

KEY BUSINESS LINE REVIEW – PERSONAL BANKING

PERSONAL BANKING SERVES OVER 3.2 MN. CUSTOMERS , FACILITATING SOCIO-ECONOMIC PROGRESS OF ALL COMMUNITIES IN THE COUNTRY PROCESSING OVER 600,000 TRANSACTIONS EACH DAY. CORE ACTIVITIES INCLUDE PROVIDING ACCESS TO BANKING SERVICES AND SUPPORTING WEALTH CREATION FOR OUR CUSTOMERS THROUGH AN EVOLVING PORTFOLIO OF INVESTMENT, CREDIT AND TRANSACTIONAL PRODUCTS.



912

Customer touch points

Lead Investor
SME

Accelerated growth
Online & Mobile Banking



Exponential growth
Credit cards

Launched Premium Cards, Visa Infinite/Signature/Master Card world

Market Leader
Debit Card



A strong customer franchise supported by over 900 touch points provides our customers an unparalleled reach and convenience



Makes statement for technology enabled green banking with sophisticated outlet "The Automated Banking Centre" at Orion City, the 250th branch of the Bank



The Bank has become the first bank in Sri Lanka to offer Near Field Communication (NFC) enabled credit cards under the leading brands in the sphere, namely, Commercial Bank's Visa Infinite, World Mastercard and Visa Signature

Inclusive Growth

A key driver of growth for the Bank with business strategy closely aligned to the country’s development goals, Retail Banking plays an important role facilitating access to banking. A strong customer franchise supported by a network of 255 branches, 657 ATMs and over 912 customer touch points provides our customers unparalleled reach while increasing digitisation and simplification of processes provide customer convenience and a platform for scalable growth.

Personal Banking contributed 34.10% to the Bank’s asset growth and 63.86% to liability growth while improving asset quality due to targeted marketing. Rigorous monitoring processes are reflected in the reduced impairment charge and the NPL ratio of 2.9%, an improvement of 3.5% in 2015. NII increased despite narrowing spreads due to volume growth as we maintained our commitment to discourage consumption-based lending, focussing on responsible lending that would create long-term value for our customers. Fee-based income increased during the year driven by growths recorded in trade finance and card-related operations. Client acquisition during the year also augurs well for future growth prospects of Personal Banking as these relationships typically deepen over time.

Focus on Customer Needs

A wide-ranging product portfolio catering to every segment of the population throughout the customer lifecycle has been a core strength for Personal Banking (Figure 21).

Wealth Management	Access Finance	Channel Products
Current Accounts	Term Loans	Branches
Savings Accounts	Personal Loans	ATMs and ADMs
Foreign Currency Accounts	Home Loans	Debit & Credit Cards
Call Deposits	Agriculture and Microfinance Loans	Online Banking
Fixed Deposits	Industrial Loans	Mobile Banking
Treasury Bills	Leasing	Trade Finance

Figure 21

Reaching Out

The branch network expanded by nine new branches in Western, Southern and Eastern Provinces as they are vital to maintaining the customer relationships supporting our growth strategy. We also opened an automated banking centre in 2016 taking the total of our branch network to 255 (Graph 43). Two new Agriculture and Microfinance units were opened in Matara and Pottuvil taking the total of these specialised units to 15. An overall penetration rate of approximately 18% in Sri Lanka is a testimony to our inclusive approach of banking.

We grew the network of ATMs to 657 in 2016 which continues to be one of the largest ATM networks in the country (Figure 22). Key upgrades to these 24-hour sentinels during the year include:

- Security: We have upgraded the entire ATM network to EMV Chip capability to enhance security against fraud which has been identified as a key risk for the industry.
- Convenience: Expanding the ATM network and enhancing their capability by facilitating deposits and cardless transactions
- Efficiency: Launching of the Over the Air Pin (OTAP) for debit and credit cards, enabling customers to obtain PIN numbers via registered mobile phones.

Bank introduced channel products such as Easy POS – smart phone linked mobile POS system for card transactions, and online real time cash deposit and

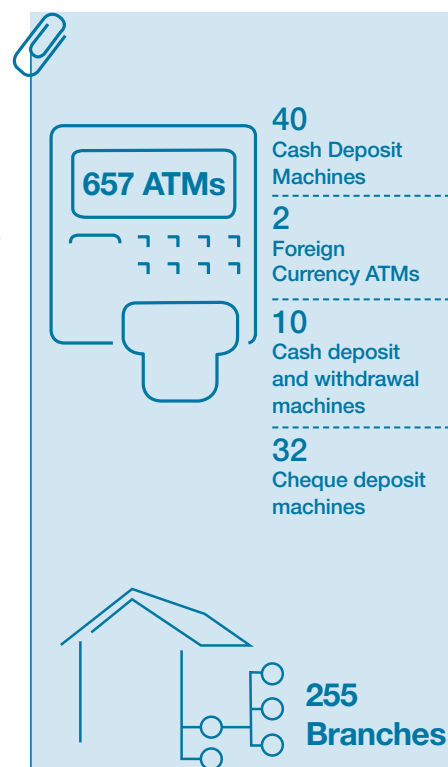
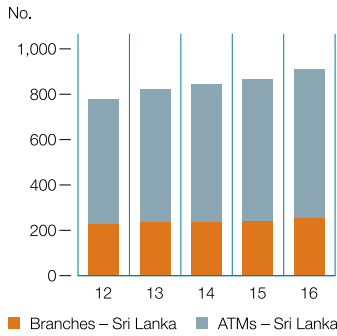


Figure 22

withdrawal machine to improve the customer convenience during the year.

Reaching Out



Graph 43

Customer Centric

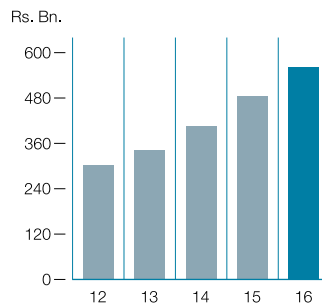
The product portfolio was reviewed to meet changing customer expectations resulting in the modification and relaunch of two products and the launch of several new products. 'Isuru', the minor savings product was re-launched with enhanced features reflecting customer expectations, contributing to growth of our deposit base. *Diribala*, a term loan product for SMEs introduced in 2015 gained traction during the year due to extended repayment periods and grace period matching cash flows. This product was extended to *Diribala* Green Development Loans to support investment in renewable energy solutions and effluent and waste treatment plants for SMEs. *Diribala* Foreign currency products also enable SMEs to borrow in three major currencies to hedge their foreign currency risks. A new microfinance product was launched during the year to finance micro-entrepreneurs based on cash flows sans guarantees is gaining traction.

Growing Our Deposit Base

Personal Banking deposit growth was over 16% during the year reaching Rs. 565 Bn. despite a challenging operating environment. The difference between rates for savings and fixed deposits increased in 2016 resulting in a declining proportion of current and savings deposits in the deposit mix. Despite this, the Bank's CASA ratio of 41.67% remains higher than the industry.

A strong customer franchise coupled with aggressive marketing campaigns enabled us to acquire over 400,000 savings customers which is the typical commencement of a Personal Banking relationship and are confident of our ability to cater to their varying needs as we deepen the relationships. It is noteworthy that we retained majority of fixed deposits due to strong relationships, reputation and financial stability despite intense competition from competitors.

Deposits

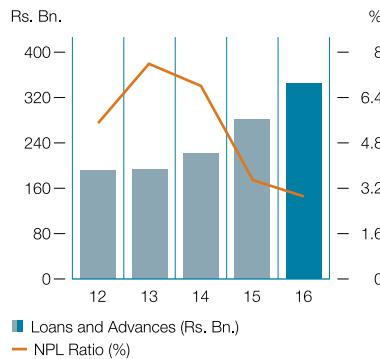


Graph 44

Responsible Lending

Growth in retail loan portfolios was driven by the Bank's continued commitment to the SME sector in alignment with the Government's vision, focussed on value creation for individuals through home loans and Microfinance. The Bank worked with reputed developers to provide financing for purchase of condominiums during the year catering to the demand for urban housing. A commitment to responsible lending resulted in diminished pawning activity while increases in border tariffs dampened leasing activity.

Loans & Advances



Graph 45

Focus on SMEs

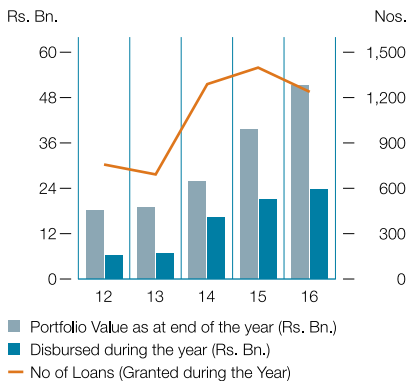
Building on our track record as the lead investor in SMEs, we have committed more resources to expanding our role in this vital engine of growth for the country. Accordingly, we have structured a specialised Development Credit Department to focus on developing solutions for SMEs through specialised knowledge and insights in to the challenges faced by the sector. Our core strengths have been strong relationships, targeted marketing, flexibility and efficient service.

Key initiatives implemented during the year include:

- **Capacity building programmes for entrepreneurs** – As the first private bank to collaborate with Central Bank we conducted seven programmes including dedicated programme exclusively targeting women entrepreneurs benefiting over 850 entrepreneurs in 2016, extending the *Diribala Vyapara Pubuduwa* programme which commenced in 2011. Since inception, we have completed a total of 59 programmes benefiting 5,229 entrepreneurs.
- **Employee capacity building** – We conducted intensive training to ensure a continuous pipeline of talent for SME operations. Each branch now has an SME specialist trained to assess and monitor SME customer needs and offer appropriate solutions. They are supported through the intranet which contains up to date information on developments in the sector and industries relevant to the sector. The main beneficiary of this initiative is the client who receives a more informed and efficient service.
- **Simplification of loan documentation** – Application forms and other documentation were simplified to reduce processing time while ensuring a sufficiency of information for evaluation and regulatory requirements. This initiative was undertaken to reduce the customer burden and further ease their access to finance.
- **Collaborative partnerships** – We maintained a close rapport with external organisations including Government Agencies to provide technical support for SME's.

Diribala, the Bank's branded SME industrial loan is the unmatched market leader in the segment with repayment periods matched to cash flows and attractive interest rates. From the Bank's perspective, a robust evaluation process facilitated managing asset quality. The loan portfolio is now over Rs. 50 Bn. with NPL's amounting to less than 1.6% as at the year end. Despite increasing interest rates and non-availability of donor funds which dampened the potential for growth, the Bank was able to grow this portfolio by 30% (Graph 46).

Diribala Industrial Loans



Graph 46

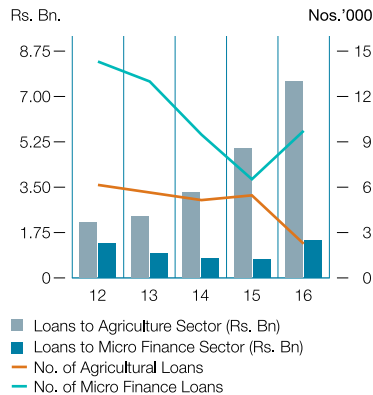
The agriculture loan portfolio was segregated to agri SMEs and agri Microfinance to facilitate better solutions to new segments resulting in a transfer of approximately Rs. 500 Mn. to the microfinance portfolio. The sector witnessed renewed interest from entrepreneurs as Government credit lines spurred activity particularly in dairy farming. Commodities exporters and agristockists also grew their businesses. Large scale investments in the sector have also spurred activity in the SME segment. These factors enabled the growth over 65% of the streamlined agriculture portfolio. The Bank's activities in this segment are supported by 15 Agriculture and Microfinance Units and a centralised Agricultural Loans unit with highly specialised teams with an understanding of the industry contributing to enhanced the scope of assessment, monitoring and customer service. It has also served to maintain asset quality with less than one percent NPL ratio.

Focus on Microfinance

The microfinance portfolio comprising loans below Rs. 500,000/- which now includes agro loans demonstrated a strong growth of nearly 20% in 2016. Learning from our past experiences, our current microfinance products are linked to supply chains rather than groups which has enabled us to significantly improve the asset quality in this portfolio (Graph 47).

Adopting a holistic approach, the Bank introduced a micro savings product *DiviSaru* to support the customer life cycle approach to building our microfinance customer base. This also resulted in increasing the customer base by nearly 20,000 in 2016 supporting deposit mobilisation efforts of the Bank with a portfolio growth of over 15%. The above changes will facilitate building a microfinance customer-base within the Bank.

Loans to Agriculture & Micro Finance



Graph 47

Enhancing Our Customer Experience

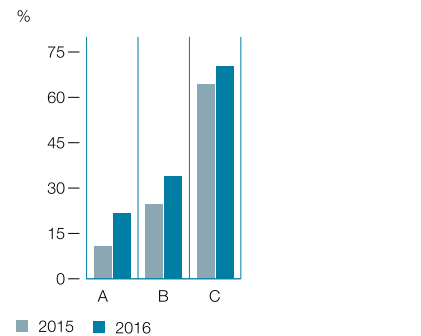
Customers increased their usage of the electronic banking channels during the year resulting in high growth rates for online banking, mobile banking and the Bank's flagship product for corporates and SMEs, Paymaster. Key trends supporting growth in this area included the declining trend in prices of tablets, smartphones and computers resulting in higher penetration levels.

Online Banking, the Bank's internet-based payment system witnessed a positive growth of around 10% in the value of transactions and around 30% in the number of transactions evincing growing customer

confidence and familiarity with this channel. Developed on the Microsoft. Net platform, it consists of the Personal and Corporate Banking solutions (Graph 48).

The focus in 2016 was to enhance the corporate payments platform such as bringing in the bulk payment options to online banking platform, thus enabling the corporate clients to automate all of their single entry payments and also to avail themselves with payment limits according to their signature rules. Coupled with the features such as Multilevel Authorisation, Administrator User, Single User ID for several company accounts – shared ID etc., enhanced an already robust product.

Product Growth – Customer Base



Graph 48

Island wide product awareness campaigns to promote the features of Corporate and Personal Banking solutions to encourage usage, were a key factor in driving growth in Online Banking. Furthermore, free registration campaigns through the branch network, User activation campaigns with cash/iPhone rewards and continuous text/EDM circulations on product features propelled usage as well the new registrations. Unique features such as the ability to view the images of the deposited cheques (single or bulk) and paid cheques along with scheduling of bill payments for future dates (on the actual due date) provide a competitive advantage to our product. At present, Commercial Bank is the only Sri Lankan Bank to provide online cheque viewing facilities to customers.

The Bank's performance in the mobile banking segment is noteworthy, especially taking in to consideration the unprecedented growth achieved in 2015.

The launch of yet another unique feature titled 'e passbook' was a contributory factor towards the mobile banking growth in 2016. Progress in this segment is vital for the remittance business of the Bank as mobile banking provides the required connectivity.

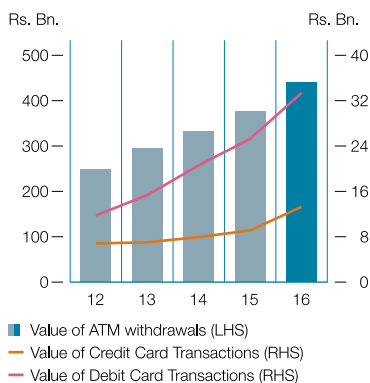
Performance of PayMaster, has been particularly pleasing with a growth of 22% during the year and this was driven by increased customer migration and usage. Planned enhancements for 2017 are expected to empower corporate customers to initiate and complete more transactions with enhanced security features and analytical capability.

Cashless Payments

Cashless payments using debit cards and credit cards in Sri Lanka increased by over 16% and 13% supported by growths in POS terminals and customer acquisition. Card usage measured by the number of debit and credit card transactions increased around 25% each respectively while the value of transactions grew by 25% and 22% by the 3rd quarter of 2016 reflecting the increased popularity of debit cards. POS terminals in the country increased by 7% to 41,283 by the 3rd quarter of 2016 supporting the increased use of cards. ATM transactions in the country also increased by 9% in volume and 18% in value up to September 2016 supporting the overall infrastructure in the country for card based transactions.

Card operations at the Bank gained a new vibrancy as we set out to aggressively grow our credit and debit card portfolios. The Bank continues to be the market leader in debit card spending recording over 30% growth in 2016 supported by approximately 30% increase in cards issued during the year. We focussed on aggressive expansion of our credit card business achieving exponential growth in the cards issued and a substantial growth in credit card spend in 2016. The credit card portfolio also grew by approximately 40% and the total credit card outstanding to reach Rs. 6.7 Bn. at the year end as we captured market share (Graph 49).

Cards



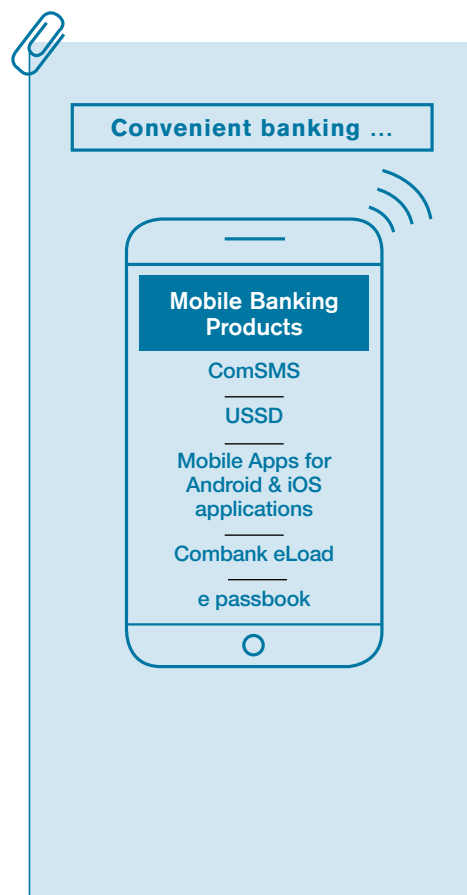
Graph 49

Growth in card operations was supported by the launch of premium cards such as Visa Infinite, Signature and Master Card World which were launched to address the lifestyle requirements of the affluent customers. Customer convenience was facilitated through the issuance of Near Field Communication (NFC) enabled cards for all credit cards and new debit cards reducing transaction times for the mutual benefit of the customer and the merchant. Introduction of OTAP for credit and debit cards expediting the dispatch and receipt of the PIN by the cardholder in a secure manner was an innovation in the entire industry.

Issue of the *Ransalu* privilege card for the apparel sector employees jointly with the Joint Apparel Association Forum and Channel 17 enabled them to access discounts for essential items, hospitalisation, pharmaceutical products, clothing and other products. The Bank also issued the Smart Tea Card facilitating automation of the procurement of tea leaves and settlement for bought leaf using Sony 'FeliCa' Near Field Communication (NFC) technology in the market, enabling its promoter Smart Metro (Pvt) Ltd. to deploy a Debit Card cum Identification Card for tea leaf suppliers.

Bancassurance

Growth in Bancassurance fee income and number of policies were over 12% and 25% respectively reflecting challenging market conditions. The Bank worked with eight partners for Life Insurance and eight partners for General Insurance following the recent segregation of activities. Offering unmatched reach to partners through our network of branches, it enables the Bank to provide a seamless service to its customers for their entire range of financial needs. Internal competitions and the issue of DTAP for pensioners supported the growth of the product. Pressure from Brokers associations and possible changes in legislation are key threats to the growth of this business line together with intense competition from both insurance brokers and other banks.



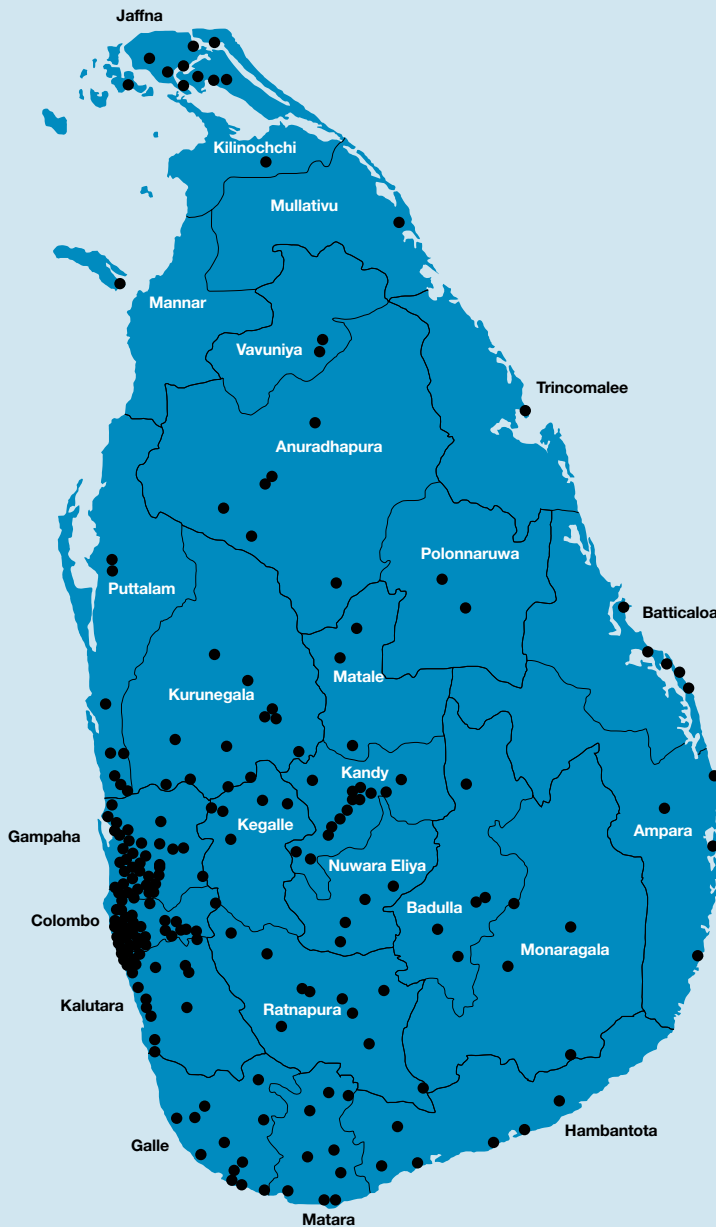
NETWORK OF DELIVERY POINTS IN SRI LANKA

Western Province Colombo ABC* M Athurugiriya Attidiya Avissawella Bambalapitiya Bambalapitiya (Majestic City) K Baseline Road Battaramulla Battaramulla (Arpico Super) K Bokundara (Minicom) K Boralessgamuwa Boralessgamuwa (Laugfs Super) K Borella A City Office Colombo 07 G Colombo Gold Centre Dehiwela Dehiwela (Arpico Super) K Delkanda Duplication Road eBanking Elite A Foreign D Grandpass Hanwella Homagama Hulftsdorp Hyde Park Corner (Arpico Super) K Kaduwela Katubedda Katubedda (Minicom) Keyzer Street Kirulapone Second Kirullapone Kohuwala Kohuwala (Keells Super) K Kollupitiya Kollupitiya (Liberty Plaza) K Kotahena A Kotikawatte A Kottawa Maharagama A Maharagama (Laugfs Super) K Malabe Maradana Mattegoda (Laugfs Super) K Moratuwa A Moratuwa (Laugfs Super) K Mount Lavinia Mutwal Narahenpita Narahenpita (Ronan Inter'l) K Nawala Nawam Mawatha Nawinna (Arpico Super) K Nugegoda A Old Moor Street Padukka Panchikawatte Pelawatte (Laugfs Super) K Pettah Pettah Main Street E Piliyandala Pita Kotte Rajagiriya Rajagiriya (Keells Super) K Ramanayake Mawatha Ratmalana Reid Avenue J Thalawathugoda Union Place Union Place (Keells Super) K Vauxhall Street (SLIC) Ward Place L Wellawatte I Wellawatte Second World Trade Centre	Gampaha Bandarawatte (Laugfs Super) K Biyagama Delgoda (Laugfs Super)* Divulapitiya Ekala Gampaha A Gampaha (Keells Super) K Ganemulla Hendala (Keells Super) K Ja-Ela Ja-Ela (K-Zone) K Kadawatha Kadawatha (Arpico Super) K Kandana A Katunayake BIA Arrival Lounge M Katunayake BIA Departure Lounge* Katunayake FTZ Kelaniya* Kiribathgoda J Kiribathgoda (Laugfs Super) K Kirindiwela Kochchikade Makola Minuwangoda Mirigama Negombo B Negombo (Arpico Super) K Negombo Second Nittambuwa Nittambuwa (Nihal Super) H Peliyagoda Raddolugama A Ragama A Seeduwa J Veyangoda* Wattala Wattala (Arpico Super) K Weliveriya Yakkala Kalutara Aluthgama Bandaragama Beruwala (Minicom) K Horana Horana (Wijemanna Super) K Kalutara Kalutara (Arpico Super) K Katukurunda (Minicom) K Matugama C Panadura Panadura (Keells Super) K Panadura Second Wadduwa	Southern Province Galle Ambalangoda Baddegama Batapola Elpitiya Galle City Galle City (Minicom) * Galle Fort Hikkaduwa Karapitiya Koggala Neluwa Udugama Hambantota Ambalantota Beliatta Hambantota Middeniya Tangalle Tissamaharama Matara Akuressa Deiyandara* Deniyaya Kamburupitiya Matara B Matara (Keells Super) K Matara City Office Morawaka* Urubokka Weligama	Eastern Province Ampara Akkaraipattu Ampara Kalmunai Pottuvil Batticaloa Batticaloa A Batticaloa (Minicom) * E Chenkalady Kattankudy Valaichchenai Trincomalee Trincomalee	North Central Province Anuradhapura Anuradhapura Anuradhapura New Town Kekirawa Medawachchiya Nochchiyagama Thambuttegama Polonnaruwa Hingurakgoda Kaduruwela	North Western Province Kurunegala Alawwa Giriulla Kuliypitiya Kurunegala B Kurunegala (Minicom) K Kurunegala City Office Mawathagama Narammala Nikaweratiya Pannala Polgahwela Wariyapola Puttalam Chilaw Dankotuwa Marawila Nattandiya Palavi Puttlam Wennappuwa (Arpico Super) K Wennappuwa	Central Province Kandy Akurana (Minicom) K Anniwatte (Nihals Super) K Yakkala Gampola Gelioya (Arpico Super) K Kandy A Kandy (City Centre) K Katugastota Katugastota (Minicom) K Kundasale (Dumbara Super) K Nawalapitiya Peradeniya Pilimalawa Wattagama Ext. Office Matale Dambulla Galewela Matale	Nuara Eliya Hatten Maskeiyya Nuwara Eliya Thalawakelle	Uva Province Badulla Badulla Badulla (Minicom) F Bandarawela Mahiyanganaya Passara Welimada Monaragala Kataragama Monaragala Wellawaya	Sabaragamuwa Province Kegalle Kegalle A Mawanella Ruwanwella Warakapola Ratnapura Balangoda Eheliyagoda Embilipitiya Godakawela Kahawatte Kalawana Kuruwita Pelmadulla Ratnapura Ratnapura (Minicom) K	Notthern Province Jaffna Chankanai Chavakachcheri Chunnakam Jaffna G Jaffna Stanley Road A Kodikamam Manipay Nelliady A Thiruneively Velanai Kilinochchi Kilinochchi Kilinochchi (Minicom)* Mannar Mannar Mulativu Mulliyawalai Vavuniya Vavuniya Vavuniya Second
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* Branches opened in 2016

Banking Hours

	A	B	C	D	E	F	G	H	I	J	K	L	M	
Weekdays	9-3	9-3	9-3	9-3	9-4	9-6	9-6	9-6	9-6.30	9-8	9-9	9.30-7	10-5	24*7
Saturday	-	9-1.30	9-1.30	-	-	9-1.30	-	9-1.30	9-6.30	9-3	9-9	9.30-7	10-5	24*7
Sunday	-	-	9-1.30	9-1.30	-	-	9-1.30	9-1.30	9-6.30	-	9-9	9.30-7	-	24*7
Bank Holidays/Poya*	-	-	9-1.30	-	-	-	-	9-1.30	9-6.30	-	9-9	9.30-7	-	24*7



	No. of Branches	No. of ATMs
Kandy District	14	30
Matale District	3	10
Nuwara Eliya District	4	9
Central Province	21	49
Ampara District	4	7
Batticaloa District	5	11
Trincomalee District	1	3
Eastern Province	10	21
Anuradhapura District	6	12
Pollonnaruwa District	2	8
North Central Province	8	20
Kurunegala District	12	38
Puttalam District	8	17
North Western Province	20	55
Jaffna District	11	24
Kilinochchi District	2	4
Mannar District	1	2
Mullative District	1	2
Vavuniya District	2	6
Northern Province	17	38
Kegalle District	4	10
Ratnapura District	10	21
Sabaragamuwa Province	14	31
Galle District	12	30
Hambantota District	6	13
Matara District	10	21
Southern Province	28	64
Badulla District	6	11
Monaragala District	3	6
Uva Province	9	17
Colombo District	77	205
Gampaha District	39	125
Kalutara District	13	32
Western Province	129	362
	256	657