



Guided by the Mission Statement of the Bank, **our focus was primarily centered on innovation, professionalism, service quality, customer retentions and optimisation of profits; while ensuring long-term sustainability**

STEWARDSHIP

Chairman's Review

Dear Friends,

The Bank performed exceptionally well in almost all areas of business activities in 2015. I am sure this accomplishment would be to the delight of all our stakeholders. Therefore, at the commencement of my review, I wish to recognise and appreciate the efforts of all those who contributed towards this success. As I highlight the considerable guidance and leadership given by the Board, I must also attribute the operational achievements of the year to the executive team led by our energetic MD/CEO.

Guided by the Mission Statement of the Bank, our focus was primarily centered on innovation, professionalism, service quality, customer retentions and optimisation of profits; while ensuring long-term sustainability. As the Bank focused on fully realising these key performance drivers, our key strengths were bolstered by advanced technology, increased financial capacity, strong credit culture, vast customer base and our solid time-tested reputation. Moreover, the Bank's policies and strategies were formulated in order to ensure a rapid growth of business activities geared towards securing greater market share while mitigating the higher risk exposure associated with further expansions.

The Banking and financial sector of the nation benefitted from the benign macro-economic conditions that prevailed throughout fiscal year. However, the year did not pass without challenges that predominantly stemmed from unconducive external economic conditions. Furthermore, similar to most emerging market economies, Sri Lanka, was also affected by adverse global trends: capital outflows and an overall reduction in global growth.

As a step forward, numerous prospective diversification opportunities for the Bank's core lending business were explored, with an emphasis being laid on expanding fee-based activities. Income from such activities displayed considerable improvement throughout the fiscal year, yet remained fairly tied down by limited market participation and opportunities. Ergo, measures were also taken to bolster and secure a competitive edge for the Bank's Investment Banking Unit.

Traditionally, branch networks have played a significant role in delivering customer service. In a socio-economic atmosphere where advancing technology is replacing and redefining some of the traditionalised functions of branches, the conventionalised branch banking model is in need of innovative revisions. With an orientation towards retail banking, Sri Lankan banks generally operate through large branch networks that currently depend heavily on labour intensive systems and methodology. Therefore, it is my belief that redirecting investments into implementing cutting edge IT systems, machinery and equipment along with wide-spread adoption of mobile and internet banking is bound to see to a decline in substantial labour costs through the reduction of the labour intensity affiliated with branch operations. Moreover, historical strategic outcomes have also shown that investments in technology have consistently produced higher returns while facilitating greater customer convenience. As such, I regard it optimal that the expansion of the Bank's existing branch network is done in unison with the technological revamping process in order to maximise value while minimising non-essential operational costs.

It is no secret that volatile customer demand is largely influenced by the prevalent market conditions. Thus, we constantly survey the shifts in consumer needs to optimise customer value. Moreover, conventional wisdom dictates that supply creates its own demand. Therefore, has little or no relevance in extending good customer care which also denies 'the market fundamental of consumer supremacy'. To achieve this end, several new products were launched during the year, while some existing products were modified to better suit customer needs.

It is generally believed that small and medium enterprises form the backbone of Sri Lanka's economy. The Bank offers a variety of products to this sector including Individual Loans, Agri and Microfinance, Green Development Loans, *Diribala*, Foreign Currency Loans and *Divisararu* Savings Accounts. All of which have been attracted with a significant appetite shown by the SME customers during the year under review. Even

though, SME is a priority sector, banks are faced with many challenges in this sector including the absence of financial information, poor financial and management skills, high labour turnover, low adoption of technology and reluctance to comply with green initiatives and environmental guidelines. In the agri and microfinance sector, these issues are more predominant and this situation invariably reduces the lending opportunities available for banks.

Encouraged by our successful operations in Bangladesh, the Bank was exploring possibilities of overseas expansion. In this endeavour we were successful in obtaining a License to operate a representative office in Myanmar. In June 2015, this representative office was launched in Yangon, the commercial capital of Myanmar. The Bank also was successful in setting up of an Exchange House in Rome, under a license obtained from Bank of Italy. This will enable us enhancing inward remittances from Italy in a big scale. During the year, we were also successful in obtaining a license from the Monetary Authority of the Maldives for setting up of a fully-fledged Tier 1 bank in that country. We hope to commence our operations soon.

The CSR initiatives of the Bank was directed to focus on a fresh level of activities along the lines of 'empowerment of education' for children in schools as well as for university entrants with greater thrust in opening more IT labs across identified locations. Confining to this stipulated framework by end 2015, IT labs established by the Bank totalled 170 of which 17 labs donated to deserving schools during the year. Three more schools were added to the online learning projects during the year thus bringing the total to 53 provided with this learning facility by end of the year. A ground breaking new initiative was launched in 2015 to stimulate and develop the mathematical and analytical skills of school children under the concept of 'math lab' aligned with the Bank's education centric CSR agenda with the involvement of over 4,500 students at four Government schools and a home for differently-abled children. In another new initiative an educational website *Sipnena* was launched linking 10 schools in

diverse regions to impart the universe of knowledge close to our children and offer the students free access to support their educational needs in line with local curricula via the IT labs donated by the Bank. Total number of under graduate scholarship recipients of the Bank's CSR Trust, under the *Sarasawiyata Nawa Saviyak* programme, stood at 300 students. Whilst education remained the Priority Sector, Bank's CSR initiatives on other sectors continued with a stronger commitment towards the society. The CSR Trust is mindful of the fact that the Bank is a responsible stakeholder of the economy and its programmes should fall in line with national priorities so as to maximise the socio-economic benefits accruing to the society at large from its investments. We are pleased to place on record that the Trust was awarded 'Best Sustainability – Green Initiatives' at the 2015 Asian Customer Engagement Forum Awards in Mumbai, India, which recognises the effectiveness of Commercial Bank's initiatives to migrate customers from traditional banking channels to digital platforms such as mobile and online banking as well as its investments in an effort to promote automation to minimise the use of paper.

We are mindful of the diversity of consumers in the market not only by size but also by their advertising and price consciousness and risk appetite. Our Marketing Strategy recognises this diversity and marketing programmes have been targeted at different segments of the market, while recognising imperfections of competitiveness in a highly regulated market where competition is permitted only within the regulatory framework. The Board is keen particularly on the effectiveness of marketing programmes of the Bank and has found that the interaction with the management was fruitful at Board and Board Sub-Committee discussions in directing the marketing efforts of the Bank. The marketing programmes, among other things focused on into green banking and launched a very innovative, modern and appealing set of 'green' outlook branding to emphasise the new generation of automated cash deposit terminals that completely eliminate the use of paper.

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As the benchmark, private sector bank which has changed the landscape of banking in Sri Lanka, Commercial Bank will continue to consign industry standards by providing convenience through technological innovation and excellence in customer service. The Bank's marketing function is endeavoured to exert increased support for the digitalisation of banking with more focus imparted on migrating customers for real time convenient channels such as ATMs, ADMs, Green Banking Channels, Online Banking, Mobile Banking and Automated Banking Centres which would pave the way for branches to focus more on building and strengthening customer relationship. Our immediate priority is to adopt a highly customer oriented approach in product and service delivery where customer relationship building and service efficiency are the key.

We recognise our staff as the biggest asset of the Bank. Thanks to age old culture of the Bank we today have a very strong human resource base with further potential for upskilling to achieve greater productivity which needs not be overemphasised in the context where staff cost is fast growing and constitutes the largest single component of all costs of the Bank put together. Improved labour productivity will ensure long term sustainability of profitability and cost income ratio at lower if not at present level. Human Resource policies of the Bank have been subject to review periodically by the Board particularly in relation to recruitment, staff training and development and remuneration.

I am pleased to note that the Board has at all times maintained high professional and ethical standards in its deliberations. We have been unanimous in making all our discussions at the Board and have always strived to improve management information supplied to the Board to ensure that its members are better informed of operational matters. I would like to place on record that we have received excellent co-operation from MD/CEO and his staff. All Board Sub-Committees have functioned effectively and I wish to take this opportunity to thank each and every member of the Board. The untimely demise of Professor Uditha Liyanage, our respected Board member has caused an irreparable loss for the Bank. I would like to gratefully

acknowledge his valuable inputs received at all Board discussions and other Committee level meetings. The two new Board members who were appointed to fill the casual vacancies, namely Professor A. K. W. Jayawardane and Mr. K. Dharmasiri, have brought in much needed expertise in technology and banking to the Board. I will be failing in my duty if I do not acknowledge the contribution made by other members of the Board. I wish to make a special mention of the assistance that was received from Mr. John Wilson to study and make recommendations to the Board on the methodology currently used for Funds Transfer Pricing and Treasury Management. Mr. M. P. Jayawardena, Deputy Chairman and Mr. S. Swarnajothy who chair two important Board Sub-Committees, the Board Integrated Risk Management Committee and the Board Audit Committee respectively, have contributed immensely to improve Board oversight and to provide strategic direction to the management through their valuable professional inputs. The operational excellence that has been achieved by the Bank is no doubt a reflection of the efficiency and effectiveness of the two Executive Directors namely, Mr. J. Durairatnam, MD/CEO and Mr. S. Renganathan, COO of the Bank.

The Corporate Plan and the Budget for 2016 has been finalised and approved by the Board. The team is geared to achieve targets that are boundaries beyond that of yesteryear. Furthermore, I am confident that through the strengths of our committed and dedicated team, the Bank is well on its way to make great strides toward achieving a one trillion Rupee balance sheet by the end of the new fiscal year. With this determination brewing at the core, I wish you all much success.



Dharma Dheerasinghe
Chairman

Colombo
February 24, 2016