

LETTER FROM  
THE CHAIRMAN



## Dear Friends,

Measured by all key performance indicators, 2014 was an exceptionally good year for Commercial Bank, despite the challenging environment in which we carried out our business activities in both Sri Lanka and Bangladesh. Our achievements during the year were made possible through the unified efforts of staff and management, who demonstrated the utmost dedication and commitment in the pursuit of their duties. They were guided by the Bank's clearly defined vision and mission, and by the effective strategic leadership and oversight of the Board.

As in past years, the Bank faced challenges on both domestic and international fronts. We are engaged in financial intermediation: borrowing and lending represent our core business. Therefore the low demand for credit that prevailed during most part of the year had a negative impact on our Bank, and on the sector generally. I do not wish to dwell upon the reasons for low credit growth; that has been a topic of extensive deliberation in many forums. It should simply be noted that rapid growth in the corporate debt market and increased foreign borrowings by Sri Lankan corporates - together with the sharp decline in the value of gold, which hampered the pawning market - contributed to the sluggish demand for bank credit. The high level of excess liquidity in the banking system was driven by several other key factors, notably heavy foreign currency inflows on account of offshore debt raised by domestic corporates and banks, as well as the issuance of sovereign bonds, the purchase of Rupee-denominated Government debt by foreign entities and the increased participation of overseas investors in the Sri Lankan stock market.

Nevertheless, thanks to the efforts of our Corporate and Personal Banking teams, Commercial Bank's lending portfolio grew appreciably in the latter part of the year, registering a growth rate considerably higher than the industry average. Against a background of sharply declining interest margins, this healthy expansion of volume acted as a booster shot that raised the Bank's overall profits - a welcome consequence, no doubt appreciated by all shareholders.

Faced with a prevailing market atmosphere in which the Bank's conventional business approach would be difficult to sustain, we developed a strategy to diversify our activities, with a particular focus on fee-based income. In this regard, I would highlight the positive outlook arising from initiatives taken by our Investment Banking team; I am confident that we will realise the full potential of this forte in the medium to long term. In addition, the Bank launched several new products during the year aimed at improving product mix, as we cater to customer needs and preferences in areas such as credit cards, debit cards, loans, advances and savings products - including a new retirement-savings programme, The Future Pension Plan.

The Bank's focus on optimising fee-based income also yielded a new opportunity for our Bancassurance business line, which signed up a few more insurance partners and launched a campaign of more targeted promotions. In other areas of product development, our support for small and medium-sized enterprises (SMEs) during 2014 included a special entrepreneurial skills-development programme, as well as a campaign to promote our *Diribala* Loan Scheme - the only

dedicated credit line offered by a Sri Lankan bank for the benefit of SMEs. These valued customers were also the target of a new agri-business loan programme launched in the second quarter.

Mirroring the high levels of liquidity in the marketplace, the Bank's own liquidity was far in excess of regulatory requirement during the year – due mainly to higher deposit growth compared to a more modest increase in advances. Inevitably, this brought a new dimension to treasury management. The dual-rate system adopted by the Central Bank of Sri Lanka in its Standing Deposit Facility, along with restricted access to the Repo window, definitely posed challenges. On a more positive note, we recognised an opportunity for the Bank's Treasury Department to benefit from capital gains arising from our Government Securities portfolio in light of low and declining interest rates. However, by the end of 2014 interest rates appeared to have bottomed out; in the coming year, any upward movement is likely to generate pressure and make treasury management even more challenging.

As a long term growth strategy, we have undertaken new expansion efforts overseas, encouraged in particular by the success of the Bank's Bangladesh operations. I am pleased to inform shareholders that following successful negotiations, we have received a license to open a representative office in Myanmar. This will serve as a stepping-stone to access the markets of a resourceful country with great potential, and to expand across further frontiers in the region. We have also taken steps to strengthen and consolidate our position in the fast-growing inward remittances market, whose highly diversified origins extend from Korea and Malaysia to Italy and the Middle East.

Efficiency, both in customer service and in key operations, saw significant improvement over the past year as the Bank has adopted and continued to integrate state-of-the-art technology. The many IT-based initiatives launched in 2014 include installation of cash/cheque deposit machines, expansion of our mobile and online banking offerings, upgrading of traditional branches with 24-hour automated banking, and new facilities for withdrawing cash using Mobitel mCash mobile wallets via our cardless ATM network - a unique service in Sri Lanka. At the same time, processing capacity was further enhanced by migrating customers to alternative channels, increasing the number of cash/cheque deposit kiosks and managing faster turnaround times with our newly introduced Teller Cash Recyclers.

Commercial Bank maintained its position as the operator of Sri Lanka's largest ATM network, ending the year with a total of 606 machines. The Bank also continued its five-year industry leadership in protecting customer privacy by meeting and exceeding the globally recognised standards of ISO 27001:2013 certification.

The future of the banking industry will inevitably be shaped by the speed with which customers are embracing mobile technologies. However, branches will continue to be a vital component in the delivery of services. Therefore we must further augment the Bank's branch network to meet customer demand for prompt, personal responses to their financial needs alongside improved self-service options. As pressure increases to expand business volumes and

manage tight interest spreads, we will bring even greater focus to channel migration, process automation and centralisation - all with the aim of improving the cost to income ratio.

In 2014, we took further steps to improve and strengthen the Bank's corporate governance structure, adopting the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka. We also established the Related Party Transactions Review Committee as a specialised sub-committee of the Board. In addition, measures were introduced to ensure compliance with new Sri Lanka Financial Reporting Standards (SLFRS/LKAS). In particular, we have moved to address the disclosure requirements for credit, market, operational and liquidity risk management. This includes taking an undiscounted approach to cash flows in disclosing maturity analysis. We have also adopted new disclosure practices for collaterals and impairment, and we are addressing new areas of market risk through sensitivity analysis. Lastly, in compliance with the new SLFRS 13 Accounting Standard relating to fair-value measurement, in 2014 we conducted a valuation of all relevant fixed assets with the goal of further improving the quality of financial reporting.

Also during the past year, we strengthened the Bank's communications policy by establishing a governing framework aimed at maintaining and improving transparency, ethical behaviour, responsibility and responsiveness to stakeholders. At the same time, Commercial Bank's geographical footprint continued to grow, with the total number of branches reaching 239 by the end of 2014. This expansion reflects our efforts to capitalise on economies of scale and more efficient utilisation as we capture new business and strive for a profitable banking model that is optimally sized for the domestic market. We have also added another dimension to that model by acquiring a 100% stake in Indra Finance Ltd., envisioning the potential synergies resulting from adding a product portfolio designed for a market segment that we have not traditionally served.

In the area of corporate social responsibility (CSR), the past year brought a new level of activity in the Bank's focus on education, as we continue to empower school children and university entrants through our investment in technology labs, mainly in rural schools where students lack access to IT education. We opened 36 new IT labs in 2014, bringing the total number donated by the Bank to 158. We also brought online learning capabilities to 46 more schools, doubling the coverage of this ongoing project. We awarded 50 scholarships and laptop computers to undergraduates, a total of 300 students supported to date. And we continued to partner with two key corporate sponsors, working with Cisco Systems to teach students IT essentials and with Microsoft to train teachers on broader technology issues.

Elsewhere within the Bank's CSR purview, we completed 11 new healthcare projects during the year, nearly doubling our impact in that area as well. We funded the training of 200 more English teachers through the British Council, increasing our total complement of teachers to 300. And we invested in a range of community improvement projects, from the renovation of a section of steps



at Sri Pada, to landscaping of the Colombo National Hospital garden, to the continuation of a coral replanting project at Hikkaduwa.

Recognition of Commercial Bank as Sri Lanka's premier financial institution was reinforced by a range of awards over the past year, including 'Best Bank in Sri Lanka' from Global Finance (US), the country's 'Best Trade Bank' from TradeFinance (UK), Sri Lanka's 'Strongest Bank' from Asian Banker, 'Banker of the Year 2014' from The Banker (UK) and most respected bank in Sri Lanka from LMD magazine - to name just a few. Our brand reputation as Sri Lanka's 'Most Awarded Bank' was further evidenced by the many CSR awards received in 2014, which are too numerous to list here.

Commercial Bank has come a long way, consistently achieving greater and greater heights to reach the position we are in today. I wish to take this opportunity to pay tribute to all those who have contributed to our success over the four-and-a-half decades since the Bank was founded. I owe an especially big thank-you to my colleagues on the Board, to the management team, and to each and every employee of the Bank for their collective commitment, cooperation and unstinted dedication.

Commercial Bank's corporate positioning, 'for a better future,' is brought to life through personalised service delivered with disciplined efficacy and customer-oriented efficiency, because our valued customers are the Bank's greatest asset. As the custodians of this enterprise, the Board is committed to safeguard and further the interests of the Bank's owners - our shareholders - at all times.

I wish all of you every success in your various endeavours.



**Dharma Dheerasinghe**  
Chairman

Colombo  
February 23, 2015

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