

Performance Review

Chairman's Statement

The fourth industrial revolution is rapidly transforming financial systems and practices across the globe and in Sri Lanka, and the Bank aims to remain at the forefront of this evolution



Dear Friends,

In 2019, one of the most difficult years in recent history, the Bank mobilised all its experience and wisdom to build the necessary resilience to turn in an admirable performance given the adverse conditions that prevailed. We navigated the year in a manner that the outcome seen is a tribute to all stakeholders of the Bank, and affirms the strong, enduring commitment and bonds nurtured over the years.

The performance of the Bank must be viewed in the context of Sri Lanka's macroeconomic conditions and the measures undertaken by the Central Bank of Sri Lanka (CBSL) to

stimulate the economy by driving credit demand. In 2019 Sri Lanka's GDP growth is estimated to have further declined from 3.2 percent in 2018, weighed down by a climate of political and economic anxiety. In contrast to the tight monetary policy followed up until the early part of 2018, the CBSL pursued a stance of monetary easing since late 2018, which was further expanded throughout 2019 to stimulate credit growth and to deal with the country's ailing economy. The CBSL reduced the Statutory Reserve Ratio (SRR) from 7.5 percent to 6.00 percent in November 2018, and to 5.00 percent in March 2019. Furthermore, the CBSL imposed

limits on bank Rupee deposit interest rates in April 2019 and reduced the policy rates i.e. the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 50 basis points in April and then again in August, bringing them to 7.00 percent and 8.00 percent, respectively. In addition, when the interest rates of lending products persisted at high levels, the CBSL introduced regulations to reduce nominal interest rates of Rupee deposits, interest rate on credit card advances and pre-arranged overdrafts, and the weekly Average Weighted Primary Lending Rate (AWPR), in order to reduce high cost of borrowing.

While these regulations yielded some encouraging signs towards the end of 2019, most of the year was spent laboring under adverse conditions of low credit demand and rising non-performing assets across the financial sector. In this context, our strategy centered on prudent growth through a commitment to our fundamentals: consolidating a well-diversified asset base, promoting pure banking products, following robust risk management and corporate governance practices, and maintaining adequate funding and liquidity levels.

Consequently, the Bank managed to maintain its momentum by growing its core business volumes of deposits by 7.15 percent, total assets by 6.43 percent, and loans and advances portfolio by 2.73 percent, which we consider reasonable when viewed in the context of the operating environment that prevailed. A noteworthy achievement of the year was becoming the first private sector bank to cross the Rupees One Trillion milestone in deposits. Profit before tax, however, decreased by 12.71 percent to Rs. 22,339 Bn. from Rs. 25,591 Bn. in 2018 as a result of the growth in operating income not been sufficient to offset the increase in impairment charges arising from the deterioration in asset quality witnessed across the industry on one hand and the increase in operating expenses on the other. Nevertheless, the decrease in profit after tax

was only 2.96 percent to Rs. 17.024 Bn. this year compared to Rs. 17.544 Bn. in 2018 due to changes to tax legislation announced by the Government recently with retrospective effect.

Commercial Bank's reputation as a bank that complies with the spirit – and not merely the letter – of the law is well established. During the year, the Board further strengthened the corporate governance structure by adopting high ethical standards and practices, which are all the more important to maintain during difficult times. The Board took positive note of policy directions and guidance received from regulatory authorities and deliberated extensively to be supportive and compliant.

Responding to the formidable challenge of high and growing non-performing loans throughout 2019 that became a primary focus of the Board and other relevant sub-committees, much time was spent with the management on formulating and implementing strategies to arrest this trend by strengthening recovery efforts and lending practices. Other highlights of the Board's activities during the year included a review of all major policy documents, Board and Board Committee Charters, and the Terms of Reference of all Board Committees, and a productive annual strategy meeting with the Corporate Management Team. In terms of expanding the Bank's and the Group's business, a 40 percent stake in Commercial Insurance Brokers (Pvt) Ltd. was acquired making it the Bank's fourth local subsidiary, further diversifying the Bank's assets base, which we believe should be a long term strategy.

Furthermore, the Board adopted a new dividend policy, taking into account the growing regulatory requirements, meeting shareholder expectations and enabling business expansion. Accordingly, the Board approved two interim dividends for the year 2019 (Rs. 1.50 per share paid on November 18, 2019 and Rs. 3.00 per share payable on February 24, 2020) totalling to Rs. 4.624 Bn. and proposed a final dividend of Rs. 2.00 per share amounting to Rs. 2.055 Bn. payable in the form of a scrip dividend, subject to shareholder approval at the forthcoming Annual General Meeting. In addition, the Board approved an Employee Share Option Plan covering all executive officers. It should also be noted that to ensure that our corporate governance practices are fully abreast of the changes in the evolving digital banking ecosystem, the Board participated in a session on Technology Risk/Cyber Security during the year.

The fourth industrial revolution is rapidly transforming financial systems and practices across the globe and in Sri Lanka, and the Bank aims to remain at the forefront of this evolution. We understand that to thrive in the contemporary banking landscape, we need to connect with our customers efficiently and effectively, offering them a winning digital banking proposition.

Our digital footprint was further expanded during the year by adding a host of new digital products, services, and partnerships to cater to the evolving requirements and expectations of our customers along with major initiatives to digitalise and centralise our operations. Appreciable performance has been observed in key goals set for the year, which include customer onboarding for digital applications and growth in digital penetration. With this progress, we are poised to cross 30 percent digital penetration by mid 2020, and multiple studies have shown adoption accelerates swiftly after this threshold. The Bank also recognises the role and potential of digital banking to connect with under-banked and unbanked segments of the market, thereby promoting financial inclusion across the country.

Along with these initiatives, the Bank is currently undergoing a cultural change in its approach to marketing and customer relationship management (CRM). In the contemporary environment, where the product and service shelf across the sector is largely the same, organisations distinguish themselves through the speed, accuracy, and effectiveness of delivery and through compelling and consistent brand messaging. In this context, staff development and realignment is key to our success, and the Board played an active role in shaping the overall strategy. New digital improvements enhance the Bank's cost-efficiency and streamline back-office operations, meaning that staff can be productively redeployed to more analytical and customer-centric roles.

Despite the difficulties of 2019, there is every reason for optimism for a growth rebound in 2020, both for the Bank and the sector as a whole. Our efforts in 2020 will be directed in four areas: prudent growth while bringing the deteriorating asset quality under control, driving our digitalisation and digital adoption strategy, deepening our business relationships with the SME market sector and further extending the social and environmental perspective into all our operations and activities. The Bank

is rightly proud of its long history, where it has a proven track record in navigating the ups and downs of the country's economic fortunes, and we look forward to thriving in the year ahead. 2020 in particular is a monumental year for the Bank since it completes 100 years of operations in Sri Lanka. Commercial Bank's history traces back to 1920 when its forerunner Eastern Bank commenced commercial operations in Sri Lanka. Looking back at the Bank's history today, we have every right to be happy and proud and it is nothing but our courtesy that we pay our gratitude to those who took pioneering steps to ensure steady growth in the past and what it is today.

I am very grateful for my colleagues on the Board for their contribution and continued support for steering the Bank in a difficult year with a focus on long term sustainability. I thank the Managing Director/Chief Executive Officer, Chief Operating Officer, members of the Corporate Management and staff for their commitment and dedication in executing the strategies we collectively developed for the Bank. I also take this opportunity to thank leadership of Commercial Bank Branch of Ceylon Bank Employees' Union and Executives Association of the Bank whose contribution was helpful to the Board in no small measure to maintain industrial harmony and to inspire team spirit in the Bank.

Finally, I wish to convey our sincere good wishes to all our stakeholders.



Dharma Dheerasinghe
Chairman

Colombo
February 20, 2020