

# Managing Director's Review



*In an increasingly challenging macroeconomic and regulatory environment, our ethos of being prudent, customer centric, innovative and agile helped us remain relevant and deliver enhanced value to our stakeholders. Our approach was to anticipate the contours of the future, plot a safe course and follow its trajectory, all the while nimbly making astute course corrections where necessary.*

I would like to begin this note by expressing the Bank's sincere appreciation and gratitude to my predecessor Mr. Jegan Durairatnam, who retired in July 2018, after rendering 36 long years of service to Commercial Bank. I would like to extend my gratitude to Mr Durairatnam on a personal note as well, for the invaluable guidance and unstinted support extended to me.

## ComBank Team

Our ComBank team is our biggest strength and Commercial Bank takes immense pride in its ability to rise as one, both in good and bad times. We have a highly dedicated team, with an admirable attitude and commitment who strives for excellence in order to create value for our stakeholders.

In Sri Lanka, our head count has remained in the mid-4,000 range over the past 10 years, while our branch network has nearly doubled and profits quadrupled, as illustrated on pages 66 to 69 under Employees. This is a result of our work culture

and ethos at the Bank, where honesty, integrity, fairness, responsibility and accountability play an integral role. Our Code of Ethics is based on the UN Global Compact Principles and the Universal Declaration of Human Rights and every employee is committed to living by it.

During 2018, we continued our intense focus in developing talent and made substantial investments to keep abreast with global benchmarks in developing human capital. Our prudent decisions with regard to succession planning and accurate placement of talent are amply demonstrated by the Bank's outstanding performance under challenging conditions.

## Geographical Reach

We possess the largest international footprint owned by a private sector bank in Sri Lanka and in 2018 our International Operations continued to support our solid performance. Cumulatively Italy, Bangladesh, Maldives, and Myanmar contributed 11.38% of the Group's total assets.

Our Operations in Bangladesh reported a profit after tax of BDT 1,380.80 Mn. (Rs. 2,871.30 Mn.), which accounted for approximately 15% of the Bank's profit after tax. It continues to be one of the best performing foreign banks in Bangladesh. We were the first Sri Lankan Bank to establish a Representative Office in Myanmar in 2014. In the year under review, we successfully established a fully owned subsidiary, CBC Myanmar Micro Finance Company Ltd, in Nay Pyi Taw, Myanmar. We will continue to strategically expand our presence within the region, reaching out to become a "world-class regional bank".

## Collaborating and co-creating

As a leading financial institution in the country, we continued to form mutually beneficial partnerships with our customers and external organisations. The synergies achieved through our strategy of partnering with customers throughout their journey, have kept us going strong during these challenging times.

We broke new ground by introducing relationship management for SME customers through ComBank Biz Club. Our Bank on Wheels solution was a result of our intimate knowledge of rural communities, carefully harvested by our Agriculture and Micro Finance Units. This not only enables financial inclusion but also prepares such communities for the future of banking.

To further facilitate customer convenience, we enhanced our online platform which now allows retail customers to make investments, apply for personal loans and obtain instant approval, and obtain loans against Fixed Deposits and cross currency trading. We also launched 24x7 fully-automated Cheque Deposit Machines in urban centres for the convenience of retail customers and SME entrepreneurs.

We collaborated by creating partnerships with many local and international organisations, from procurement of world class technologies, to strengthening our system capabilities and enhancing knowledge sharing in various disciplines. Through our collaborative partnerships we also acquired technical expertise for New Product Development.

We continued to create private and public partnerships in matters of national importance, leading the way as a responsible corporate citizen. The outstanding amount of funds disbursed by the Bank under the Government's Enterprise Sri Lanka scheme is one such example.

### Remaining compliant

As we continue our journey ahead with confidence and launch innovative products and services, our intense scrutiny and focus on the regulatory aspects of the business remain tighter than ever. In 2018, we continued to work closely with the regulators to ensure compliance in every aspect, including BASEL III capital requirements and SLFRS 9 Accounting Standard.

### Greener and cost effective

Sustainable banking practices will always be a key focus area for Commercial Bank. In 2018, our commitment to deploy sustainable energy sources resulted in an average annual energy saving of 8%, through our strategies to interweave sustainability into business practices. Initiatives to reduce carbon footprint include: the establishment of Green Banking Channels, waste disposal systems, use of solar power, reduction of paper use through digitisation of processes, and development of green buildings for branches. A number of our branches now have almost zero electricity cost, while several others exporting power to the national grid.

Through a carbon footprint evaluation conducted during the year, we gained a better understanding of our impact on the environment and have begun exploring avenues of reduction. Through our agreement with IFC, our lending officers have been trained to identify and promote green financing opportunities.

We will continue to champion the cause of green banking whilst we concentrate on streamlining our processes through centralisation and continue to promote channel migration amongst our customers.

Various efforts to improve processes, channel migration and centralised activities have contributed to improve our Cost to Income Ratio (before taxes on financial services) from 41.08% to 36.85% by end 2018.

### Year 2018 at a glance

Commercial Bank recorded impressive growth in all key areas, despite challenges encountered due to increased taxation and higher levels of non-performing advances, which resulted in increased provisions for impairment charges.

We demonstrated resilience to the challenges, by reaching out with robust and prudent assets and liabilities management and reached high in increasing market share, providing adequate cushioning against non-performing advances, and maintaining a stable and growing profitability.

Commercial Bank Group recorded an operating profit of Rs. 32.1 Bn., an approximate increase of 14.1% compared to 2017, despite a substantial increase in impairment charges from approximately Rs. 1 Bn. in 2017 to Rs. 8.8 Bn. in 2018.

However, the growth in the Group's profit after tax was limited to 7.44% at Rs. 17.9 Bn. as a result of the debt repayment levy paid since October and increased taxation on financial services due to the revocation of a substantial portion of the tax concessions allowed in the past.

Business volumes across all segments grew as deposits were up by 15.99% to Rs. 994.40 Bn. and net loans to customers up by 16.86% to Rs. 867.60 Bn., both recording average growth in excess of Rs. 10 Bn. a month. Our loan book and deposits grew by over Rs. 100 Bn. each for the third consecutive year.

Reflecting the trend of asset quality deterioration observed across the industry, gross and net non-performing loans ratios increased during the year to 3.24% and 1.71% respectively from 1.88% and 0.92% in 2017. However, the Bank continues to showcase its strength and prudent management practices by having the higher cumulative provision for impairment as a percentage of non-performing loans and advances at 92%.

We reached out and reached high to launch many innovative products and services in 2018, many of which are customised to meet the exact requirements of our customers.

### In Sync with the future

Being future-ready means not only ensuring our team and customers are geared to capitalise on the best of digital innovations, but also having a strategic plan in place to navigate the changing macroeconomic and regulatory landscapes. We aim to strike the perfect balance between sound financial performance, innovative products and services, robust digital offerings and prudent management of investments.

In terms of digital offerings, we launched Sri Lanka's first Digital Banking Account "Flash", which we will keep developing to suit our customer's requirements. We intend on introducing a digital data analytics solution that will help us better understand the customer's lifestyle, resulting in customised product offerings.

In 2018, we increased the number of Cash Recycler Machines (CRM) and Cash Deposit Machines (CDM) in our network. We pioneered the launch of Automated Banking Centres (ABC), with the intention of providing 24x7 access to banking services. We also premiered the opening of savings accounts online to our existing and prospective customers, a move that has received an extremely positive response. Our efforts in channel migration and creating greater awareness about our ABC will continue, whilst we actively focus on providing an enriched customer experience through automated and digital platforms.

Commercial Bank will reach out to the future by promoting digitisation and automation, streamlining operations through centralisation, and improve product offerings through data analytics, green banking and sustainability initiatives and focused CSR initiatives.

### Reaching out to say thank you

I extend my sincere appreciation to the Chairman and the Board of Directors for their invaluable advice and guidance; the capable management team and all our members of Commercial Bank family in Sri Lanka, Bangladesh, Italy, Maldives, Myanmar and other overseas locations, for their commitment and dedication.

I would also like to extend my heartfelt gratitude to our customers for their loyal patronage and shareholders for their unwavering support.

My gratitude is extended to the banking and financial services regulatory authorities and other stakeholders in Sri Lanka, Bangladesh, Italy, Maldives, and Myanmar for their support and cooperation.

As we navigate through an uncertain future, we remain focused on delivering on the goals and aspirations of our stakeholders – from customers and employees to the communities and the nations within which we operate. We will continue to explore uncharted territories, backed by our investments in talent and technology on our journey towards sustainable growth.



**S Renganathan**  
Managing Director/CEO

Colombo  
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