

Circular to the Shareholders on the Final Dividend for 2014



Dear Shareholder/s,

Final Dividend for the year ended December 31, 2014 to be Satisfied Partly by the Distribution of Cash and Partly by the Allotment and Issue of New Shares

The Board of Directors of Commercial Bank of Ceylon PLC (the 'Company'), is pleased to inform its Shareholders that from and out of the Company's profits for the financial year ended December 31, 2014 a final dividend distribution of Rs. 4/- per each existing issued and fully-paid ordinary (voting) and (non-voting) share is recommended for the financial year ended December 31, 2014 for due declaration by the Shareholders at the Annual General Meeting ('AGM') to be held on March 31, 2015. The Board of Directors is confident that the Company will be able to satisfy the solvency test set out in Section 57 of the Companies Act No. 07 of 2007 ["CA 2007"] immediately post-payment of such dividend. A certificate of solvency has been provided by the Company's Auditors, Messrs KPMG, Chartered Accountants.

Subject to obtaining the approval of the Shareholders, the said dividend will be satisfied in accordance with a distribution scheme whereby:

- (i) a cash distribution totalling Rs. 1,732,173,524/- based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 20, 2015 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes] will be made in part satisfaction of such dividend.
- (ii) new ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the remaining dividend entitlement, constituting a total sum of Rs. 1,732,173,524/- based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 20, 2015 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes].

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

- a) 8,114,083 number of new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 20, 2015 [subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes], and on the basis of their market value (closing price) as at the end of trading on February 20, 2015; and
- b) 719,740 number of new ordinary (non-voting) shares calculated based on the issued and fully paid ordinary (non-voting) shares as at February 20, 2015 and on the basis of their market value (closing price) as at the end of trading on February 20, 2015.

The said shares shall be issued in the following ratios to the entitled Shareholders:

- a) One new fully-paid ordinary (voting) share for every 99.888889 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 20, 2015; and
- b) One new fully-paid ordinary (non-voting) share for every 77.222222 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 20, 2015.

The above share ratio is based on a value of Rs. 179.80 per ordinary (voting) share and Rs. 139.00 per ordinary (non-voting) share [subject to ten percent (10%) Withholding Tax, as may be applicable] as at the end of trading on February 20, 2015. The Board of Directors is satisfied that the aforementioned values which constitutes the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing Shareholders.

Entitled Shareholders

Shareholders entitled to participate in the said dividend (the 'entitled Shareholders') are those who are duly registered in the Company's share register and also those Shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the date on which the requisite resolution of the Shareholders in this regard is duly passed.

In calculating the number of shares held by a Shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the Shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company (SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03) will not be aggregated. However, if a Shareholder holds shares with multiple stock brokers, the shares held with multiple stock brokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed issue and allotment of new shares will be uploaded proportionately to the respective CDS accounts held with each broker. The Company has obtained the approval in principle of the Colombo Stock Exchange ('CSE') for the proposed allotment and issue of new shares.

Residual Fractions of Shares

The residual fractions arising from the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares respectively, will be aggregated and the shares arising consequent thereto will, subject to receiving the approval of the Shareholders therefor, be allotted to a Trustee to be nominated by the Board of Directors. The Trustee so nominated, will hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the CSE. The net sale proceeds arising therefrom shall, subject to receiving the approval of the Shareholders therefor, be distributed to a charity/charities approved by the Board of Directors. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which the approval of the Shareholders has been obtained in this regard.

Status of the New Shares

The new ordinary (voting) and (non-voting) shares to be so issued, immediately consequent to due allotment thereof to the entitled Shareholders, shall rank equal and *pari passu* in all respects with the existing issued and fully-paid ordinary (voting) and (non-voting) shares, respectively, of the Company.

Listing/Exchange Control Approval

An application has been made to the CSE for listing the new ordinary (voting) and (non-voting) shares on the official list of the CSE. This application has been approved 'in principle' by the CSE. The Company will obtain approval of the Controller of Exchange in principle for the allotment and issue of the new ordinary (voting) and (non-voting) shares to the Company's non-resident Shareholders, where applicable.

Shareholder Approvals:

The proposed method of satisfying the abovementioned final dividend is subject to Shareholders granting approval therefor by passing the resolutions set out in the attached Notice of Meeting pertaining to the following matters:

- Authorisation to satisfy the final dividend partly by an allotment and issue of new shares

Article 124 of the Company's Articles of Association provides, in effect, that, subject to the CA 2007 the Board is empowered to pay a dividend or otherwise make a distribution in whole or in part by the distribution of specific assets and in particular of paid up shares. In pursuance of principles of transparency, the Board seeks the authorization of Shareholders for the satisfaction of the final dividend by the issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant ordinary resolution to be passed by the Shareholders in this regard is set out in item 2(i) of the attached Notice of Meeting.

- Waiver of pre-emption rights to new share issues [Article 9 A]:

In terms of Article 9 A of the Company's Articles of Association, any issue of shares beyond 500,000 shares must be first offered to the Shareholders in proportion to their holding at the time of the offer, unless otherwise authorized by an ordinary resolution of the Company.

As mentioned previously, the final dividend is proposed to be satisfied, by the allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above and on the application of the abovementioned ratio. The said allotment and issue of new shares would accordingly be in excess of 500,000 shares. As such, the authorisation of Shareholders is sought under and in terms of the abovementioned Article 9 A for the waiver by Shareholders of their pre-emption rights to the new shares to be issued exceeding 500,000 ordinary (voting) and (non-voting) shares. The relevant ordinary resolution to be passed by the Shareholders in this regard is set out in item 2 (ii) of the attached Notice of Meeting.

- Alteration of Shareholder Rights [Section 99 of the CA 2007 and Article 10 of the Articles of Association]:

The Company is required, in compliance with the above provisions, to seek Shareholder approval by a special resolution for the proposed method of satisfaction of the final dividend by an allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant special resolution to be passed by the Shareholders in this regard is set out in item 2 (iii) of the attached Notice of Meeting.

Confirmation of Compliance

The Board of Directors hereby confirms that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the CA 2007.

Allotment of the New Shares

The Board of Directors emphasises that the aforementioned allotment and issue of new shares is in part satisfaction of the final dividend for the year ended December 31, 2014 and shall be dependent on and subject to the Shareholders passing the requisite resolutions.

Uploading of Shares Into CDS Accounts

In the event that the requisite resolution declaring the dividend [including its manner of satisfaction thereof] by way of the issue and allotment of new shares is passed by the Shareholders, the accounts of the Shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares to the extent that such Shareholder has become entitled thereto. The shares would be uploaded within seven market days from and excluding the date on which the requisite resolutions are passed. If a Shareholder holds multiple CDS accounts the total entitlement will be directly deposited to the respective CDS accounts proportionately.

Pursuant to a Direction issued by the Securities and Exchange Commission of Sri Lanka ('SEC') pertaining to the de-materialisation of listed securities, the Shareholders who hold shares in scrip form (i.e. Share Certificates) as per the Share Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such Shareholders are accordingly requested to open an account with the CDS and to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the Shareholder's CDS Account.

If a Shareholder fails to deposit his/her existing ordinary (voting) and/or (non-voting) shares in the CDS prior to the date of the AGM, such Shareholder's entitlement of new ordinary (voting) and/or (non-voting) shares will be deposited by the Company after such Shareholder has opened a CDS Account and has informed the Company's Registrars in writing of his/her CDS account number. Until such CDS account is opened by a Shareholder as aforementioned, the new ordinary (voting) and (non-voting) shares that are allotted in his /her favour will be registered in such Shareholder's account in the Share Register maintained by the Company [subject to compliance with Exchange Control requirements as may be applicable in respect of non-resident Shareholders]. Consequent to the opening of the CDS account by such Shareholder, the new shares will be credited to such CDS account. Direct uploads pertaining to written requests received from Shareholders to deposit such shares will be done on a weekly basis.

AGM

Attached hereto is the Annual Report comprising the notice convening the AGM for March 31, 2015 and setting out in item 2 thereof, the relevant resolution to be passed by the Shareholders in the above regard.

Form of Proxy

Shareholders who are unable to attend the AGM in person are entitled to appoint a proxy to attend 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 Registered Office of the Company, not less than 48 hours before the time scheduled for the holding of the AGM.

Yours faithfully,

By Order of the Board of Commercial Bank of Ceylon PLC

(Sgd.)
Ms. Ranjani Gamage
Company Secretary

March 09, 2015