

MANAGING
DIRECTOR'S
REVIEW



The continued strong performance of Commercial Bank in 2014 reflects a deeper strength that has made our bank - as this year's annual report theme suggests - an immediately recognisable leader in Sri Lanka's financial services sector. To our millions of loyal customers, 'Combanking' represents innovative products and services, proven resilience and accountability, thoughtful management of risk and, above all, our ability to nimbly keep pace with changing needs. The brand we have built and the trust in which it is grounded, have helped us become not only the largest private bank in Sri Lanka but a significant contributor to economic growth and the quality of life of our people.

The role that our diverse stakeholders have empowered us to play is also reflective of the Bank's own unique culture. Our way of doing business - engaging, collaborative, forward-looking and, above all, focused on creating value for all parties - has not simply evolved over time. It is an approach that we have consciously developed through focused strategic thinking, supported by sound business practices. We have fostered an open, accountable culture in which our commitment to clear communications is matched only by our devotion to listening to what our customers have to say. We have made a concerted effort to identify and respond to emerging needs - especially among younger customers - and the positive results are evident in our financial performance.

Our Principled Commitment

Customers appreciate Commercial Bank's unique culture because they feel it welcomes and includes them. Engaging in genuine conversations with staff who understand their needs and want to help them reach their goals, our customers feel they are part of the Commercial Bank family - especially at the branch level. Even as we lead the industry in offering alternative banking channels, we see that many customers still prefer to visit our branches and interact directly with our helpful, well-informed employees.

This vital relationship-building is at the heart of Combanking and reflects our long-standing commitment to three principles:

Honesty and Integrity: The transactions we conduct are invariably above board and designed to provide customers with the right solutions to their financial needs. We are not fixated on offering only the available answers to the exclusion of all other factors. Rather, we tailor the best possible solution to each customer's unique requirements - in a banking experience that makes people feel understood and valued.

Transparency: Maintaining clarity and candour is a fundamental commitment of the Bank. We uphold the highest standards of transparency with regard to our own policies and actions, Government oversight and regulation, and customer expectations.

Competitiveness: Commercial Bank remains consistently close to the marketplace, which means we are able to identify emerging trends and new consumer priorities well ahead of our competitors - and get a head start on crafting appropriate responses. Because we strive to know our customers well, we are ideally positioned to deliver what they need, reinforcing our competitive advantage and creating the positive word-of-mouth that has always been our number one marketing tool.

Key Success Factors

Commercial Bank entered 2014 with a keen sense of focus as the entire organisation geared up for what promised to be a more challenging year. Working as an integrated team, we found innovative and differentiating ways to delight customers, attracting new business while strengthening existing relationships. Branch managers were particularly effective in providing new levels of high-quality, personalised service.

Despite an operating environment characterised by low interest rates, muted credit growth and tightening margins, the Bank delivered another year of solid performance. With our stable business model and exemplary Balance Sheet, we gave many prospective customers the confidence to move their business from other institutions. This ensured a continuous growth of our Balance Sheet, helping to further bolster an already comfortable position in the market.

The past year brought a host of other economic challenges, from the decline in gold prices to the continued turmoil in export markets - particularly daunting for a trade-oriented Bank such as ours. We stayed the course by sticking to our core values and serving our customers better than ever, leveraging those strengths to yield positive results.

Our 2014 Performance

As an institution managed by experienced bankers, we take pride in operating our business to avoid any form of volatility. Our history has been one of steady growth, free from sudden swings and generating reasonable returns. Profit gains have been consistently solid, while growth in our asset base has matched or exceeded industry norms.

Total assets of the Group grew to Rs. 797 Bn. as at December 31, 2014, recording an impressive growth of 31.44% from Rs. 607 Bn. a year before. More than 84% of the growth was funded from the deposits and other borrowings that grew by 41% and 43% respectively during the year. Deposits crossed half a trillion mark in September. Despite the lackluster demand for credit during most part of the year, our loans and advances too grew by 22.59% by the year end. It is noteworthy that the Bank has been able to maintain compound annual growth rates in excess of 17% in both deposits and loans and advances over the past decade.

Although the income from fund-based operations did not keep pace with the growth in assets base primarily due to the net interest margin decreasing again from 4.53% in 2013 to 3.88% in 2014, this was mitigated to some extent by the growth in fee-based income and income from trading and investment related activities. Overall, total operating income grew by 8.11%. In contrast, operating expenses increased by 9.24%, mainly as a result of a change in the accounting policy on depreciation (as explained in Note 19 to the Financial Statements on page 309). Impairment charges for loans and advances decreased by 5.38% due to higher recoveries made and a favourable movement in the risk profile of non-performing loans and advances portfolio. Consequently, the profit after tax for the year grew by 6.33% to Rs. 11.2 Bn., the third consecutive year in excess of Rs. 10.0 Bn.

Cost to income ratio increased marginally to 47.12% from 45.58% in 2013, while NPL ratio improved further to 3.47% from 3.88% in 2013.

Commercial Bank has solid foundations, a growing customer base and a clean Balance Sheet. We are well positioned for continued growth and ready to take advantage of promising opportunities that arise in a fast-moving marketplace.

The Pillars of Stability

At Commercial Bank, we consciously instill the principles of Good Governance in every area of our operations, both within our organisation and externally as we collaborate with various third parties. At the same time, we have a well-developed Risk Management system designed to support prudent, informed decision-making across the board, from day-to-day interactions with account holders to the disposition of major credit facilities. This Annual Report includes dedicated chapters explaining our approach to Governance and Risk in detail (See pages 127 to 262).

The Bank has developed a formal capital management policy with clearly defined objectives for maintaining an appropriate level of capital adequacy. This ensures sufficient leeway for future business expansion while maintaining the required cushion to absorb any potential losses. As of December 31, 2014, the Bank's Tier I and Tier I & II Capital Adequacy Ratios stood at 12.93% and 15.97% respectively against the minimum stipulated requirements of 5% and 10%.

In short, Commercial Bank is a highly stable institution dedicated to financial sustainability – and we intend to remain so.

The Outlook for 2015 and Beyond

Commercial Bank has solid foundations, a growing customer base and a clean Balance Sheet. Our talented staff have the capabilities and the will to adapt quickly to changing scenarios. We are well positioned for continued growth and ready to take advantage of promising opportunities that arise in a fast-moving marketplace.

One dimension of our business that has been evolving quickly is our branch expansion model. With consumers' rapid adoption of innovative digital and mobile technologies and as most areas of Sri Lanka are now adequately served by conventional branches, the trend is increasingly towards automating more business processes and offering customers alternative channels for completing transactions and managing their finances. As this trend continues in a highly competitive marketplace, we expect to lead the field.

During the past year, Commercial Bank's market capitalisation exceeded US \$1 Bn. We are the first Sri Lankan Bank - and only the third enterprise in any sector - to achieve this milestone. Looking ahead, we expect the Bank's Balance Sheet to surpass Rs. 1 Tn. in the near future. Based on our 2014 results and the continued momentum they reflect, that ambitious target is well within our reach.

Our Gratitude

In closing, I would like to thank the former Chairman, Mr. Dinesh Weerakkody and my predecessor Managing Director, Mr. Ravi Dias, for their exemplary leadership during their tenure in office. Their energy, acumen and sound strategic thinking contributed significantly to a year of positive achievements. I would also like to express my gratitude to the Chairman and the Board of Directors for their conscientious stewardship and wise counsel. And all of us at the Bank acknowledge the invaluable contribution made by those colleagues who retired in 2014 after long years of dedicated service.

Let me also convey my thanks to the Central Bank of Sri Lanka and its officers for their sound guidance on regulatory matters and to the Bank's External Auditors, KPMG, for their professional expertise and prompt completion of the audit.

And lastly, to the 4,700 employees of the Bank, I can only underline my deep appreciation for the diligence, insight and unwavering loyalty you have brought to ensuring that Combanking is a mutually rewarding experience for Commercial Bank and its customers. As we face both opportunities and challenges in the year ahead - and over many more decades to come, we have the confidence of knowing that the enterprise we so proudly serve, not only embraces the future, but is defining what that future will be.



J. Durairatnam
Managing Director/CEO

Colombo
February 23, 2015