

## Managing Director's Review



*We at Commercial Bank look forward to the challenge of being a catalyst for broad-based inclusive, economic growth in 2020 and beyond by consistently doing what we do best: delivering optimum value to our stakeholders*

Our commitment to a prudent approach goes above and beyond nominal adherence to the myriad compliance requirements or accounting standards. For us, prudence means finding the precise balance between maximising revenue and profitability in the present without undermining the Bank's capacity to deliver value to all its stakeholders in the medium to long term. This balance was felt important during meagre times, when the imperatives and pressures of the moment can cloud a judicious, future-oriented vision.

In this respect, our funding, liquidity, and financial capital management played a crucial role. This year, in an environment inhospitable to credit expansion, the Bank strategically invested excess liquidity in both LKR and FCY Government Securities. Similarly, the modest increase in Risk Weighted Assets meant that the Bank was able to efficiently manage its capital to facilitate the expected growth rebound in 2020. Our capital adequacy ratios were once again well in excess of regulatory minimums. Adopting this prudent approach is precisely what has allowed the Bank to deliver value year-over-year and earn the trust of over 3.5 million customers as Sri Lanka's largest private sector bank with the highest market capitalisation in the Bank, Finance and Insurance sector.

### A challenging year

There is no getting around it: 2019 was a difficult year for the Bank, as it was for the entire country. The fallout from the 21/4 Easter Sunday attacks compounded an already vulnerable macroeconomic situation, and a large measure of the Bank's resources and attention were directed towards recovery and consolidation. In the context of depressed economic growth, an unfavourable credit environment, escalating non-performing assets, and the rising impairment charges, the Bank registered a marginally lower profitability than the previous year. The Bank's profit after all taxes for the year was Rs. 17.025 Bn., as against Rs. 17.544 Bn. in 2018.

The Commercial Bank Group ended 2019 with two performance milestones. Deposits

surpassed Rupees One Trillion mark and gross income exceeded Rs. 150 Bn. A detailed analysis of our performance is given in the Financial Review on pages 20 to 27.

### Prudence in the face of adversity

As the Bank approached its centennial, we drew confidence from our history of sustained performance through the waxing and waning of Sri Lanka's economic fortunes. The Bank has maintained, for the entirety of its tenure, an impeccable reputation for compliance, a reputation that is hard-won and well-deserved. Following this ethos in 2019, the Bank held fast to its fundamentals: a disciplined and focused approach to growth while conforming to best in class risk management and corporate governance practices, as well as the sector's broader regulatory framework.

As testament to our efforts during difficult times, our team was encouraged to receive the recognition of being best bank in Sri Lanka for 2019 by both "Global Finance" and "The Banker", reflecting a broad consensus of our position at the summit of the country's financial landscape.

### Renewing our social license

As a Domestic Systemically Important Bank (D-SIB), the Bank has a responsibility to promote the safety, soundness, and stability of the financial system of the country. Moreover, as an institution entrusted with the fiduciary duty of accepting and deploying vast sums of uncollateralised public funds, the Bank understands that its sustainability rests on the ongoing acceptance and approval of our business by all the stakeholders.

We believe that this 'social license to operate', unlike regulatory licenses, cannot be applied for or self-awarded, but must be earned and constantly renewed by demonstrating the Bank's commitment to ensuring productive outcomes for the society and the environment at large.

The Bank, as a self-contained institution, has a relatively limited environmental footprint; but, as a financial intermediary with a wide national reach, has a crucial role to play as an influencer and driver of sustainability. A thorough assessment was conducted to align our core business with the UN SDGs and strengthened our partnerships with private, public, non-governmental, governmental and international organisations, to drive our green banking programmes in view of our goal of increasing the green funded portfolio to 5% of the Bank's total loan book by 2030. A concerted effort was also made to adopt our Social and Environmental Management System (SEMS) framework throughout our operations. Without limiting the evaluation to credit facilities above Rs. 100 million, this year, we broadened our scope to inculcate a SEMS perspective in all our lending activities. This was especially important in our efforts at targeting SMEs, micro enterprises, and women entrepreneurs as distinct customer segments with specific banking needs.

### The power of digital

While our growth efforts this year were curtailed, we forged ahead with our digital strategy, creating an infrastructure that will help facilitate our growth in future. Digital innovations are transforming economies and financial ecosystems. Customers are demanding banking that is simple, functional, reliable, and seamless. New opportunities for business growth abound – as do new risks to data security and compliance, among others. To harness the power of new technologies, during 2019, the Bank adopted a strategy of viewing digital innovation as a Transformation Change Agent – a catalyst that will redefine the relationship between the two stakeholders that are at the heart of our business model: our customers and employees.

Aimed at making a tangible difference in the lives of our customers, this year, we adopted a focussed approach to driving our digital adoption initiatives and are extremely well positioned to cross 30% digital penetration by mid 2020. While the year's economic challenges derailed our efforts at implementing our new customised banking platform, Combank Digital, before the end of the year, we hope to launch it by March 2020.

Notably, our Flash Digital Banking App showed encouraging growth during 2019 following our rollout of the Sinhala and

the Tamil versions of the App, making it Sri Lanka's first trilingual mobile digital banking platform. It enables customer onboarding to financial planning and all other services required by a retail customer and represents the unique and imaginative possibilities of digital innovation.

On the surface, the presentation and full digital banking functionality of the App is designed to appeal to Generation Y and Z customers. Precisely because of its functionality, it is a powerful tool for providing immediate banking services to other under-banked and unbanked segments of the market, and for promoting financial inclusion and digital adoption throughout Sri Lanka.

### Helping us help our customers

The technological improvements during 2019 to our internal operations – largely unseen by the customer – are just as important as a change agent. We conceptualise this approach as helping us help our customers, i.e. centralising, digitising, and automating our back-office operations to allow us to redeploy staff and resources towards sales and Customer Relationship Management. One of the most important initiatives this year was enhancing the SME value proposition by realigning SME sales strategy and centralisation of credit evaluation and approval process with the assistance of a global consultancy firm, deploying dedicated SME officers in branches and serving SME customers at their doorstep. Business process re-engineering in our imports and exports divisions and the card centre, introducing Robotic Process Automation (RPA) for a variety of functions, standardising service proposition across the branch network were among a host of other initiatives.

In this respect, we view enhancing productivity and profitability and supporting employee well-being as symbiotic goals. New digital improvements boost the Bank's operational efficiency while enhancing the working experience of employees by delegating repetitive, mundane tasks to RPAs and making workflows more streamlined and intuitive. This, in turn, alleviates the pressure on staff through a more streamlined distribution of workloads, reducing employee stress and fatigue while promoting a better work-life balance.

Accordingly, integrated thinking is being promoted at all levels of the Bank. While there will always be trade-offs between different capital allocations in our business model, integrated thinking has the power to reduce the friction between the different imperatives of maximising profits, catering to customers, and prioritising our employees.

### Towards a banking group

During the year, we initiated various strategies to derive more contribution from our subsidiaries and seconded some of our senior staff as the MD, CEO, COO of such companies. These initiatives enabled the Bank to inculcate best practices, effect cultural changes, strengthen governance frameworks and improve systems and procedures. We expanded our footprint by opening two branches each in Sri Lanka and in Myanmar. We increased the stake in Commercial Insurance Brokers (Pvt.) Ltd. and made it a subsidiary with a view to better serve our customers in future. We are confident of reaping the benefits of these initiatives in future.

### A thank you to our stakeholders

It goes without saying that our relationships with the stakeholders are the defining factor in our success. I extend my sincere appreciation to the Chairman and the Board of Directors for their invaluable advice and guidance. I also thank the capable management team and all our members of the Commercial Bank family in Sri Lanka, Bangladesh, Italy, Maldives, Myanmar and other overseas locations including those seconded at these operations, for their commitment and dedication. I also extend my heartfelt gratitude to our customers for their loyal patronage and to our shareholders for their unwavering support for the Bank. Moreover, I wish to recognise and underscore the vital role played by the banking and financial services regulatory authorities and other stakeholders in Sri Lanka, Bangladesh, Italy, Maldives, and Myanmar for their support and cooperation.

These relationships will be even more important as we forge ahead into the uncertainties of 2020. While we are eager to see our own growth and profitability rebound, our status as a D-SIB also comes with added responsibility. How the Bank, the banking sector, and the country as a whole responded to the difficulties of 2019 will have ramifications throughout our society at large. We at Commercial Bank look forward to the challenge of being a catalyst for broad-based inclusive, economic growth in 2020 and beyond by consistently doing what we do best: delivering optimum value to our stakeholders.



**S Renganathan**  
Managing Director/Chief Executive Officer

Colombo  
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