

CHAIRMAN'S REVIEW



STRENGTH OF THE BALANCE SHEET, COMPLIANCE WITH REGULATORY REQUIREMENTS, HIGH STANDARDS OF CORPORATE GOVERNANCE, TRANSPARENCY AND COMMITMENT TO INTERNATIONAL BEST BUSINESS PRACTICES WERE THE KEY TO OUR SUCCESS AND TO EARN THE REPUTATION OF BEING THE MOST AWARDED BANK IN SRI LANKA.

Dear Friends,

The Bank has performed exceptionally well in all key areas of business activities during 2016 and maintained its growth trajectory in an extremely challenging environment. Moreover, 2016 is a landmark year in the annals of the Bank as its total assets surpassed one trillion Rupee milestone. This achievement reminds me of my last year's review which I concluded with a prediction that the Bank will reach 'One Trillion Rupees' in assets by end of 2016. Today, this has become a reality and therefore, at the outset I wish to congratulate and extend my sincere appreciations to the Board and the dedicated team spearheaded by our energetic MD/CEO.

Steady growth inclusive of deposits, advances and annual profits has ensured long term sustainability and better future prospects for further expansion, as the largest private bank in the country. Strength of the Balance Sheet, compliance with regulatory requirements, high standards of corporate governance, transparency and commitment to international best business practices were the key to our success and to earn the reputation of being the Most Awarded Bank in Sri Lanka.

Strategies and policy initiatives are discussed at length by the Board with the management and are incorporated into the Corporate Plan and Annual Budget. Targets set for each operational unit and individual member of staff are effectively communicated and feedback from periphery to centre is encouraged at all times. Internal management information system in place ensures that the Board and Board Subcommittees receive adequate and timely reports from the management for effective functioning of such committees and the Board. During the year the Board Subcommittees were further strengthened

by adding new Board members who were newly appointed to fill casual vacancies that existed.

The year as a whole was challenging. To face the challenges and to guide the Bank in the direction for further growth and stability was an uphill task to the Board and the management. Macroeconomic challenges faced by the country in the sphere of growth, inflationary pressures, upward movement on interest rates and issues related to credit growth had their impact on the performance of the banks in the industry. Developments in the global front during the past couple of years have been generally unfavourable for emerging economies in the world. Relatively slower growth in advanced economies and reversal of foreign capital flows affected the emerging markets adversely, thereby hindering their growth prospects. The Board in its deliberations regularly drew its attention on both domestic and global developments and as part of this process, the Research and Development Unit of the Bank was directed to study and make presentations to the Board on contemporary issues particularly those in view of the Board on sectors for which the Bank has high credit exposure. Information based on such internal research was also shared with the management so as to build capacity and to strengthen the decision making process at all levels of the Bank.

Upward adjustment in interest rates and rising cost of funds did impact net interest margin (NIM) and negativity through market-to-market losses.

Growth in deposits and advances was notable during the year amidst general slowdown in business volumes, liquidity constraints and high risk associated with uncertainties that prevailed. Growth in trade finance, both in imports and exports remained a challenge for the Bank requiring

strategic realignment to be in line with the challenges faced by the economy and the banking industry.

The Bank recognizes the small and medium enterprises (SMEs) as an important sector in its business strategy. In view of this, it is imperative to operate with the ideal mix of corporate and personal banking in the portfolio composition with optimum size to maximize the returns to scale from these two key areas of core business activities of the Bank.

In its lending policies, the Bank recognizes the SME sector as the solid back bone of the economy and expansion of banking and other financial services to this sector would not only contribute to growth but also would positively result in reducing the regional disparities in income distribution. Lending activities of the Bank towards this sector are in line with the SME policy framework of the Government. The Bank is mindful of its responsibilities as a key stakeholder of the economy and has implemented several programs on entrepreneurship development with a view to improving financial literacy, access to finance and entrepreneurship skills amongst SMEs with particular emphasis on Agri-micro Entrepreneurs supported by expanded delivery of service to SMEs and micro entrepreneurs. In order for the Bank to be able to improve credit quality and to harness the full potential of this sector, the Bank in its awareness programs also focused on improving financial and general management skills, adoption of modern technology and the value of resorting to green initiatives.

As part of the strategy in diversifying business activities and income sources and as a risk mitigation measure, greater emphasis was laid on fee based activities and such sources of income. Revenue from bancassurance and activities of the

Investment Banking Unit grew appreciably during the year, due to extra efforts in pursuing this objective.

Relying on investment made on and potential returns from adoption of advanced technology, conventional branch banking has been traded off for increasingly popularizing internet and mobile banking. Conforming to the trend observed during the past few years the Bank's internet banking system witnessed a significant growth.

Prospects for rapid growth for the Bank appear to be limited in the domestic market and hence, the Bank has been exploring opportunities for overseas expansion. With the initiative taken by the Bank in 2003 for overseas operations in Bangladesh, during the past 13 years, the Bank has established itself as a leading regional foreign bank in that country. Our success story in Bangladesh is reflected in the rapid expansion of branch network and business volumes over the years. Bangladesh was followed by our entering into Myanmar in June 2015, another country in the region which has a potential for growth with the implementation of its reforms agenda. Bank's fully owned subsidiary, Commex Sri Lanka S.R.L. – Italy commenced its own business under the Authorized Payments Institute (API) License issued by the Bank of Italy in February 2016, and was able to achieve an operational breakeven in December 2016. During the year the Bank set up a subsidiary namely Commercial Bank of Maldives Private Limited as a fully fledged Tier I bank under the license issued by the Maldives Monetary Authority, and its operation in the first few months has been encouraging.

As part of our marketing strategy, key campaigns and several brand building exercises were undertaken in 2016. The merchant base and promotional discount offers were further expanded on both credit and debit cards and in terms of growth the

Bank became the fastest growing Card issuer in Sri Lanka signifying its potential. Making a formal entry into social media, the Bank launched its Facebook page in 2016. The corporate website was re-launched with a new look and face during the year.

Several new and innovative e-banking products were launched by the Bank during the year under review. In keeping with the vision of the Bank, to become the most technologically advanced, innovative and customer friendly financial services organization in Sri Lanka, Commercial Bank launched 'e passbook, a mobile phone and 'Tab based' account passbook app for the first time in South Asia. With a view to provide maximum security and convenience to credit and debit cardholders, the Bank became the first bank in Sri Lanka to launch a Near Field Communication (NFC) enabled Premium Credit Cards for both Visa and MasterCard. In other areas of key initiatives the Bank launched the country's first loyalty scheme to reward both credit and debit card holders, first Remittance Card to facilitate direct transfer of funds from overseas to local beneficiary accounts, over the air pin (OTAP) for credit and debit cards for the first time in Sri Lanka.

Risk Management landscape of the Bank underwent changes in tandem with the changes in global markets and regulatory frontiers. Banks would emphasise on Liquidity Coverage Ratio guidelines as an offshoot of Basel III Compliance and begin the journey in Basel III Compliance in total focusing on strengthening the capital base improvements.

Recent cyber attacks on global financial institutions have highlighted the need for organizations to increase vigilance and remain agile in the face of this continually evolving threat. In this backdrop the emerging risk category of cyber threat

has moved up the agenda of the Bank where cyber security is considered a core component of the overall operational risk profile with dedicated focus on cyber security strategies by the IT risk function.

It goes without saying that the biggest strength of the Bank is our staff. HR Policies, as in previous years, focused on aligning the work force plan to the business plan and keeping the staff cost within a desirable level. It is noteworthy that the staff increase during the year was kept at a minimum while ensuring that staff budgets and turnover are maintained at an acceptable level. It is encouraging to note that in the annual HR Policies, it was observed that labour productivity of the Bank has been constantly on the rise and higher investment on technology and IT based systems is justifiable as explicit by the tradeoff between Labour and Capital and improved productivity. The Compensation Policy is related to productivity and more importantly, thanks to age old HR culture in the Bank. Our staff is extremely loyal to the Bank and their commitment and dedication is demonstrated by their performance in discharging their duties to the utmost satisfaction of the management. Our Branch of CBEU and Executives' Association of the Bank and the Management have been maintaining an excellent rapport in the past several years. At this stage, I will be failing in my duty if I do not recognize and appreciate their collective efforts in the progress of the Bank.

I am extremely pleased to note that all Board decisions that were made have been unanimous. Our Board constitutes a group of mature professionals representing different backgrounds, knowledge and expertise that are relevant to the Bank. We receive adequate, timely and relevant information from the management on a regular basis and all issues, policies and strategies are deliberated in a most cordial atmosphere respecting each other's points of view, leading to unanimous decisions.

Mr. H.J. Wilson resigned from the Board during the year due to his professional commitments and higher responsibilities assigned to him with the elevation of his position at IFC. He was a tower of strength to the Board and the Bank. His professional contribution to Board and Board's Committees was of immense value. I can only call to my mind my pleasant memories with him as my colleague at the Board. Mr. G.S. Jadeja who replaced him brings in much needed expertise with a wealth of experience and knowledge from his international exposure. Mr. L.D. Niyangoda and Ms. N.T.M.S. Cooray joined our Board to fill the casual vacancies during the year. They bring in much needed expertise in their own professions and a wealth of experience as two business leaders in the country, while providing diversity to the composition of the Board. We welcome them to the Board and look forward to their contribution for the progress of this great banking institution.

All Board Subcommittees have functioned effectively during the year and they have been further strengthened by addition of the three new members who joined the Board. I take this opportunity to place on record my appreciation to all Board Committee Chairpersons particularly to Mr. M.P. Jayawardena, Mr. S. Swarnajothi and Professor A.K.W. Jayawardena who chair the Board Integrated Risk Management Committee, Board Audit

Committee and Board Technology Committee respectively for their professional contribution. Mr. K. Dharmasiri, a career banker serves on several Board Committees and his contribution to our deliberations at both the Board and Committee level discussions and decision process deserves a special mention. Guiding the staff in the path to success during the year was under the able leadership of the two Executive Directors namely, Mr. Jegan Durairatnam MD/CEO and Mr. S. Renganathan COO and all accomplishments in operational areas of the Bank are attributable to their efficiency and effectiveness of discharging their duties and responsibilities.

The Bank completed a remarkable year in 2016 by winning all major global and domestic banking awards, re-affirming its superiority as the Most Awarded Bank in Sri Lanka. All credit goes to the team for this accomplishment which was not sought after but has come on our way in recognition of our efforts. The team is geared up to serve customers and end users of our services with renewed vigor and utmost commitment to take the Bank to greater heights while achieving targets and KPIs set for them for the coming year. In anticipation of more success I wish you all the very best!



Dharma Dheerasinghe
Chairman

Colombo
February 22, 2017