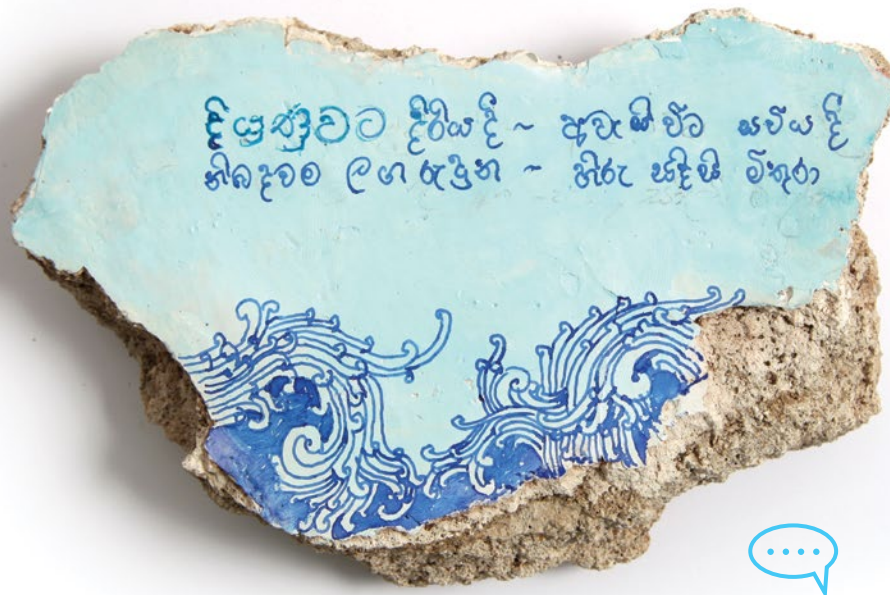


Strategic Direction of The Bank

Commercial Bank's longer-term strategy rests on three fundamental pillars: strengthening our existing customer base, further improving cost efficiency and seeking new opportunities to expand and diversify our business - all with the ultimate goal of enhancing shareholder value. More specifically, we are focused on:

- Maintaining the Bank's high ratio of current accounts and savings accounts (CASA) by earning and reinforcing customer loyalty. We will achieve this by further enhancing our nationwide distribution channels, including our extensive network of branches and ATMs, and by setting new benchmarks for superior customer service.
- Sustaining our low cost to income ratio by making our business practices and processes more efficient, and by investing in innovative solutions that improve customer experience while helping our employees work more productively. The broad range of efficiency-driving measures currently in development include: process automation and refinement; rationalising and centralising workflow; migrating customers to more cost-effective channels; redesigning operating models to eliminate unnecessary steps (and therefore costs); deploying in-house expertise wherever possible; and promoting a more cost-conscious workplace culture.
- Further diversifying the Bank's sources of operating revenue through a range of initiatives, beginning with deeper penetration of the existing customer base to find additional value. We are developing new products and services while adding more fee-based dimensions to our current offering. We are also enhancing our investment banking activities to better leverage the prospects that come with sustained economic growth.
- Commercial Bank has been granted a license by the Central Bank of Myanmar to operate a representative office in that country. We are actively pursuing opportunities to expand further into other regional markets.
- And we expect to further improve the current global agent model with the goals of increasing our competitive advantage in the profitable overseas remittance business and also we expect that the intended activities of the Bank's operations in Italy is expected to kick start in 2015.



Strategic Snapshot

Initiative undertaken by the Bank during the year against identified strategic imperatives along with the planned activities for the future, are listed below:

Strategic Imperative	Achievements during the Year	Future Actions
Prudent Growth	<ul style="list-style-type: none"> • Grew deposits by 17.34%, advances by 22.24% and profit after tax by 7.03%. • Launched new products such as Future Pension Plan and continued to offer tailor-made products to high-end customers. • Recognised with multiple awards and accolades. • Extended the branch network by 4 branches in Sri Lanka. • Expanded the ATM network by further 21 machines in Sri Lanka. • Acquired Indra Finance Ltd. • Obtained license to open a representation office in Myanmar. 	<ul style="list-style-type: none"> • Maximise profits while managing substantial growth in the lending portfolio and maintaining a quality loan book. • Encourage branches to carry out local campaigns with special focus on mega and micro savings. • Introduce micro-savings and micro-insurance products. • Continue improving communication platforms to promote the wide range of deposit products. • Enhance investment banking activities while actively pursuing opportunities in listed equities and corporate debts. • Develop new products such as cash management solutions for corporate clients. • Expand to regional markets.
Cost Efficiency via Innovation	<ul style="list-style-type: none"> • 'Queue Busting' with our Cheque and Cash Deposit machines. • Introduced Biometric attendance system (a fully automated attendance management system) resulting greater convenience and efficiency. • Extended of Automated Banking to traditional branches. • Developed web-based quotation module for Bancassurance operations. • Centralised of re-finance operations and Bancassurance renewal process. • Strengthened Activity Base Cost allocation. 	<ul style="list-style-type: none"> • Introduce a comprehensive management information system for data mining to enhance productivity. • Introduce high-tech cash/cheque deposit machines to offer round-the-clock service. • Establish 24/7 automated banking centres at identified locations. • Encourage account-opening via electronic platforms targeting specific customer segments. • Further improve the centralised approval process and implement centralised loan disbursement. • Centralise the post-sanction functions of credit/advances.
Exemplary Governance	<ul style="list-style-type: none"> • Refined the self-assessment process of Directors. • Complied with all external regulatory requirements governed by the Corporate Governance Directives and Codes (CBSL, CSE, ICASL and SEC). • Reviewed the status of compliance of regulatory requirements throughout the year. • Set up a new Board Sub-Committee for reviewing all related party transactions carried out by the Bank and its listed subsidiary to strengthen the governance procedures, by early adopting the Code issued by the Securities and Exchange Commission of Sri Lanka. • Reiterating the desired standards of behaviour spelled out in the Code of Ethics of the Bank via periodic training to staff. 	<ul style="list-style-type: none"> • Continue to strengthen the corporate governance mechanism within the Bank. • Further strengthen the monitoring mechanism of related party transactions. • Ensuring ongoing compliance with all mandatory requirements and encourage to adopt best practices and voluntary requirements.

Strategic Direction of The Bank

Strategic Imperative	Achievements during the Year	Future Actions
Managing Capital	<ul style="list-style-type: none"> Managed the risk-weighted assets through prudent capital allocation. Declared Rs. 2/- per share to be satisfied in the form of issue and allotment of new shares as part of the final dividend for 2013. 	<ul style="list-style-type: none"> Manage and maintain the capital levels consistent with the risk profile of the Bank. Maintain a sound Capital Adequacy Ratio to support future expansion plans of the Bank. Maintain the Bank's dividend policy in line with the overall goals of the Bank (Declared Rs. 2/- per share to be satisfied in the form of issue and allotment of new shares as part of the final dividend for 2014).
Managing Risk	<ul style="list-style-type: none"> Implemented a complete software solution for carrying out advanced risk management measures such as Value at Risk (VaR). Further strengthened the Integrated Risk Management Department of the Bank. Conducted Business Continuity Plan drills covering all business units to ensure smooth functioning of business in case of emergency. 	<ul style="list-style-type: none"> Expand the framework and capabilities of risk management across the Bank. Implement an advanced approach to risk management reflecting the Basel II and Basel III guidelines. Co-ordinate all risk-related efforts carried out to improve decision-making.
Being Responsible to the Community	<ul style="list-style-type: none"> Completed nine capacity building programmes for the Agriculture and Microfinance sectors, with the objective of introducing new technology, cultivation methods and financial literacy to these sectors. Carried out CSR projects aimed at enhancing education levels, skill development and IT literacy (Completed - 53, Ongoing - 23, Scholarships - 50). Carried out CSR projects on health care (Completed - 11, Ongoing - 5). Undertook other community programmes (Completed - 10, Ongoing - 7). 	<ul style="list-style-type: none"> CSR Trust to shift its focus from IT labs to conduct skill development programmes towards improving employability. Engage with identified projects with sustained positive impact to the communities. Improve on agricultural and microfinancing lending and to continue capacity building programmes for targeted sectors. Continue with its contribution to the CSR Trust Fund.
Minimising Environmental Footprint	<ul style="list-style-type: none"> Continued to evaluate the large credit proposals against the criteria specified in the Social and Environmental Management System (SEMS) of the Bank. Carried out process developments to reduce use of paper. Improved procurement practices and policies for reduction of energy use and minimise waste. Undertook a green project at National Hospital of Sri Lanka through our CSR Trust Fund. 	<ul style="list-style-type: none"> Continue to follow criteria specified in SEMS in extending finance. Develop smart buildings which use space and natural lightening efficiently. Stepping up the coral planting project by connecting various stakeholders to reap benefits to the local community and continue to undertake CSR projects to preserve environment.

Strategic Imperative	Achievements during the Year	Future Actions
Human Resources Development	<ul style="list-style-type: none"> Committed to maintain an equitable and consistent reward structure for staff and initiatives were taken to benchmark the salaries of the staff through collective agreement. Provided the Bank's workforce with essential information, training opportunities and resources, helping them to enhance their productivity and achieve new levels of professional success. Spent around 27.24 hours of training per employee per year. Spent around Rs. 41.0 Mn. on staff training and development. Carried out various sports and recreational activities throughout the year. 	<ul style="list-style-type: none"> Relaunch the executive trainee programme with enhanced retention strategies. Enhance the managerial competencies of all executive officers based on identified leadership competencies. Establish cross-functional teams as a means of development for high-potential employees at all levels. Maintain effective management of the performance appraisal system and the variable pay plan. Continue the evaluation of existing welfare services and identify initiatives to enhance staff well-being, taking into consideration branch expansion and current economic and social conditions.

All of the above strategic imperatives and initiatives taken by the Bank will ultimately add value to investors.

Strategic Imperative	Achievements during the Year	Future Actions
Adding Value to Investors	<ul style="list-style-type: none"> Consistent dividend stream. Attractive dividend payout ratio - 50.34%. Market capitalisation of the Bank improved by Rs. 43.0 Bn. and gained 3rd position among all listed companies. Economic value addition rose by Rs. 2.4 Bn. Maintained ROA and ROE above industry averages. 	<ul style="list-style-type: none"> Maintain the Bank's dividend policy in line with overall strategic goals. Retain/improve the Bank's ranking in terms of market capitalisation.

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