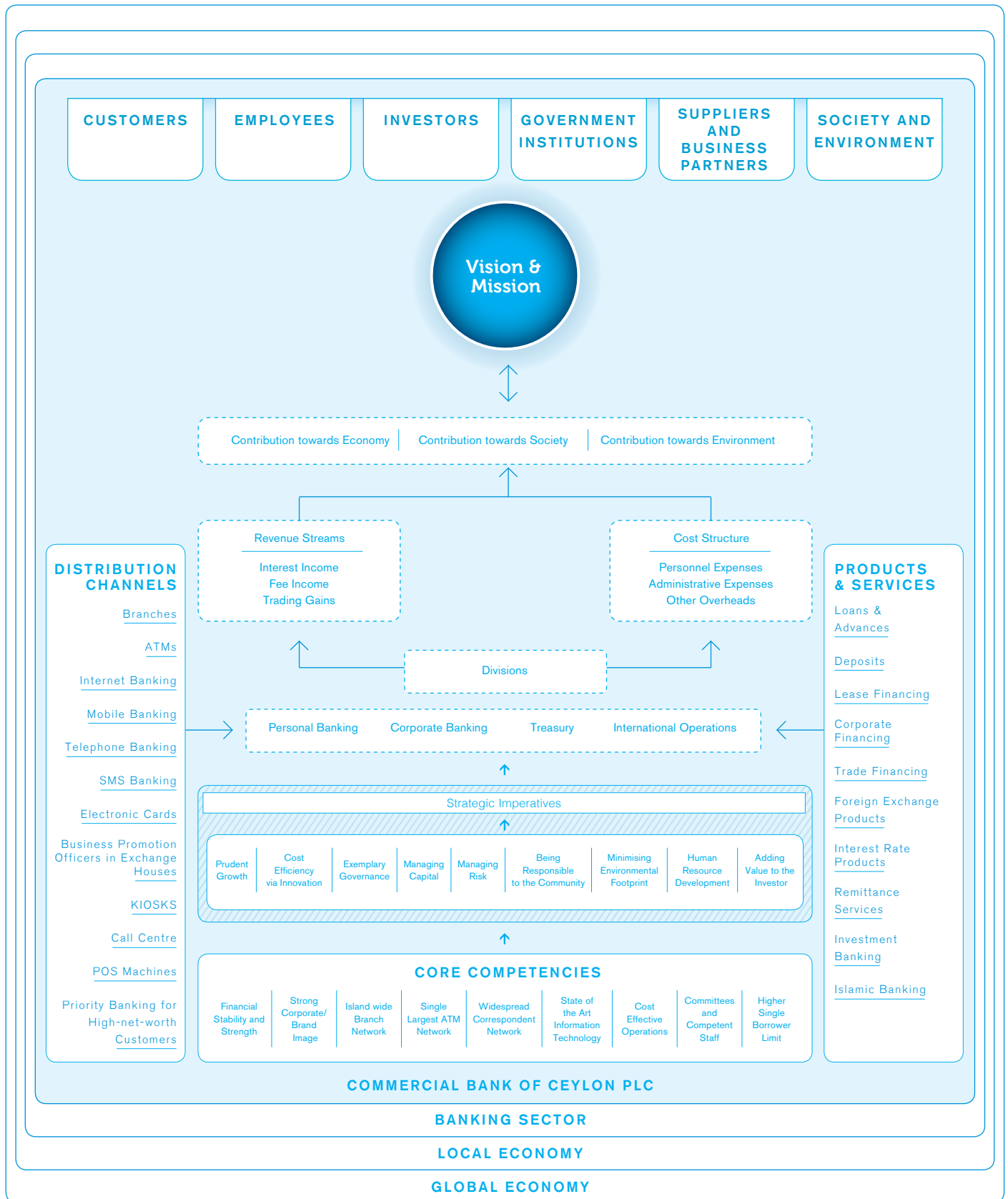


Our Business Model



Commercial Bank is primarily a retail-funded financial institution, with 77% of our funding mix comprised of deposits and 76% of those deposits provided by individual customers. Focused mainly on traditional banking activities, we leverage our strengths and core competencies through a proven business model - the mechanism by which we deliver value to our stakeholders, derive value in return and capture it for the benefit of our shareholders.

The Bank's business model has been evolving over time in response to significant changes in the operating environment - notably a steadily tightening of regulatory oversight, the rapid development of new information and communication technologies, and constantly changing customer behaviour. As a result, we have been reshaping our operations to become more customer-centric, developing a deeper understanding of individual customers' financial goals and needs. We have segmented the market accordingly and refined our value proposition to meet the expectations of retail and corporate customers that we understand better than ever before. The diverse products and services Commercial Bank offers today, and the range of channels by which we deliver them, reflect this drive to create a more integrated, relevant and valued customer experience.

At the same time, our business model remains simple and clearly aligned with the Bank's strategic objectives. Consciously avoiding complex, structured products, we have achieved consistently steady performance as we advance against our own record (refer the 'Decade at a Glance' on page 412 to 415) and in relation to our peers in Sri Lanka's competitive banking sector. Commercial Bank's success reflects the aptness of our underlying business model.

A Model of Uniqueness

Banks are in the business of financial intermediation - between depositors and borrowers, between importers and exporters, between remitters and beneficiaries, and also between investors and commercial ventures. The business model of a bank therefore differs significantly from that of any other enterprise.

The principal differentiator is that the Return on Assets (ROA) achieved by a financial institution is far lower than for other businesses; a bank's ROA tends to hover around 2%, in contrast to returns as high as 20% in most other sectors. However, in order to remain attractive to investors, financial institutions must nevertheless generate a ROE comparable to that of other publicly traded entities.

Customer Segmentation and Target Market

Criteria	Corporates	SMEs	Micro Customers	Mass Market	High net-worth Individuals
Income/Size of Relationship/Business Turnover/Exposure	Either Annual Business Turnover > Rs. 600 Mn. or Exposure > Rs. 200 Mn.	Annual Business Turnover < Rs. 600 Mn. and Exposure < Rs. 200 Mn.	Exposure < Rs. 200,000 and availing dedicated products	Individuals not falling into other categories	Individuals with banking relationships above set thresholds
Price sensitivity	High	Moderate	Low	Low	High
Products of interest	Transactional and Trade Finance	Factoring, Leasing and Project Financing	Transactional	Transactional	Investment
No. of transactions	High	Moderate	Low	Low	Low
Level of engagement	High	Moderate	Low	Low	High
Objective	Funding and Growth	Funding and Growth	Funding and Advice	Personal Financial Needs	Wealth Maximisation
Background	Rated, Large Corporates	Medium Business	Self Employed	Salaried Employees	Businessmen/ Professionals
No. of banking relationships	Many	Many	A few	A few	Many
Level of competition from banks	High	Moderate	Low	Moderate	High

They meet this challenge by applying a greater degree of gearing: banks' ability to accept public deposits makes it possible to gear the ROA higher in relation to shareholders' equity.

The effectiveness of the Bank's business model has enabled us to report acceptable levels of profitability at optimum levels of gearing over the years, as shown in the following table:

	2014	2013	2012	2011	2010
ROA (%)	1.60	1.87	2.12	1.94	1.60
Gearing (times)	10.63	9.84	9.89	10.45	11.17
ROE (%)	17.01	18.40	20.96	20.28	17.87

Gearing in this context is essentially a matter of growing new business by attracting customer deposits and then lending those funds to prospective borrowers. As such, the ability to expand the Bank's operation, deriving sustainable value through growth, invariably depends on our success in subsequently delivering value and/or creating opportunities to do so in the future.

In addition to the organic growth that the Bank has sustained over many years, we are always alert to opportunities for inorganic growth. Recent history provides two such examples: our acquisition of the Bangladesh operation of Credit Agricole Indosuez in 2003, and our pending launch of banking operations in Myanmar - through a representative office - after recently being awarded a banking license by that Nation's Government.

We Know Our Customers

Commercial Bank serves two broad categories of customers: regular and walk-in. Regular customers include depositors and borrowers who maintain an ongoing relationship with the Bank. They enable us to generate revenue from fund-based operations in the form of net interest income - the differential between interest charged and interest paid - as well as from fees and commissions. For walk-in customers, on the other hand, we simply provide over-the-counter services that generate fee-based income.

We have segmented the Bank's regular customer base with a view to better understand their preferences and attitudes in order to offer tailor-made combinations of products and services, delivery channels, benchmarked service standards and streamlined internal processes. This individualised approach has enabled us to maximise customer fulfillment and engagement.

Our Business Model

Structured for Success

Functionally, the Bank operates four distinct business units. Corporate Banking Division meets the constantly evolving needs of corporations and SMEs. Personal Banking Division serves the full range of micro-level, mass-consumer and high-net-worth customers; it is organised along regional lines to ensure prompt and efficient service. A third unit, Treasury, plays a critical role by managing the Bank’s interest rate risk, trading in foreign exchange, facilitating liquidity and funding needs, and investing excess funds. And lastly, our Off-shore Banking Centre and Bangladesh operations come under the purview of International Operations.

We understand that each customer has one or more preferred channels to interact with the Bank. Commercial Bank has deployed multiple channels to connect with our customers. These range from conveniently located bricks-and-mortar branches to alternative distribution channels that increasingly leverage information and communication technologies - including ATM networks, call centre services and Internet Banking and mobile banking. The chart below shows the Bank’s channels mix and their primary target segments:

Channel Mix and Target Market

Customer Segment	Branches	Internet Banking	ATMs	Call Centre	Mobile Banking	Relationship Managers	Business Promotion Officers	Premier Banking Units
Corporates	Yes	Yes	No	Yes	No	Yes	No	No
SMEs	Yes	Yes	No	Yes	No	No	No	No
Micro	Yes	Yes	Yes	Yes	Yes	No	No	No
Mass	Yes	Yes	Yes	Yes	Yes	No	Yes	No
High-net-worth	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes

Our business has become increasingly technology-intensive over the past decade, requiring us to work closely with a number of leading-edge IT vendors. These companies partner with us to develop innovative solutions in customer relationship management, multi-channel integration, business process improvement, loans origination and processing, risk management, business intelligence and much more.

As we maintain and enhance a large network of branches and alternative channels, our cost structure consists primarily of human resources expenditure (56%) and administrative and real estate expenses (37%). In addition, we must make adequate provisions for impairment on loans and advances.

With a cost to income ratio of 47.13%, Commercial Bank is one of the most efficient and productive banks in our peer group. That key measure of success is a testament to the soundness of our value proposition, the effectiveness with which we deliver it and, above all, the time-tested business model that provides the foundation for all of our efforts.

Drawing from a broad spectrum of market-sensitive products and services, we can tailor Commercial Bank’s value proposition to reflect the priorities and expectations of specific customer segments. The products and services on offer include corporate banking to retail banking and from investment banking to treasury. A detailed list of products and services is given on page 27.

To support the delivery of targeted services cost-effectively, we have been moving increasingly towards a shared-services model for the Bank’s central functions. This enables us to take advantage of synergies across the organisation, as various cross-functional working groups share ideas, refine processes and collaborate on joint initiatives.

In addition to our permanent workforce of full-time and part-time employees, we contract the services of outsourced staff for non-core activities. The Bank also operates four subsidiary companies, of which two are primarily engaged in providing support services to our regular operations.

Bank's Products and Services Portfolio

Personal Banking	Corporate Banking	Treasury Operation	International Operations
<p>Deposit Products</p> <ul style="list-style-type: none"> • Current Accounts • Achievers' Current Accounts • Regular Savings Accounts • Power Saver Accounts • Super Saver Accounts • Fixed Deposits • Foreign Currency Deposits • Money Market Accounts • Call Deposits • <i>Udara</i> Senior Citizens' Accounts • <i>Arunalu</i> Children's Savings Accounts • <i>Isuru</i> Minors' Savings Accounts • <i>DotCom</i> Youth Savings Accounts • <i>Anagi</i> Women's Savings Accounts • Future Pensions Plan <hr/> <p>Advances</p> <ul style="list-style-type: none"> • Personal Loans • Term Loans • SME Loans • Housing Loans • Lease Financing • Hire Purchase <hr/> <p>Fee-based Operations</p> <ul style="list-style-type: none"> • Paymaster • Credit/Debit Card Services • Utility Bill Payments • Mobile Phone/SMS Banking • Internet Banking • Tele-Banking • Bancassurance • e-Exchange <hr/> <p>Other Services</p> <ul style="list-style-type: none"> • 365/Holiday Banking • Weekend Banking • Priority/Elite Banking 	<p>Corporate Banking</p> <ul style="list-style-type: none"> • Term Loans • Working Capital Financing • Leasing and Factoring • Payment Solutions for Corporate Clients • Investment Advice and Evaluation • Term Deposits • Savings Accounts • Current Accounts <hr/> <p>Investment Banking</p> <ul style="list-style-type: none"> • Structuring, Managing and Underwriting of Initial Public Offerings and Private Placements of Equity • Margin Trading Facilities • Structuring of Corporate Debt Instruments • Securitisation • Syndicated Loans • Escrow Accounts • Project Financing • Custodian Services <hr/> <p>Trade Finance</p> <ul style="list-style-type: none"> • Import/Export Financing • Shipping and Other Guarantees • Structured Trade Finance Services • Facilities for International Trade Payments (i.e., Letters of Credit, Documents against payment, Documents against acceptance, etc.) <hr/> <p>Others</p> <ul style="list-style-type: none"> • Islamic Banking • Bullion Trading • SWIFT Facilities • Internet Banking 	<p>Derivatives</p> <ul style="list-style-type: none"> • FCY and Interest Rate Swaps • Forward Exchange Contracts • LKR and FX Options • Caps, Floors and Collars <hr/> <p>Interest Rate Products</p> <ul style="list-style-type: none"> • Money Market Products • Fixed Income Securities Trading • Repurchase Transactions on Government Securities <hr/> <p>Foreign Exchange Products</p> <ul style="list-style-type: none"> • FX Dealings • FX Hedging 	<p>Bangladesh Operation</p> <p>Deposit Products</p> <ul style="list-style-type: none"> • Current Accounts • Savings Accounts • Fixed Deposit Accounts • Margin Accounts • Money Market Accounts <hr/> <p>Advances</p> <ul style="list-style-type: none"> • Personal Loans • Term Loans • SME Loans • Housing Loans • Auto Loans • Lease Financing <hr/> <p>Maldivian Operation</p> <ul style="list-style-type: none"> • Project Financing • Development Lender in Syndicated Facilities <hr/> <p>Remittance Services</p> <ul style="list-style-type: none"> • ComBank e-Exchange • MoneyGram