the instructions specified therein) and deposit it at the Registered Office of the Bank not less than 48 hours before the time appointed for the meeting.

By Order of the Board
DFCC BANK PLC



Anomie Withana
Company Secretary

11 January 2018

DFCC Bank PLC

73/5, Galle Road, Colombo 00300, Sri Lanka

Website: www.dfcc.lk; Email: info@dfccbank.com

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of DFCC Bank PLC will be held at the **Oak Room, Cinnamon Grand, Colombo**, No.77, Galle Road, Colombo 3 at **10.00 am** on **Monday, 19 February 2018** for the purpose of considering, and if thought fit, to pass the following Special Resolution:

SPECIAL RESOLUTION

“ THAT the Directors be and are hereby authorized to issue a maximum of 70,000,000 Listed Rated Unsecured Subordinated Redeemable Debentures of Rs 100/- each with a term of up to 7 years compliant with BASEL III requirements and also to issue and allot ordinary shares of the Bank to the holders of the said Debentures (BASEL III Compliant Tier 2 debt securities) (“ Debentures”) through a non viability conversion option of the Debentures and issuance of new ordinary shares with voting rights to cover the total outstanding under the Debentures in the event the Monetary Board of the Central Bank of Sri Lanka (“CBSL”) considers that a ‘Trigger Event’ has occurred and has deemed it appropriate that the total outstanding of the Debentures being converted to ordinary shares of the Bank (rank equal and pari passu with the existing ordinary shares of the Bank) is in the best interest of the Bank, without which the Bank would become non-viable. The consequent conversion of the Debentures to ordinary shares and issuance of new ordinary 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 shares shall be the Volume Weighted Average Price (VWAP) of an ordinary 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 share as published by the Colombo Stock Exchange during the said 3 month period), immediately preceding the date on which the CBSL has determined as aforesaid and that such shares be offered to the holders of the Debentures on the aforesaid basis in lieu of the amounts due and payable on the Debentures without such shares being in the first instance offered to the then existing ordinary shareholders of the Bank with voting rights pari passu to their shareholding.

In the event the conversion price based on the above VWAP formula at the time of the Trigger Event is low, this would result in a comparatively higher number of ordinary shares (with voting rights) being required to be issued by the Bank which would further dilute the holding percentage of existing shareholders. On the contrary, if a higher VWAP prevails at the time of a Trigger Event, this would result in comparatively low number of ordinary shares (with voting rights) requiring to be issued which would lead to a lesser degree of dilution in the holding percentage of existing shareholders.

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

The issuance of the BASEL III compliant Tier 2 debt securities (“the Debentures”) and trading of such Debentures in the secondary market is limited to “Qualified Investors”

The 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 II Capital of the Bank under BASEL III as detailed in the Banking Act Direction No. 1 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

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

By Order of the Board



Anomie Withana
Company Secretary

11 January 2018