Circular to Shareholders Pertaining to the Proposed issue of Debentures

COMMERCIAL BANK

THIS DOCUMENT IS OF VALUE – If you are in any doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.

Dear Shareholder/s

The Commercial Bank of Ceylon PLC (the 'Company') made a profit of Rs. 58,487 Mn. (Group Rs. 60,938 Mn., as per the Audited financial statements) for the year ended December 31, 2025. Total shareholders' funds improved to Rs. 324,319 Mn. (Group Rs. 337,586 Mn., as per the Audited financial statements) as of December 31, 2025 from Rs. 275,262 Mn (Group Rs. 285,819 Mn, as per the audited financial statements) as of December 31, 2024. Figures shown herein are extracted from published financial statements.

The Board of Directors of the Company, having identified the need to strengthen the Tier 2 Capital of the Company as per Basel III requirements, to reduce maturity mismatches, and in order to facilitate expansion of customer loan portfolios, pursuant to a resolution, adopted on 30th January 2026, decided to initiate, and also to recommend to shareholders,

An issue of Basel III compliant - Tier 2 listed rated unsecured subordinated redeemable 5 year, 7 year and 10 year debentures with a non-viability conversion to Ordinary Voting Shares to be issued by the Company, solely if instructed to do so by the Governing Board of the Central Bank of Sri Lanka on occurrence of a trigger event.

The proposed issue is to raise a sum of Sri Lankan Rupees Ten Billion (Rs. 10,000,000,000/-) through the issuance of up to One Hundred Million (100,000,000) Basel III Compliant - Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non-Viability Conversion feature, each with a par value of Rs. 100/-, with an option to raise up to a further Sri Lankan Rupees Five Billion [(Rs. 5,000,000,000/-) (second tranche)] through the issuance of up to a further Fifty Million (50,000,000) Debentures, each with a par value of Rs. 100/- in the event of an over-subscription of the initial issue and with a further option to raise up to a further Sri Lankan Rupees Five Billion (Rs. 5,000,000,000/-) through the issuance of up to a further Fifty Million (50,000,000) Debentures each with a par value of Rs. 100/- in the event of an oversubscription of the initial issue and the second tranche (hereinafter collectively called the 'Debentures' or 'Debenture Issue'). Based on the asset value referred to in Section 6 hereof, the proposed issue does not constitute a major transaction for the Company as defined in Section 185 of the Companies Act No. 07 of 2007 (as amended).

The proposed Debentures will be redeemed after 5 years, 7 years and 10 years from the date of allotment of such Debentures and the principal sum and accrued interest (if any) payable on the redemption of such Debentures will be paid not later than three (03) working days from the date of redemption, unless a Trigger Event occurs as described in this circular.

The proposed issue of Debentures is subject to the approval of the Colombo Stock Exchange and the Central Bank of Sri Lanka and are to be issued under rules and regulations promulgated by the Colombo Stock Exchange and the Central Bank of Sri Lanka, including guidelines issued in relation to Basel III compliance in the Banking Act Directions No. 01 of 2016 dated December 29, 2016 issued by the Central Bank of Sri Lanka as may be amended from time to time.

The Company is in the process of obtaining an expected Rating from Fitch Ratings Lanka Limited for the proposed Debenture Issue. The final rating for the proposed Debenture Issue with a convertibility feature in compliance with Basel III requirements will be issued by Fitch Ratings Lanka Limited. Issuance of this rating will be subject to the adoption of a Special Resolution by the Shareholders of the Company, at the Extraordinary General Meeting (EGM) that is being convened, and receipt of approval of the Central Bank of Sri Lanka (CBSL). The final Rating Report will be incorporated in the Debenture Prospectus.

1. Objectives of the proposed Debenture Issue

The Company expects to use the funds raised through the Debentures to strengthen Tier 2 capital of the Company, to bridge asset-liability mismatches, and to expand the loan portfolios of the Company.

Funds raised through this Debenture Issue are expected to improve the Capital Adequacy of the Company. The medium to long term duration of

the Debentures and the subordinated nature of the instrument issued in compliance with Basel III requirements will enable the Company to strengthen the Tier 2 Capital Base as per Basel III requirements. Approval will be obtained from the Governing Board of Central Bank of Sri Lanka to include the Basel III compliant Debentures under Tier 2 capital.

Since the Debentures proposed to be issued are of a medium to long term nature, being of tenures of 5, 7 and 10 years, the raising of funds through Debentures can be expected to reduce the mismatch between shorter term liabilities and medium to long term assets.

The Company intends to lend the proceeds of the Debenture Issue and thereby expand the Company's loan book in the ordinary course of business over a period of twelve (12) months. The Company recorded a growth in gross loans and advances of Rs. 541 Bn. during the year ended December 31, 2025, (as per the Audited financial statements). Considering the Company's current Lending activities coupled with favourable macro-economic developments, it is unlikely that the Company would not be able to lend the Debenture proceeds within a period of twelve (12) months.

The Company as at date of this circular has not recognised related parties for the lending of the Debenture proceeds and therefore plans to disburse the Debenture proceeds in the ordinary course of business. However, in the event the Company lends funds raised through this Debenture Issue to related parties, the Company will comply with the requirements stipulated under Section 9 of the Colombo Stock Exchange (CSE) Listing Rules (as applicable). Further, in the event these Debentures are allotted to related parties, the Company shall comply with all applicable laws/ regulations in this regard.

Current Capital Adequacy Status

Current CAR* position of the Company as at 31.12.2025 (as per the audited financial statements)		16.698%
Minimum CAR requirement to be maintained as at 31.12.2025 as per the Banking Act Directions No. 01 of 2016		14.000%
Expected CAR position, subsequent to the Basel III compliant Debenture Issue	As at 31.12.2025 with Rs. 10 Bn	17.103%
	As at 31.12.2025 with Rs. 15 Bn	17.304%
	As at 31.12.2025 with Rs. 20 Bn	17.504%

**CAR = Capital Adequacy Ratio*

The minimum Capital Adequacy requirements under Basel III are as follows:

Components of Capital	Banking Act Directions No. 01 of 2016
Common Equity Tier 1 Capital with Buffers (CCB** & Surcharge on D-SIB***)	8.500%
Total Tier 1 Capital with Buffers (CCB & Surcharge on D-SIB)	10.000%
Total Capital Ratio (Tier 1 + Tier 2) with Buffers (CCB & Surcharge on D-SIB)	14.000%

***CCB = Capital Conservation Buffer*

**** D-SIB = Domestic Systemically Important Banks*

The Company is in compliance with the Basel III minimum Capital Adequacy requirement as at December 31, 2025.

Further the Company has decided to raise additional capital in order to accommodate future growth. As such, the subordinated funds raised through this Debenture Issue in compliance with requirements under Basel III, are expected to further improve the Capital Adequacy Ratio of the Company by increasing its Tier 2 Capital base thus strengthening its Total Eligible Capital as per Basel III requirements.

2. Proposed issuance of Basel III Compliant Debentures

Regulatory aspects regarding Basel III compliant subordinated debt

As per Banking Act Directions No. 01 of 2016 issued by the Central Bank of Sri Lanka, subordinated debt issued by licensed commercial banks needs to be compliant with Basel III requirements effective from July 1, 2017 in order to qualify as Tier 2 capital. According to Basel III guidelines, all subordinated debt issuance should have either a conversion feature allowing conversion to equity or a write-down feature. The Company is therefore of the view that a Non-Viability Conversion feature should be included in the proposed Debentures, and that such

conversion, if applicable, should be to Ordinary Voting Shares of the Company upon occurrence of a Trigger Event.

The conversion of Debentures to Ordinary Voting Shares will be in accordance with the applicable laws and regulations of Sri Lanka and the new shares will, subject to the approval of the Colombo Stock Exchange, be listed and will be subject to the instructions of the Governing Board of Central Bank of Sri Lanka with regard to application of the Single Holder Limit at the time of conversion of the Debentures in to Ordinary Voting Shares of the Company.

3. Benefits for the Company and its shareholders through issuing Basel III Compliant Debentures

(a) Issuance of Basel III compliant Debentures will improve the capital adequacy ratios of the Company.
(b) The funds raised through the proposed Debenture Issue being of a medium to long-term nature will reduce maturity mismatches in the assets and liabilities portfolios of the Company.
(c) Issuance of Basel III compliant Debentures will raise funds for expansion of the lending portfolio.
(d) Upon the occurrence of a Trigger Event, any outstanding balance of these Debentures including the total par value of the Debentures and Debenture interest accrued and unpaid as at that date will be converted to Ordinary Voting Shares of the Company. As a result, the Non-Viability Conversion has the effect of acting as a buffer by reducing outstanding claims from liability holders (Debenture holders) in the event of an occurrence of a Trigger Event.
(e) Voting rights of the then existing Ordinary Voting Shareholders are not altered as long as the Non-Viability Conversion Debentures are not converted into Voting Shares of the Company, and to the extent that a Trigger Event does not occur, this Debenture Issue is a suitable instrument to improve capital adequacy and fund growth without resorting to a new issue of equity.

4. Issuance of Basel III Compliant Debentures

In order for the Debentures to be recognized as Tier 2 Capital of the Company under Basel III as described in the Banking Act Directions No. 01 of 2016 issued by the Central Bank of Sri Lanka, the Debentures are required to have the following minimum features:

- Issued and fully paid in cash
- Listed on a recognised stock exchange
- Redeemable
- Subordinated to the claims of depositors and general creditors
- Unsecured and not covered by a guarantee or any other arrangement that legally or economically enhances the seniority of the claim above the depositors and general creditors of the Company.
- Issued with the prior approval from the Governing Board of Central Bank of Sri Lanka for inclusion in Tier 2 Capital
- A minimum tenure of 5 years
- Rated by an acceptable Rating Agency
- Have a feature through which, in the event that the Governing Board of Central Bank of Sri Lanka determining that it is appropriate and in the best interest of the Company and therefore so directs the Company to convert the Debentures into Ordinary Voting Shares of the Company such that through issuance of these new Ordinary Voting Shares the new shares issued will cover the total outstanding under the Debentures (resulting from the Trigger Event referred to in this circular).
- The investors in the Debentures have no rights to accelerate the repayment of future scheduled coupons, except in bankruptcy and liquidation of the Company.
- Neither the Company nor a banking group over which the Company exercises control or significant influence can have purchased the instrument and the Company cannot directly or indirectly have funded the purchase of the instrument.

The Company may consider allotting up to seventy-five per centum (75%) of the issue value on a preferential basis to identified Qualified Investors of strategic importance.

5. Eligible investors For Basel III Compliant Debentures

Investment and trading in Basel III compliant Debentures will be limited to Qualified Investors, as per Colombo Stock Exchange Listing Rule No. 2.2.1 (q) and as defined in the Definitions section of the Listing Rules as Qualified Investor.

A 'Qualified Investor' for the purpose of determining eligibility to invest in issuances of Basel III compliant Debentures shall be:

- A commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended)
- A specialised bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended)

- A mutual fund, a 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. 07 of 2007 (as amended)
- An investment trust or investment company
- A non-resident institutional investor
- An individual with an initial investment of Rs. 5,000,000/-

6. Specific risks considering the objectives of the issue

Since the proposed total Debenture Issue is to raise up to Rs. 20 Bn. which is a relatively small amount as compared to the overall assets of Rs. 3,258 Bn. and liabilities of Rs. 2,934 Bn. of the Company as at December 31, 2025 (as per the Audited financial statements), there is no specific risk factor that may lead to non-achievement of the objectives as per the stipulated timelines, since the reliance on the Debenture proceeds for asset growth is marginal. However, an adjustment in asset growth and in maturity mismatch reduction may result to the extent that capital adequacy is not improved due to an under-subscription of the issue.

Until full disbursement of the Debenture proceeds, the funds raised through the Debenture Issue will be invested in Short Term Securities. Such investments in Short Term Securities are expected to generate an average return of 6.75% p.a. at current market rates. In the event the Debenture proceeds are not fully utilised for the objectives stated, such non-utilisation can be expected to lead to a reduction in Net Interest Income as undisbursed Debenture funds would be invested in Short Term Securities as opposed to being utilized in lending activities which are expected to generate a higher Net Interest Income.

In the event the proposed Debenture Issue is under-subscribed, the Company may have to adjust asset growth to comply with Basel III requirements. However, under-subscription is not envisaged since there has been reasonable demand for recent Debenture Issues of the Company. No further Shareholder approval will be needed in the event the proposed Debenture Issue is not fully subscribed for or if the timelines stated above are amended as thought fit by the Company.

7. Continuing Disclosure Requirements

The Company undertakes to disclose the progress of the utilization of the proceeds of the proposed Debenture Issue in the Annual Report/s and future interim financial statements until funds raised through the proposed Debenture Issue are fully utilized. The format of the relevant disclosures to be made shall be disclosed in the Prospectus.

8. Terms and method of conversion

Occurrence of 'Trigger Event'

A Trigger Event is determined by and at the sole discretion of the Governing Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Company solely upon being instructed by the Governing Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 01 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a & b) as a point/event being the earlier of:

(A) 'A decision that a write-down, without which the Company would become non-viable, is necessary, as determined by the Governing Board of the Central Bank of Sri Lanka.

(B) The decision to make a public sector injection of capital, or equivalent support, without which the Company would have become non-viable, as determined by the Governing Board of the Central Bank of Sri Lanka'.

The Banking Act Directions No. 01 of 2016, on the web based returns specify in index reference 20.2.3.1.1.1. (10) (i) that, for such Debentures to be qualified as Tier 2 Capital (under Basel III guidelines) they should have a convertibility clause which enables the Debentures to be converted to Ordinary Shares on the occurrence of a Trigger Event. Furthermore, the Company is of the view that any conversion of debt to equity upon conversion should have the same rights and privileges of the then existing Ordinary Voting Shareholders (ranking equal and *pari passu* with the then existing Ordinary Voting Shares) and hence consider it appropriate to effect conversion of the proposed Debentures to Ordinary Voting Shares.

The Company on receipt of a Trigger Event notification from the Governing Board of the Central Bank of Sri Lanka will immediately make a market announcement of such notification and thereafter announce the 'price' and 'dates' (such as the Trigger Event date and the date of allotment) pertaining to the pending conversion of Debentures to Ordinary Voting Shares.

Conversion Ratio

Upon the occurrence of the Trigger Event, the Company shall be required and entitled to issue and allot within twenty (20) working days, Ordinary Voting Shares of the Company ranking equal and *pari passu* with the then 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 the Debenture interest accrued and unpaid. This will be at a conversion price which will be based on the simple average of daily Volume Weighted Average Price of Ordinary Voting Shares of the Company as published by the Colombo Stock Exchange, during the three (3) month period, immediately preceding the date of the Trigger Event. The Central Depository System (CDS) upload pertaining to Ordinary Voting Shares will be completed within ten (10) market days from the date of allotment of such Ordinary Voting Shares. In the event if any Debenture holder being entitled to a fractional allotment of an Ordinary Voting Share on such issuance and allotment, the Company shall settle the resulting sums in cash, based on the conversion price within fourteen (14) market days from the date of allotment of the said Ordinary Voting Shares.

Conversion and Trigger

The Company has decided to use the simple average of the daily Volume Weighted Average Price (VWAP) as indicated above due to its practicality and equitability to all shareholders as a pricing formula for conversion. This formula takes into account the market price over a three (03) month period preceding the date of the Trigger Event thereby lessening the impact of short-term price volatility and the volume impact in pricing. Due to the formula being applied using publicly available data published by the Colombo Stock Exchange, there is a high degree of transparency that results from the adoption of this method.

Ordinary Voting Shares arising from the Non-Viability Conversion will be listed on the Colombo Stock Exchange.

If there is an issuance of Ordinary Voting 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 Company to the extent of such issuance and will rank equal and *pari passu* with the then existing Ordinary Voting Shareholders with Voting rights after the allotment of new shares to such Shareholders (being the previous Debenture holders) and will rank superior to the Ordinary Non-Voting Shareholders in respect of the voting rights attaching to the shares issued upon conversion.

Subsequent to the Debenture holders becoming Shareholders of the Company, due to the occurrence of the Trigger Event and the resultant conversion, they would be entitled to exercise such rights as are exercisable by the other Shareholders of the Company holding Ordinary Voting Shares. Once the conversion of Debentures is concluded, the Debentures will cease to exist.

Dilution of Shareholding upon a Conversion of Debentures

In the event of conversion to Ordinary Voting Shares, there would be a dilution of the then existing shareholding percentage held by the then existing Shareholders. However, the extent of the dilution will be dependent on several factors that cannot be determined at this point, as indicated below:

The number of shares to be issued resulting from such a conversion will be determined by the 'Conversion Price' at the 'Trigger Point' as detailed below.

There will be a dilution impact on the shareholdings of the existing Shareholders.

- If the simple average of the daily Volume Weighted Average Price (VWAP) at the point of conversion is low compared to the prevailing share price, it would result in the allocation of a comparatively higher number of Ordinary Voting Shares by the Company to the Debenture holders, which will dilute the shareholding of existing Shareholders.
- If the simple average of daily Volume Weighted Average Price (VWAP) at the point of conversion is high compared to the prevailing share price, it would result in the allocation of a comparatively lower number of Ordinary Voting Shares by the Company, which will dilute the shareholding of existing Shareholders to a lesser extent than in the former instance described above.

- In order to avoid dilution of the shareholding of the then existing Shareholders due to a conversion, in the event of there being a likelihood of the occurrence of the Trigger Event, prior to conversion of the said Debentures into Ordinary Voting Shares, the then existing Shareholders will be first called upon to infuse additional share capital and if such infusion is not forthcoming, the proposed Debenture (i.e. Tier 2 Capital) will get converted in to Ordinary Voting Shares of the Company upon the determination of the 'Non-Viability' point by the Governing Board of the Central Bank of Sri Lanka and upon instructions being issued to the Company in this regard.
- The extent of dilution of the then existing Shareholders will have to be determined by reference to the number of shares that are in issue at the time of such a conversion. The number of Ordinary Voting Shares that are in issue at the time of a conversion can vary during the tenure of the Debentures due to the issuance of new Ordinary Voting Shares by way of scrip dividends, rights issues, capitalisation of reserves, Employee Share Option Plans and/or any other relevant corporate action.

Pre-emptive Subscription Rights

Waiver of pre-emptive rights

In keeping with the Central Bank regulation, it is the Company's intention to obtain Shareholder approval for the issuance of Ordinary Voting Shares [which may be required to be issued due to the Governing Board of the Central Bank of Sri Lanka instructing the Company to exercise the convertible feature attached to these Debentures (the occurrence of the 'Trigger Event')] and to waive the pre-emptive rights of the existing Ordinary Voting Shareholders.

Non-occurrence of a Trigger Event

In the event of a non-occurrence of a Trigger Event these Debentures will be redeemed after 5, 7 and 10 years from the date of allotment of such Debentures 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) Working Days from the date of redemption, unless otherwise a Trigger Event occurs.

9. Reason for convening an Extraordinary General Meeting

As per Rule No. 2.2.1.p of the Listing Rules of the Colombo Stock Exchange, the Company is required to obtain the approval of the Shareholders in respect of the proposed Debenture Issue by way of a Special Resolution.

It will also be necessary to obtain a waiver of the pre-emptive right to a new issue of shares as prescribed by Article 9 A of the Articles of Association of the Company by means of a duly passed Ordinary Resolution, in respect of the allotment and issue of new Ordinary Voting Shares by the Company to the holders of the said Debentures in the case of a Trigger Event which warrants such a conversion of Debentures to Ordinary Voting Shares.

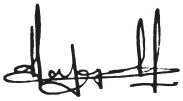
Furthermore, it will also be necessary, in compliance with Section 99 of the Companies Act No. 07 of 2007 (as amended) and Article 10 of the Articles of Association of the Company, to obtain, by means of a duly passed Special Resolution, approval of the Ordinary Voting Shareholders and Ordinary Non-Voting Shareholders in respect of the proposed Ordinary Voting Share issue which may arise pursuant to the conversion of Debentures in the case of a Trigger Event, which may in turn affect the rights attached to the Company's existing Ordinary Voting and Non-Voting Shares.

Therefore, an Extraordinary General Meeting of the Company is being convened in accordance with the Notice of Meeting attached hereto, for the purpose of passing the Resolutions set out therein.

Shareholders who are unable to participate at the meeting are entitled to appoint a proxy to participate at the said meeting and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such a proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Company via email to companysecretary@combank.net or by post to Company Secretary, Commercial Bank of Ceylon PLC, 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, not later than forty-eight (48) hours before the time appointed for the holding of the EGM.

By Order of the Board of

COMMERCIAL BANK OF CEYLON PLC



R A P Rajapaksha
Company Secretary

March 9, 2026

Colombo