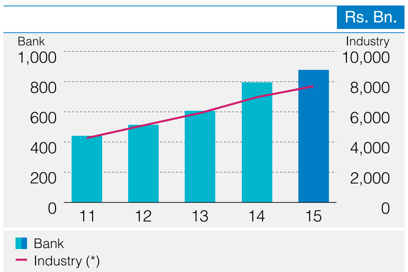
We have delivered prudent growth in profitability whilst strengthening our financial position in 2015 as our strategic goals were re-aligned to meet heightened levels of uncertainty in the business environment. The results reflect healthy growth in all our key business lines, operational excellence and optimal utilisation of funds. A 95 year history interwoven with the socio-economic progress of our island nation, gives us exceptional insights into doing business in the country and the region. Consistently delivering results exceeding industry benchmarks, the Bank presently accounts for approximately 12% of the country's Banking sector assets. The highlights of 2015 are given below:

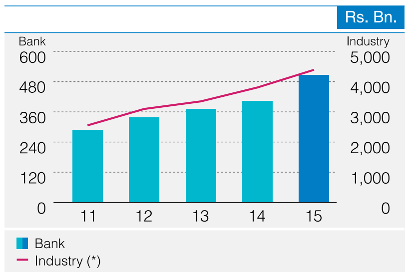
Asset Growth

Our strategy of prudent growth is reflected in the total asset growth rate of 10.58%, a moderation from 2014. Strongly correlated to economic growth, this key indicator reflects the moderation in growth witnessed during the first half of the year which picked up towards the latter part of the year.



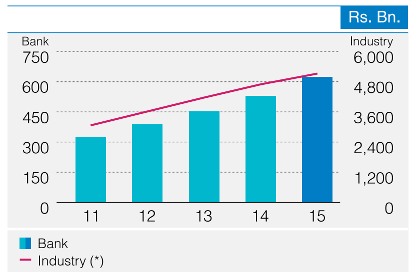
Credit Growth

Net loans and receivables to customers grew by 25.33% during the year, due to increased cross-sell, client acquisition and process efficiencies comfortably surpassing the industry growth.



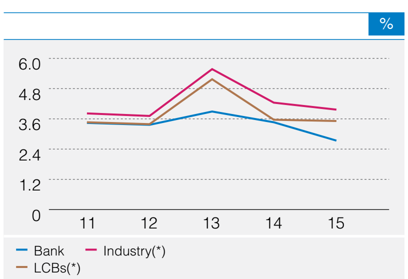
Deposit Growth

Unparalleled convenience and reach, coupled together with a strong credit rating of AA(lka) and high levels of customer satisfaction, facilitated deposit growth of 17.90% well above industry benchmarks, despite a high base.



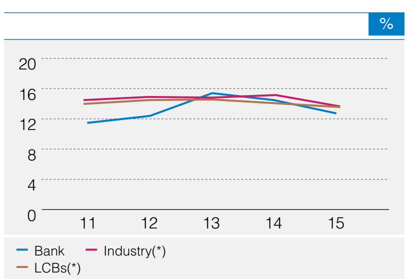
Asset Quality

Responsible lending practices, consistent investments in developing people and a culture of risk awareness enabled us to curtail our NPA ratio to 2.74% well below the industry average.



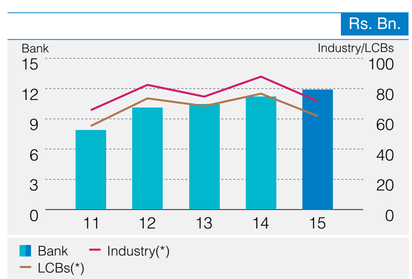
Capital Adequacy

The Bank pursued a strategy of optimising capital, which reduced the excess liquidity and aligned the capital adequacy ratios to strategic goals within the risk appetite and the regulatory requirements.



Profitability

Operational excellence and employee productivity were key contributors to profitability, which improved despite declining net interest margins.



** Industry and LCB figures in above graphs are only upto September 30, 2015.*

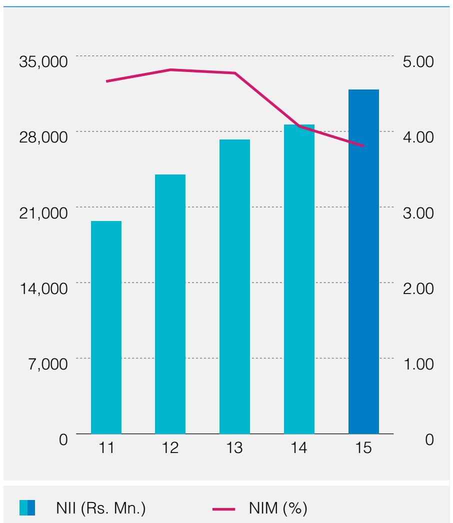
Source: CBSL

Income Statement Analysis

Net Interest Income (NII)

NII increased by 11.47% during the year to Rs.30.345 Bn., despite a decline in the Net Interest Margin (NIM) from 3.88% in 2014 to 3.62% in 2015. Interest income growth of 6.79% is primarily attributable to healthy growth in the Loans and advances portfolio, improved asset quality and timely re-pricing of assets. Retail banking continues to be the key contributor to NII, accounting for 77.01%. Interest expense growth was curtailed to 3.11%, mainly due to the improvement in the Current and Savings account (CASA) ratio and effective management of liabilities. The decline in NIM reflects the relatively low interest regime that prevailed during the year, despite normalisation of the excess liquidity that prevailed in the market previously.

Net Interest Income Rs. Mn./%

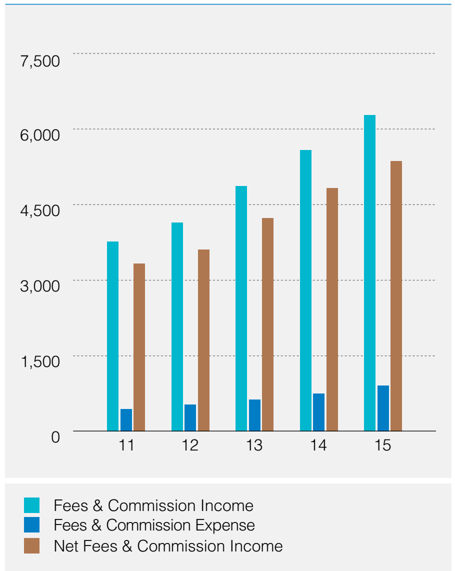


Graph – 40

Net Fees and Commission Income

Fees and commission income growth was 12.20%, with impetus from inward remittances, which increased by 22.02% during the year, affirming our leadership in this segment. Credit and debit card-related services too grew at a healthy pace. Fees and commission expenses increased at 18.34%, mainly due to arise in credit and debt card related expenses resulting in a decline in margins on this high growth area, inevitable as competition intensifies from players in the financial services sector, IT and telecommunication companies in-line with global trends. However, Bank is well placed to compete in this area with a large captive customer base, already well connected through our local and overseas networks and a pipeline of innovations to be rolled out in 2016.

Fees & Commission Income/Expenses Rs. Mn.



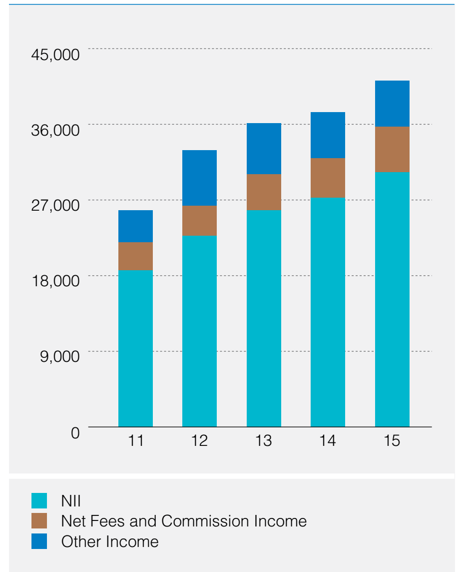
Graph – 41

Total Operating Income

Composition of total operating income reflects stability in earnings with healthy growth in both fund based and fee based activities. Volatile elements such as gains from trading and mark to market valuations were curtailed to a relatively narrow band consistently over the past five years, despite significant market changes over the same period. This reflects our commitment to sustainable growth, taking a long term view in-line with the Bank's philosophy and recognition of stakeholder concerns, which have been entrenched in the organisation culture. NII contributed 73.51% of operating income in 2015, whilst the contribution from net fees and commission amounted to 13.02%, with other income accounting for the remaining 13.47%.

Net gains from trading amounted to Rs. 813.376 Mn. supported by a favourable movement in currency premiums during the year, recording an impressive growth of 366.25% over the previous year. Net gains from financial investments were Rs. 693.933 Mn., a decrease of 69.46% over 2014 due to substantial gains recorded from bond trading in 2014.

Total Operating Income Rs. Mn.



Graph – 42

Impairment Charges on Loans and Advances

Impairment charges are computed on the incurred loss methodology, which has two key components, namely individual impairment and collective impairment. Individual impairment is computed on individually significant loans and advances, which are determined with reference to thresholds set by the Bank and are evaluated against pre-determined impairment triggers. Threshold limits are set to cover a reasonable proportion of the portfolio and are reviewed annually, together with impairment triggers to ensure they are in-line with the overall risk appetite of the Bank.

Collective impairment is computed by categorising loans into several groups that are neither individually significant nor individually impaired, based on homogeneous risk characteristics of each product. These loans are then subjected to collective impairment based on the historical loss experience of each product portfolio, expressed in terms of Probability of Default (PD) and Loss Given Default (LGD). Individual impairment charge increased by Rs. 1.116 Bn. (414.08%) mainly due to the provision made on account of few large customers in 2015, for which provisions had been made under collective impairment in 2014.

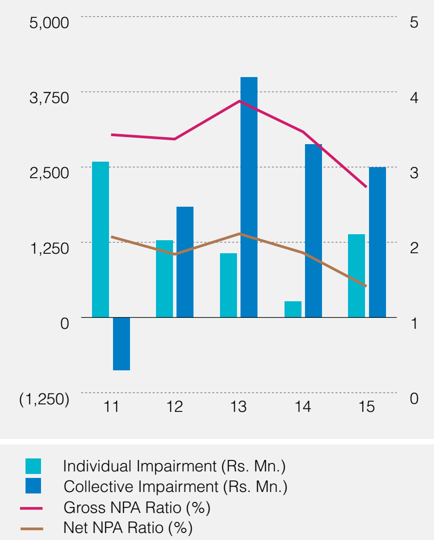
As a result, charge under collective impairment dropped by Rs. 376.934 Mn. and therefore total impairment charge increased only by Rs. 714.052 Mn.

However, credit quality improved as reflected in the decreased charge for collective impairment and the decline in the value of non-performing loans. Further, NPA ratios which are computed in accordance with regulatory requirements to reflect facilities overdue for payment, also declined from 3.47% in 2014 to 2.74% in 2015.

Our unparalleled presence through extensive Branch and ATM networks ***enable us to provide customers that extra attention and care***

Mrs. Sandra Walgama
Deputy General Manager
Personal Banking

Impairement Charges on Loans & Advances Rs. Mn. / %

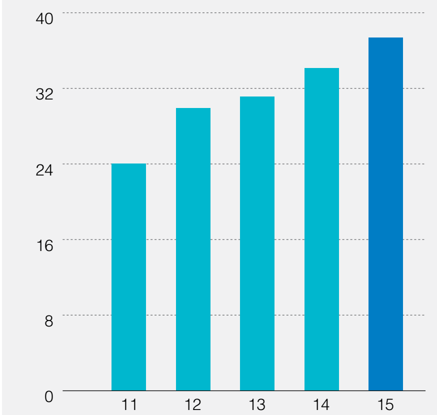


Graph – 43

Net Operating Income

Net operating income increased by 9.33% reflecting increased activity in both fund and fee based operations despite increase in the total impairment charges as explained above.

Net Operating Income Rs. Bn.



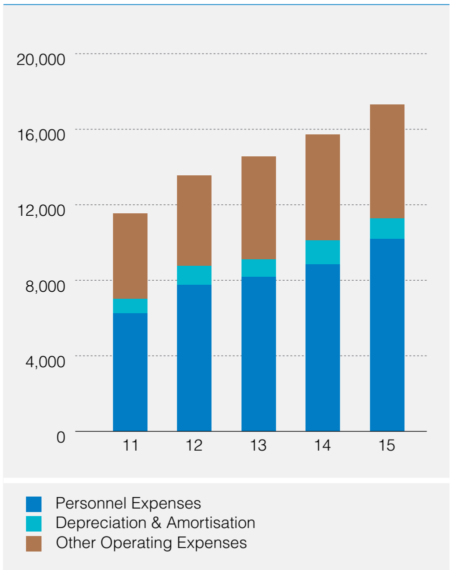
Graph – 44

Managing Expenses

Total expenses increased by 10.04% from Rs.15.726 Bn. to Rs. 17.305 Bn. due to an increase of 14.35% in Personnel expenses and an increase of 6.41% in Other Operating expenses. As a financial services organisation, we seek to attract, develop and retain highly-skilled employees and remunerate them in-line with market where a significant component of remuneration is linked to performance as detailed in both the 'Human Capital Report' and in the Section on 'How We Govern' on pages 194 and 26 respectively. Consequently Personnel expenses accounted for 58.83% of the total expenses. Other expenses include Establishment and Office Administration expenses, Directors' emoluments, professional fees including Audit fees and donations including the donation to the CSR Trust Fund.

The Bank has placed significant effort on curtailing growth of costs through streamlining processes, to maximise value creation as evinced by the cost to income ratio of 48.92% which is well below the industry average. Many of these are described in more detail in the 'Social and Network Capital Report', the 'Human Capital Report' and the 'Impact on Environment Report' on pages 182, 194 and 214 respectively.

Operating Expenses Rs. Mn.



Graph – 45

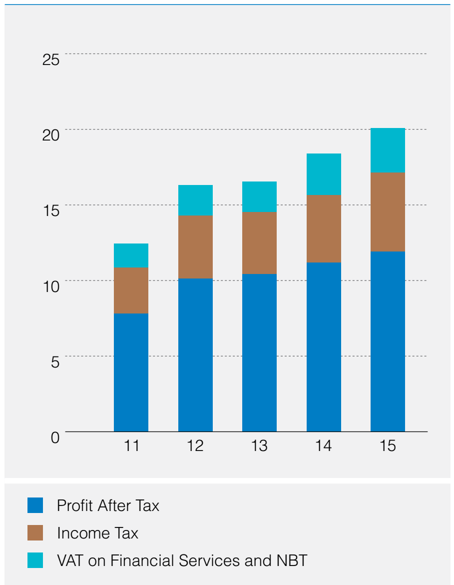
Profit before and after Tax

Profit before tax increased by 8.94% in 2015 due to increased income from operations and curtailing of operating expenses.

The Bank experienced an increase in the Income Tax expense by Rs. 684.351 Mn. in 2015. This was attributable due to the decrease in Income Tax expense in 2014, due to a qualifying payment relief being claimed on the acquisition cost of Serendib Finance Ltd. amounting to Rs. 916.046 Mn.

In addition, current year's Income Tax expense includes a remittance tax paid on repatriation of profits by the Bank's. Bangladesh operation, amounting to Rs. 86.551 Mn.

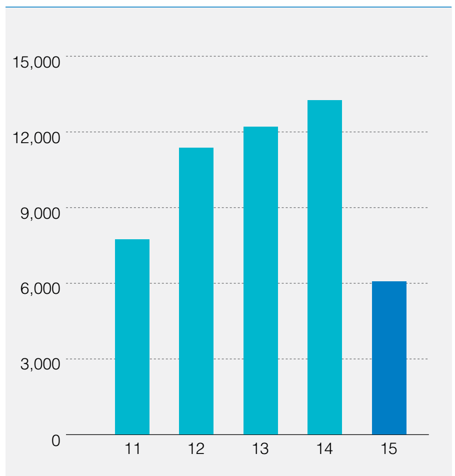
Profits Rs. Bn.



Graph – 46

Other Comprehensive Income (OCI)

Total Comprehensive Income Rs. Mn.



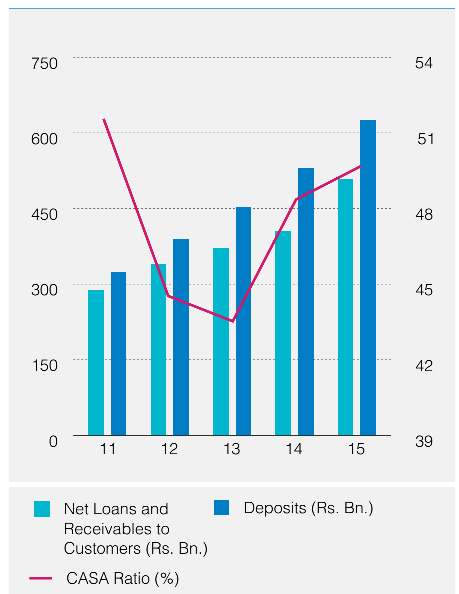
Graph – 47

The fair value of Investment securities Available for sale reported an unrealised loss of Rs. 6.690 Bn. as a result of the sharp upward movement in interest rates in 2015. The Bank holds Government Securities to meet regulatory liquidity requirements and for investment purposes in the Available-for-sale portfolio which is subject to mark to market valuation. The Bank intends to identify and re-classify the core component of the Government Securities held for liquidity purposes amounting to Rs. 35 Bn. as Held to maturity in 2016, to mitigate the adverse impact arising from market movements for which CBSL approval has also been obtained in January 2016 (Graph 47).

Balance Sheet Analysis

The Bank's fund-based operations grew at a healthy pace with net Loans and advances and Deposits, growing at 25.33% and 17.90% respectively. A well-established branch network, coupled with strategic investments in technology, have provided a scalable platform for growth. Multiple channels of banking supported the Bank's strategies to address transitioning demographics, enhancing customer satisfaction. Well-honed programmes for retaining and developing our team, supported delivery on robust growth targets, whilst ensuring that we stayed within the Bank's defined risk appetite. The opening of a representative office in Myanmar and a move to have a majority stake in the Subsidiary, Commercial Bank of Maldives, enhanced the footprint of the Bank, although performance will materialise only in the coming years.

Deposits & Advances/CASA Rs. Bn./%

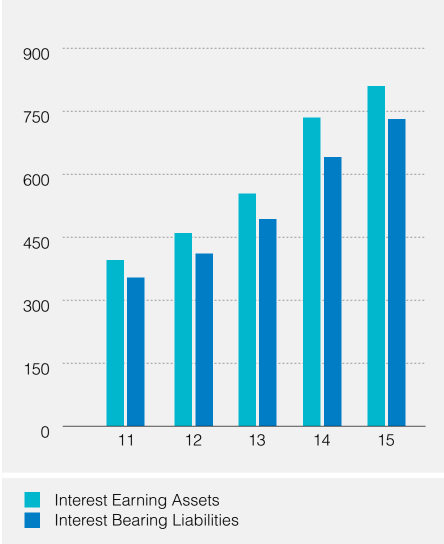


Graph – 48

Branches remain our key channel for deposits and loan growth, while electronic channels are evincing encouraging growth rates for transactions. Deposits continue to be the main source of funds for the Bank's operations, accounting for 77.10% of liabilities in comparison to 73.01% in the previous year, enabling the Bank to decrease its levels of borrowings. The CASA ratio increased during the year, due to targeted marketing efforts supporting the Bank's Net Interest Margins (NIM).

The growth in Interest earning assets and Interest bearing liabilities demonstrate encouraging trends, strongly supported by the Banks' credit rating, brand and reputation as the most respected Bank in Sri Lanka.

Interest Earnings Assets & Interest Bearing Liabilities Rs. Bn.



Graph – 49

Return on Assets (RoA) declined during the year due to the growth in the asset base of the Bank and narrowing NIMs.

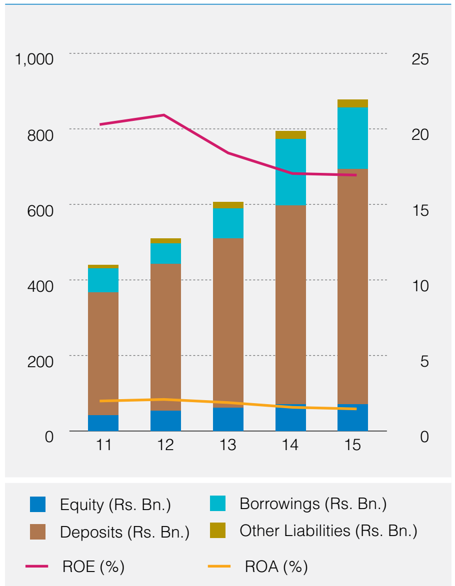
Capital Funding and Liquidity

Capital, funding and liquidity of the Bank are managed to optimise returns to shareholders, whilst ensuring sufficient liquidity to meet foreseeable requirements. After two years of relatively low credit demand, we see the excess liquidity in the Banking sector reverting to levels that prevailed prior to 2013, which we believe is a healthy sign for the Banking sector in the country. This industry wide trend of normalising the excess liquidity is observed in Commercial Bank's results as well as the trade-off between liquidity and profitability favoured profit taking during 2015, as credit growth picked up in both retail and corporate books throughout the year.

*We constantly **strive to meet the financial needs** of our customers in the ever evolving and dynamic global markets*

Prins Perera
Head of Global Markets

Total Liabilities & Equity Rs. Bn./%



Graph – 50

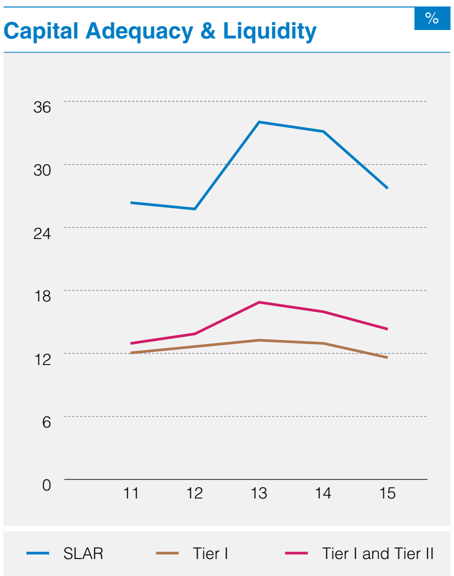
Total liability growth during the year was 11.64% driven by strong growth in deposits which grew by approximately Rs. 8.0 Bn. per month on average. Borrowings declined during the year by 4.55% as the Bank repaid borrowings reducing excess liquidity positions.

This is reflected in the movement of the Statutory Liquid Assets Ratio which has been optimised during the year, enhancing the Bank's profitability.

The average equity of the Bank increased by 7.15% in 2015 compared to the growth in Profit After Tax of 6.47%. Consequently, the ROE of the Bank for 2015 dropped marginally to 16.90% from 17.01% reported for 2014.

Capital adequacy ratios remain well above the regulatory requirements of 5% for Tier I and 10% for total Capital and reflect the normalising of the excess liquidity positions that prevailed over the past two years. The Statutory Liquid Assets Ratio (SLAR) of 27.72% also is well above the regulatory minimum of 20%. Whilst these ratios are marginally below industry averages as at September 30, 2015, they remain at healthy levels within the defined risk appetite of the Bank and reflect the Bank's efficient utilisation of capital.

Capital Adequacy & Liquidity



Graph – 51

Further, single borrower limits of the Bank stood at Rs. 21.165 Bn. for individual customers and Rs. 23.281 Bn. for a group of customers as at December 31, 2015.

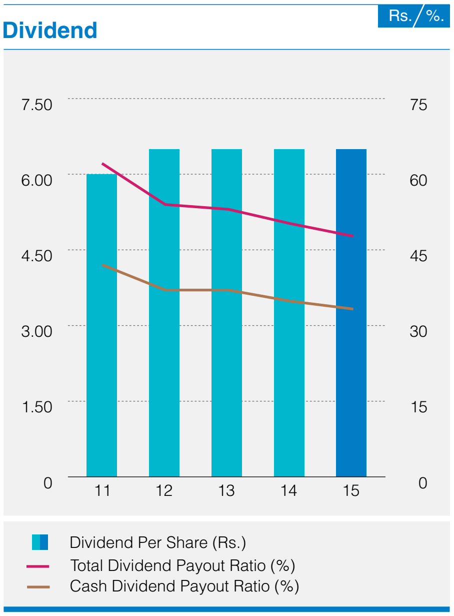
Group Performance

The Commercial Bank Group's four subsidiaries namely, Commercial Development Company PLC (CDC), ONEzero Company Ltd., Serendib Finance Company Ltd. and Commex Sri Lanka S.R.L. located in 'Italy' collectively incurred a loss of Rs. 48.378 Mn. at Total Comprehensive Income level as increased impairment provisions made in Serendib Finance Ltd. to be aligned with the provisioning policy of the Bank. The subsidiaries account for 0.27% of Total Assets of the Group which grew by 44.30% during the year as Serendib Finance Ltd. expanded its' operations. However, given the scale of operations of the Bank, these results do not materially impact the results of the Bank and are set out in appropriate detail in the Business Line Review and the Note 61 to the Financial Statements on pages 160 to 181 and 364 respectively.

Creating Value to Shareholders

The Bank creates value to shareholders through dividends and enhanced value of shares. The Bank's dividend policy seeks to maximise shareholder wealth, increase market capitalisation, whilst ensuring there is sufficient capital for planned business expansion and maintaining a consistent stream of dividends to shareholders. Accordingly, the Bank paid an interim dividend of Rs.1.50 per share in December 2015 and proposed a final dividend of Rs. 5.00 per share for both voting and non-voting ordinary shareholders. The marginally declining trend in the dividend pay-out ratios, reflect the aggressive business plans of the Bank as we venture into new markets and consolidate our position in established markets. Dividend per share has been maintained at a constant Rs. 6.50 per share since 2012, to ensure a balance between retaining capital for business needs and recognition of shareholder expectations.

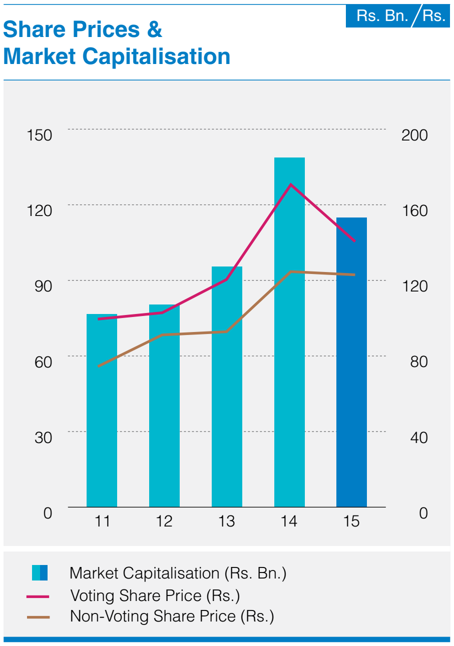
Dividend



Graph – 52

The Bank outperformed all listed banking and financial sector institutions in the country, with a market capitalisation of Rs. 115.033 Bn. as at December 31, 2015. Notably, the Bank's market capitalisation is the 3rd largest among all listed companies in the Colombo Stock Exchange, reflecting the complex mix of brand, reputation, governance, transparency. The share price of the Bank declined from Rs. 171.00 in 2014 to Rs. 140.20 at the close of 2015 was mainly due to the lacklustre performance of the Colombo bourse.

Share Prices & Market Capitalisation



Graph – 53