

ST

4 July 2007

Dr. P.B. Jayasundera
 Secretary
 Ministry of Finance
 Democratic Socialist Republic of Sri Lanka
 Galle Face Secretariat,
 Colombo 1, Sri Lanka

AD/P
 PT. Study & Report
 RP
 06/08

Dear Dr. Jayasundera:

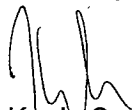
Re: Amendments to Rebate and Surcharge Provisions of Loan Agreements

1. In October 2006, the Board of Directors of the Asian Development Bank (ADB) approved changes to the calculation of rebates and surcharges under ADB's LIBOR-based loans, as proposed in *Enhancements for the Asian Development Bank's Loan and Debt Management Products* (R221-06, 10 October 2006). These changes adopt a "forward" approach to rebate/surcharge application, providing that rebates and surcharges are to be applied to the upcoming interest period. Presently, ADB's LIBOR-based loans provide for retroactive rebate/surcharge application to the previous interest period.
2. To give effect to the changes approved by the Board, it is necessary to amend each of the Loan Agreements between the Democratic Socialist Republic of Sri Lanka and ADB (as amended or supplemented from time to time, the Loan Agreements) listed in Appendices 1-5 to this letter with the amendments set forth therein. In all other respects, the Loan Agreements remain unchanged.
3. Please indicate your agreement to the amendments to each of the Loan Agreements by signing in the space indicated below on the two original counterparts of this letter. We request that you return one signed original counterpart to ADB, for the attention of Ms. Hazel Llemitt, Senior Finance Assistant, Office of the General Counsel. Please retain the other signed original counterpart for your records.

ASIAN DEVELOPMENT BANK
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 AUG 20 2007
 OFFICE OF THE GENERAL COUNSEL

4. The amendments will take effect as of 1 July 2007, following receipt by ADB of a signed original counterpart. If you have any questions, please contact Ms. Hazel Llemit, Senior Finance Assistant on +632-632-5077 or at hllemit@adb.org.

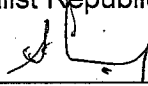
Sincerely,



Kunio Senga
Director General
South Asia Department

ACKNOWLEDGED AND AGREED:

Democratic Socialist Republic of Sri Lanka

Signature 
Name _____
Designation _____
Date 13-08-2007

SUJATHA COORAY
DIRECTOR GENERAL
DEPARTMENT OF EXTERNAL RESOURCES
MINISTRY OF FINANCE & PLANNING
THE SECRETARIAT
COLOMBO 1.

Appendix 1

Amendments to Loan Agreements

Section 1.01 of the following Loan Agreements is deleted in its entirety and a new Section 1.01 as set forth below is substituted therefor:

Loan No.	Title	Date Signed
1910-SRI	Aquatic Resource Development and Quality Improvement Project	8 July 2003
1914-SRI	Plantation Development Project	8 November 2002
2041-SRI	Rural Finance Sector Development Project	21 January 2004
2044-SRI	Conflict Affected Areas Rehabilitation Project	7 December 2004
2132-SRI	Modernization of Revenue Administration Project	20 December 2004
2217-SRI	National Highways Sector Project	14 December 2006
2275-SRI	Secondary Towns and Rural Community-Based Water Supply and Sanitation Project - Supplementary	6 June 2007
2319-SRI	Colombo Port Expansion Project	25 April 2007

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 3.06 of the Loan Regulations is deleted in its entirety and the following is substituted therefor:

Section 3.06. Rebate.

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(b) Section 3.07 of the Loan Regulations is deleted in its entirety and the following is substituted therefor:

Section 3.07. Surcharge.

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.