



A consistent performance requires an unswerving commitment to good governance and values. As a financial services organisation, our customers rely on our honesty, integrity and professionalism in their daily engagements. At the core of our business is a strong commitment to our values

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Expanding Horizons

In our 95th year, we have strengthened our positions in Sri Lanka and Bangladesh, established a representative office in Myanmar and received approval to commence operations in Maldives and Italy, setting strong foundations for our future growth. Each international location has its own value proposition, varying from a focus on SMEs in Myanmar to a technology driven strategy in the Maldives, and is the result of careful study of each market to determine how we can make a significant difference with our expertise. Receiving the license to operate an exchange house in Italy, in 2015 was extremely gratifying as we were able to meet the rigorous processes and standards of the European Union and we expect to commence operations in 2016 under a 100% owned subsidiary. As the first bank in Sri Lanka to identify the need and set in place the mechanisms to legitimise remittances from Italy, we believe we have a unique opportunity in this market which also strengthens our position in our home market. These three achievements are perhaps the most significant for the year as they expand our horizons presenting new opportunities for growth.

I would like to dwell on our economic significance to set our performance in context. Commercial Bank of Ceylon PLC is Sri Lanka's largest private sector Bank, the third largest entity by market capitalisation in the country's stock exchange and the largest provider of funds for SMEs in the country, catering to the needs of millions of customers in Sri Lanka and overseas. We continue to invest in consolidating our position in Sri Lanka as a catalyst in the socio-economic progress of the country shaping how Sri Lankans bank, taking care not to rest on our laurels.

Performance

It is my pleasure to report that Commercial Bank recorded a profit after tax of Rs. 11.903 Bn. and an asset growth of 10.58% in 2015 closing the year with a market capitalisation of Rs. 115.003 Bn. recording a phenomenal year for growth across all business lines, The Bank's loan portfolios and deposits grew by 25.33% and 17.90% respectively, supported by a strong domestic franchise and a customer centric business model. At the close of the year, our loans and advances were Rs. 508.115 Bn. accounting for approximately 9% of the banking sector as our client acquisition strategies supported growth. During 2015, the Bank witnessed a year-on-year (YoY) growth of over Rs. 100 Bn. in the loans and advances portfolio for the first time in its history. Resurging demand for private sector credit supported growth in corporate portfolios whilst retail lending was driven by SME lending, vehicle leasing and home loans. It is commendable that the quality of the portfolio improved during the year as evinced by the improved NPL ratio of 2.74% and the decline in NPLs in absolute terms. Deposits were Rs. 624.102 Bn. as at year-end accounting for 70.94% of the Bank's funding with an improved CASA ratio of 51.54%.

The continuing low interest regime resulted in narrowing interest spreads as predicted. Competition for fee-based income increased during the year reducing margins offset by increased volumes through client acquisition and strengthening our position as their primary bank. Continuous focus on streamlining operations resulted in an improved cost income ratio to 48.81% supporting bottom line growth. NBT, VAT on financial services and income tax accounted for 19.65% of the operating income of the Bank which excludes the Super Gains Tax on profits of year 2013 of Rs. 2.576 Bn. which was charged against retained earnings brought forward.

The soundness indicators of the Bank reflect a healthy position with Core Capital and Total Capital ratios well above regulatory requirements at 11.60% and 14.26% at the close of 2015. The marginal decline in comparison to the previous year reflects normalising of excess liquidity positions due to robust credit growth.

A long term vision coupled with a measured risk appetite, a strong brand and funding base has enabled us to retain the highest rating of AA (Ika) from Fitch Ratings Lanka Ltd. amongst our peers in the country whilst our operations in Bangladesh has also retained the highest rating of AAA from Credit Ratings Information Services Ltd. in Bangladesh, which puts us in a strong position for future growth. Accolades awarded to the Bank include a position in the World's Top 1000 Banks for the 5th consecutive year, the most respected Bank in the country, amongst others which enhance our brand value and bear testimony to our commitment to excellence in all we do.

Commitment to Principles and People

A consistent performance requires an unwavering commitment to good governance and values. As a financial services organisation, our customers rely on our honesty, integrity and professionalism in their daily engagements. At the core of our business is a strong commitment to our values which consist of:

Honesty and Integrity – We are committed to dealing fairly with customers, offering the most appropriate solution for their requirements rather than pushing convenient products. It means that we will listen to the customers' needs and use our specialist knowledge to support their progress.

Transparency – Maintaining clarity and candour in our interactions to ensure transparency in our dealings with customers, regulators, business

partners, employees, shareholders and other stakeholders. Well-documented policies and processes ensure that high standards of transparency are upheld in all our dealings.

Competitiveness – We compete effectively in the market striving for excellence in customer relationships to build customer loyalty. Customer engagement is a shared responsibility across the Bank and it provides extremely valuable feedback driving change to ensure that we are responsive to our customers' changing needs and to be prepared for the future.

A business model that is driven by people must necessarily be underpinned by a robust talent development programme which includes sufficient emphasis on organisation values. The Bank has an excellent track record in nurturing talented professionals who contribute to Boards of banks and other corporates which is the strongest testimonial for our talent development processes. Employees past and present have created a unique culture based on values and systems that have evolved over time, tested and future ready.

Outlook

A track record of consistently delivering a strong performance coupled with a strong balance sheet gives us a unique vantage point for our ambitious plans for growth in the coming year. Our strategy will focus on enhancing customer convenience addressing both the virtual and face to face experiences. Deploying technology that is easily accessible and readily understood with mass appeal will be key to attracting a generation of tech savvy youth and taking banking to the customer. Adapting our branch network to further enhance customer convenience through specialised services, opening times and location will enable attraction and

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retention of customer segments favouring the face to face experience. Investments in technology will also support our thrust on the financial inclusion agenda with cost effective banking solutions for a new segment of customers.

We will also continue our programmes to facilitate access to finance for SMEs and support capacity building in this sector focussing on the provinces and a new generation of eager entrepreneurs. Our support to SMEs will be further enriched with a range of self-help tools that will empower them for growth. Cross pollination of ideas and entrepreneurship amongst professionals will be encouraged through access to finance and advice identified business segments building on the initiative launched in 2015 for agricultural loans for professionals.

Our transition to becoming Sri Lanka's first private international bank will be a key strategic imperative as we seek to leverage our strengths in building new markets. Strengthening our position in Bangladesh as a key partner in the country's vibrant economy as a new generation of entrepreneurs step up to drive the country's economic growth is a key item on our international operations agenda. Establishing the operations in Myanmar and commencing operations in Maldives and Italy will be strategic priorities as we execute our customised plans for each location. We have reason to be confident of the outcome as we draw on a considerable talent pool of experienced banking professionals and rely on tried and tested structures, systems and processes to support our plans for the new markets.

Acknowledgements

A carefully orchestrated performance requires dedication and commitment from every player and thanking them is my pleasant duty. Accordingly, I extend my sincere appreciation of the Board of Directors who have contributed their considerable collective experience and wisdom, directing the score. We bid farewell to 33 colleagues who retired during the year and I wish to thank them for many years of dedicated service to the Bank. I also wish to acknowledge the guidance and advice provided by officials of Central Bank of Sri Lanka and Bangladesh Bank on regulatory matters and thank them for their diligence. I also thank our External Auditors, KPMG, for their professionalism and prompt completion of the audit.

In closing, I extend my thanks to all employees of the Bank who have executed a complex and carefully written score to deliver a commendable performance. As the largest private sector Bank in Sri Lanka with an equally impressive customer base, we impact millions of lives on a daily basis as we support realisation of their aspirations in innumerable ways. It is an exciting time to be at Commercial Bank as we grow beyond our shores transforming into an international bank.



Jegan Durairatnam
Managing Director/CEO

Colombo
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