

Circular to Shareholders on proposed Employee Share Option Plan – 2026 (ESOP-2026)

Dear Shareholder/s,

1. Business case

a) Background

The need for equity based compensation schemes in an organisation is an essential tool to align employee interests with that of its Shareholders. To achieve this goal, employers need to devise incentive schemes, such as Employee Share Option Schemes/ Plans (ESOPs) that adequately motivate and compensate employees. The ability to leverage the intrinsic value of human capital via equity based compensation schemes could help create a sustainable competitive advantage in an environment where other factors such as financial capital, technology and physical assets are becoming increasingly homogenous.

As mentioned above, the primary objective of an ESOP is to align the interests of employees with that of the Shareholders. Consequently, a 'reasonable' quantity of shares must be owned by the employees and the value of shares thus allocated should be economically significant enough to motivate them. At the same time, allocations should be made gradually to control the dilution in Shareholder wealth, extend the life of the ESOP, retain employees and maintain employee motivation over the long term.

b) Proposal

Commercial Bank of Ceylon PLC (the 'Company') has, with the approval of the Shareholders successfully implemented five Employee Share Option Plans ('ESOPs') which were introduced during the years 2002 ['ESOP-2002'], 2008 ['ESOP-2008'], 2015 ['ESOP-2015'], 2019 ['ESOP-2019] and 2023 ['ESOP-2023'], respectively. The said ESOPs, which had also received the approval of regulatory bodies were operated in accordance with the Guidelines set out by the Securities and Exchange Commission of Sri Lanka (the 'SEC') and the Colombo Stock Exchange (the 'CSE') and the said ESOP 2002, ESOP 2008, ESOP 2015 and ESOP 2019 were successfully concluded in 2006, 2019, 2021 and 2024 respectively, and ESOP 2023 is still operative.

Given the success of the above ESOP schemes, which have been of mutual benefit to both employees and Shareholders of the Company, and, in keeping in line with modern international practices, the Company's Board of Directors propose to introduce an ESOP for the year 2026 ['ESOP-2026'], subject to regulatory and Shareholder approval being obtained therefor.

Furthermore, ESOP-2026 has been structured with the professional assistance of NDB Investment Bank ['NDBIB']. The terms and conditions governing the ESOP-2026 are, as set out herein, subject however to

the provisions of applicable statutes, the Listing Rules of the CSE and other applicable rules and regulations of regulatory bodies and provided that any matter not expressly dealt with herein or which lacks clarity will, for purposes of administrative efficacy and clarity of this scheme, be determined at the discretion of the Company's Board of Directors [subject to such Board being constituted for this purpose only of the Non-Executive Directors] within the framework of the Report provided by NDBIB to establish ESOP-2026.

ESOP-2026 will come into effect from March 31, 2026 [subject to all necessary approvals being obtained therefor] and will lapse on September 30, 2031. The employees holding shares issued under any previous ESOPs which were funded by the Company or any of its Subsidiaries and an Employee Share Trust, shall not participate in voting at the Extraordinary General Meeting to be held on March 31, 2026.

2. Quantum of Share Options to be Issued

Under the proposed ESOP-2026, the Company will allocate up to 3.0% of the total issued and fully-paid ordinary [voting] shares of the Company amounting to 46,195,156 (subject to exercise of existing ESOPs and due to any further issues the Company may decide to opt).

This equity allocation would be issued to employees in the form of share options in a maximum of three (03) tranches, each spread over a period of three (03) years, commencing from 2026. The ESOP-2026 will lapse in 2031.

Each of the three tranches would amount to a maximum of 1.0%, of the ordinary (voting) shares in issue as at the respective grant date [i.e. the date on which the share options are granted to the employees]. The Company's Board of Directors will, however, have the discretion to decide on the exact size of an annual tranche up to the said limits to be granted in a financial year, depending on the extent of achievement of the qualifying criteria by the Company in the previous year, as detailed in Section 3 below (subject to however the 2nd paragraph of Section 4 below). If the quantum of share options granted in a given year is less than the above mentioned maximum amount of 1.0% (each year), the remainder which has not been granted in a given year will remain unissued.

The Company shall make provisions in the scheme for the adjustment of the exercise price / the number of shares underlying the options that have not been exercised in the event of an increase in the total number of shares of the Company (e.g. rights issue

of shares, issue of shares credited as fully paid-up by way of capitalization of reserves, scrip dividends and sub division of shares) or decrease in the total number of shares of the Company (e.g. consolidation of shares and repurchase of shares) which occur during the vesting period and the exercise period. Note that the Company shall make provision in the scheme for the adjustment of the exercise price / the number of shares underlying the options that have not been exercised (as applicable) in accordance with the Rule 5.6.6 (a) (ii) of the Listing Rules of the CSE. The Company shall in such instance, immediately disclose the adjusted exercise price/the number of shares underlying the options that have not been exercised (as applicable) to the Exchange.

3. Qualifying criteria that the Company should satisfy to proceed with ESOP-2026

a) Profitability

i) Qualifying Criteria 1 – The Company should achieve Annual Budgeted Profit After Tax (PAT)

The Company should achieve the annual budgeted PAT for the financial year 2025, 2026 and 2027, respectively, for eligible employees to be entitled for share options.

ii) Qualifying Criteria 2 – The Company should achieve higher percentage growth in PAT than the Peer Group

The Company's percentage growth of PAT in a financial year should exceed the average of percentage growth of PAT disclosed by the banks in the Peer Group in their Annual Reports/Published Annual Financial Statements during the same period.

The Peer Group will be Hatton National Bank PLC, Sampath Bank PLC, National Development Bank PLC and Seylan Bank PLC. In the event of any mergers and acquisitions involving banks included in the Peer Group, the Board of Directors of the Company would have the discretion to reconstitute the Peer Group based on prevailing market conditions.

Furthermore, it should be noted that normalized figures should be used when computing the relevant PAT figures (both for the Company and the Peer Group). The normalized PAT should exclude reported exceptional gains/losses for comparison purposes. The previous year's PAT for both the Company and the Peer Group may also have to be adjusted to reflect any changes to taxes and other statutory levies in order to enable a fair comparison and calculation of growth rates. The Board of Directors of the Company should determine what should be the exceptional items for this purpose.

b) Return on Equity (ROE)

There are two sub-criteria to be fulfilled in this connection-

i) Qualifying Criteria 3 – The Company's ROE should be greater than the Required ROE

The Company's ROE for the financial year 2025, 2026 and 2027 should exceed the Required ROE of the Company.

Required ROE can be calculated as follows:

Required ROE = Five Year Historical Average ROE of the Company

ii) Qualifying Criteria 4 – The Company's ROE should be greater than the Pooled ROE of the Peer Group

ROE of the Company, measured as per the formula below for a financial year 2025, 2026 and 2027 should exceed the Average (Pooled) ROE of comparator banks during the same period, to be calculated using the same formula:

$$\text{ROE} = \frac{\text{Profit After Tax}}{\text{Book Value of Equity (Shareholder's Funds)}}$$

Book Value of Equity to be used in the above calculation should be a time weighted average whereas PAT should be calculated on a normalised basis.

c) Compliance

Qualifying Criteria 5 – Fulfilment of compliance requirements

Licensed commercial banks operating in Sri Lanka have to adhere to all the regulatory requirements stipulated by the Central Bank of Sri Lanka (CBSL). In addition, the Company being a listed company needs to adhere to CSE and SEC requirements and regulations. The rationale of introducing "Compliance" as a qualifying criterion is to ensure that the Company operates within the regulatory parameters and promotes good corporate governance.

4. How to be eligible for ESOP-2026

From 2026 onwards the Company will be required to fulfil any two of the four criteria referred to in 3(a)(i), 3(a)(ii), 3(b)(i) and 3(b)(ii) above in the financial year applicable, in addition to the compulsory fulfillments of the criterion on Compliance, referred to in 3(c) above.

An employee of the Company shall not be entitled to acquire through ESOPs more than one per centum (1%) of the total number of shares issued by the Company at any given time.

Hence, share options under the annual tranches up to a maximum of three (03) will be granted during the period from 2026 to 2028. Any share options not allocated during this period, due to the Company not achieving the above qualifying criteria will be cancelled.

5. Share option grant dates

Share options under the First (1st) tranche of the ESOP-2026, shall, in respect of the year 2025, be granted on March 31, 2026. Thereafter, options under the remaining tranches will be granted on April 01 each year until the conclusion of the maximum of three (03) tranches of the ESOP-2026, the last being on April 01, 2028.

6. Share option allocations to individual employees – Eligibility criteria

For an employee to be eligible for share options under a particular tranche of the ESOP-2026, he/she should be in the Grade of Assistant Manager or above or a member of the Corporate Management including the Chief Executive Officer (CEO) of the Company and having a performance grading of 'Very Good' or above in the annual performance assessment system of the Company for the applicable year.

7. Vesting Period

Once the share options are granted to eligible employees for the years 2026, 2027 and 2028 based on the performance evaluation criterion of the Company for the financial years 2025, 2026 and 2027 respectively, the eligible employee should remain in employment from March 31, 2026 to September 30, 2026, April 1, 2027 to September 30, 2027 and April 1, 2028 to September 30, 2028, respectively, for them to be able to exercise each tranche of ESOP-2026.

Hence, every tranche will have the following vesting schedule:

Tranche	% of Voting Shares Issued (maximum)	Period of Performance Evaluation	Option Grant Date (Assumed)	Date of Vesting	Exercise Period
1	1.0%	FY 2025	31 Mar 2026 *	30 Sep 2026	1 Oct 2026 to 30 Sep 2029
2	1.0%	FY 2026	1 Apr 2027	30 Sep 2027	1 Oct 2027 to 30 Sep 2030
3	1.0%	FY 2027	1 Apr 2028	30 Sep 2028	1 Oct 2028 to 30 Sep 2031

* Assumed date of EGM approving ESOP

7.1. Early Vesting

In the event of retirement or death of an eligible employee, there will be an immediate vesting of all the options granted to the respective eligible employee.

8. Exercise period

This is the period which follows the vesting period, during which an eligible employee could exercise the share options to purchase the ordinary [voting] shares of the Company at the pre-determined exercise price, as detailed in Section 9 below. In compliance with Rule 5.6.2 of the Listing Rules of the CSE, the Company shall ensure that the shares underlying all the options granted under ESOP shall be absolutely transferred to the Employees within a period of ten (10) years from the date of obtaining Shareholder approval for same, i.e. from March 31, 2026, as more fully stated under Section 7 above.

The exercise period applicable after each of the vesting periods referred to in Section 7 above would be three (03) years. Accordingly, the exercise period schedule of the ESOP-2026 would be as follows, assuming that options under each of the annual tranches will be issued up to the full 1.0% in all tranches., in the years 2026, 2027 and 2028, consecutively.

Tranche	% of Voting Shares Issued (maximum)	Period of Performance Evaluation	Option Grant Date (Assumed)	Date of Vesting	Exercise Period
1	1.0%	FY 2025	31 Mar 2026 *	30 Sep 2026	1 Oct 2026 to 30 Sep 2029
2	1.0%	FY 2026	1 Apr 2027	30 Sep 2027	1 Oct 2027 to 30 Sep 2030
3	1.0%	FY 2027	1 Apr 2028	30 Sep 2028	1 Oct 2028 to 30 Sep 2031

* Assumed date of EGM approving ESOP

Any options not exercised during the applicable period will be cancelled, subject to the vesting arrangements applicable for eligible employees on retirement or death.

However, in the event of resignation or early retirement of an employee prior to vesting (as detailed in Section 7 above), any options granted to him/ her, but not vested will be cancelled, allowing him/ her to exercise only the vested but unexercised options, if any. On the other hand, in the event of dismissal or serious disciplinary action being taken against a particular employee, all vested but unexercised options, if any, as at the date of dismissal/date on which disciplinary action is taken [including where the employee voluntarily resigns due to such factors] would be cancelled.

9. Share option exercise price

The exercise price of the option is specified in advance at the time of grant. For the proposed ESOP, an exercise price equivalent to the arithmetic average of the volume weighted closing price of the Company's share calculated based on a period of thirty (30) market days immediately prior to the grant date of each of the tranches would apply (in the case of Tranche 1, the Exercise Price will be determined based on the 30 market day Volume Weighted Average Price [VWAP] immediately preceding the date of the EGM). Accordingly, note that the Exercise Price pertaining to the tranches 2 and 3 of ESOP 2026 will be determined by the Company in compliance with Rule 5.6.6. (a) of the Listing Rules of the CSE.

However, in the event of Bonus Issues [Capitalisation of Reserves], Stock Dividends, Rights Issues, Sub-division/Consolidation and/or re-purchase of shares by the Company during the applicable vesting periods of the ESOP-2026, the share option exercise price of the affected tranches will be adjusted as per the applicable rules of the ESOP - 2026 which have been drafted in accordance with the accepted market practices and in accordance with Rule 5.6.6 (a)(iv) of the CSE Listing Rules.

10. Financial support to purchase shares under the ESOP-2026

Board of Directors confirms that neither the Company nor its subsidiaries will provide any direct or indirect financial support to the Company's employees to purchase shares under the proposed ESOP-2026.

11. Accounting and financial reporting implications to the company under the ESOP-2026

The Company is mindful of the "Sri Lanka Accounting Standard - SLFRS 2 Share-based Payments" which sets out the financial reporting implications to an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit and loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

At the grant date of the options, the Company is required to recognise the value of the share options granted to employees through the ESOP-2026. The value of the share options should be calculated using an Option Valuation Model. SLFRS 2 recommends using either Black-Scholes-Merton Model or Binomial Option Valuation Models for this purpose. NDBIB has estimated the value of the options using the Binomial Model of option valuation.

12. Tax implications

The implementation of the ESOP may have deferred taxation implications on the financial statements of the Company. It should also be noted that gains arising through ESOPs falls under employment income. Therefore, at the time of exercising the share options, the employees will be taxed based on the applicable Advance Personal Income Tax (APIT) rates for the gains arising through the exercise of the share options.

13. Appointment of managers to the ESOP – 2026

The Company will arrange to appoint independent Managers with no conflict of interests, to manage and monitor the proposed ESOP-2026.

14. Consideration for the issue of shares

As required by Section 52 of the Companies Act No. 07 of 2007 (as amended), the Board has resolved that in its opinion that the consideration, for which the Company's ordinary [voting] shares are proposed to be issued, is fair and reasonable to the Company and to all existing Shareholders.

Such exercise price will be equivalent to the volume weighted average market price considering all share transactions of the Company's ordinary (voting) shares, during the period of thirty (30) market days, immediately prior to each option grant date.

15. Approvals

i) Listing Rules of the CSE

The Board of Directors of your Company, having considered the above implications and overall benefits to the Company and its employees arising from the proposed ESOP-2026, is pleased to recommend ESOP-2026, which has been approved by them, to the Shareholders for their formal approval.

As per Listing Rule 5.6 of the Listing Rules of the CSE, the prior approval of the Shareholders, by way of a special resolution at a General Meeting must be obtained for the purpose of creating or establishing a scheme such as ESOP-2026. Accordingly, an Extraordinary General Meeting (EGM) has been convened for March 31, 2026 for this purpose and the proposed resolutions to be passed thereat are set out in the attached Notice of Meeting, for the consideration and due adoption by the Company's Shareholders thereat. Subject to the above, your Directors have obtained 'in principle' approval of the CSE, for the listing of the ordinary (voting) shares to be allotted and issued under the ESOP-2026. The terms of the ESOP-2026 shall not be varied once approval from the CSE has been obtained in respect of same.

ii) Requirements under the Companies Act No. 07 of 2007(as amended) and the Articles of Association of the Company

In terms of Article 9 A of the Company's Articles of Association, the Company's Shareholders have a pre-emptive right to new issues of shares, unless otherwise resolved to by way of an ordinary resolution. Since new ordinary (voting) shares will be issued under ESOP-2026, the requisite resolution to be passed by Shareholders waiving their pre-emptive rights thereto is set out in the attached Notice of Meeting, for due consideration and adoption by the holders of the Company's ordinary (voting) shares at the EGM.

Approval is also sought of the holders of the Company's ordinary (voting) shares by way of a special resolution, in relation to the allotment and issue of new ordinary (voting) shares under the ESOP-2026, in pursuance of Section 99 of the Companies Act No. 07 of 2007 (as amended) and Article 10 of the Company's Articles of Association. The requisite resolution to be passed in this regard is set out in the attached Notice of Meeting, for due consideration and adoption by the holders of the Company's ordinary (voting) shares at the EGM.

By Order of the Board of
Commercial Bank of Ceylon PLC



R A P Rajapaksha
Company Secretary

March 9, 2026
Colombo