

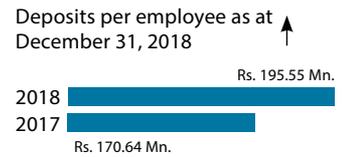
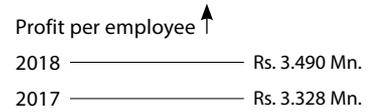
Operational Excellence

Over the years the pressure for products and services with higher cost efficiencies has created the need to gear up internal systems and processes to improve accuracy, speed and quality of service. Thus the Bank has been committed in its investments towards achieving operational excellence and enhancing productivity. Initiatives are directed at streamlining back office operations to speed up and simplify processes, whilst investing in best-in-class technology for integration and modernising legacy systems. These initiatives have also contributed to freeing back-office routine staff to improve customer interaction whilst gearing them with focused training and development. The success and the impact of our efforts are readily reflected in the financial performance reported year after year supported by the growth in Social and Network Capital.

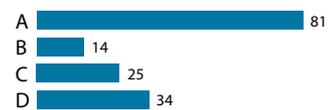
- 64**
Centralising work processes
- 64**
Continuing process improvements
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Optimising resources
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Investing in employees
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Safeguarding the environment



Operational excellence over the year

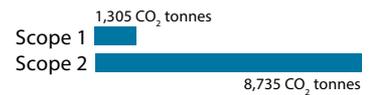


Investment in training (hours)

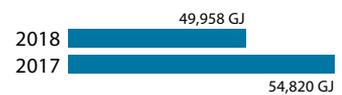


- A Banking and Executive Trainees
- B Junior Executive Assistants and allied grades
- C Executive Officers
- D Corporate Management

Carbon footprint



Energy consumption ↑



Cost to income ratio ↑

46.35%



Centralising work processes

Centralisation for Retail

The centralised automated reconciliation system, launched in 2017 to minimise errors and increase efficiency, showed positive results during the year under review. With optimum utilisation of staff to ensure cost efficiency, the Bank's Personal Banking arm is planning to implement a solution that would centralise the credit function to reduce the need for additional back office staff at branches while increasing focus at customer touch points.

By maintaining a single processing centre the Bank is able to provide improved and more cost-effective banking services 

Combined with our plans to upgrade digital and online banking services, we will be able to focus more on introducing tailor made products and services that best suit customer needs.

At the Bank, decision making on risk management is largely centralised through several risk management committees. Due to the highly specialised nature of the Bank's business, this provides greater security to our customers in the long term ( refer pages 115 to 139 in Risk Management).

Continuing process improvements

Every year the Bank introduces a number of process improvements with the aim of achieving greater operational excellence.

Lean banking

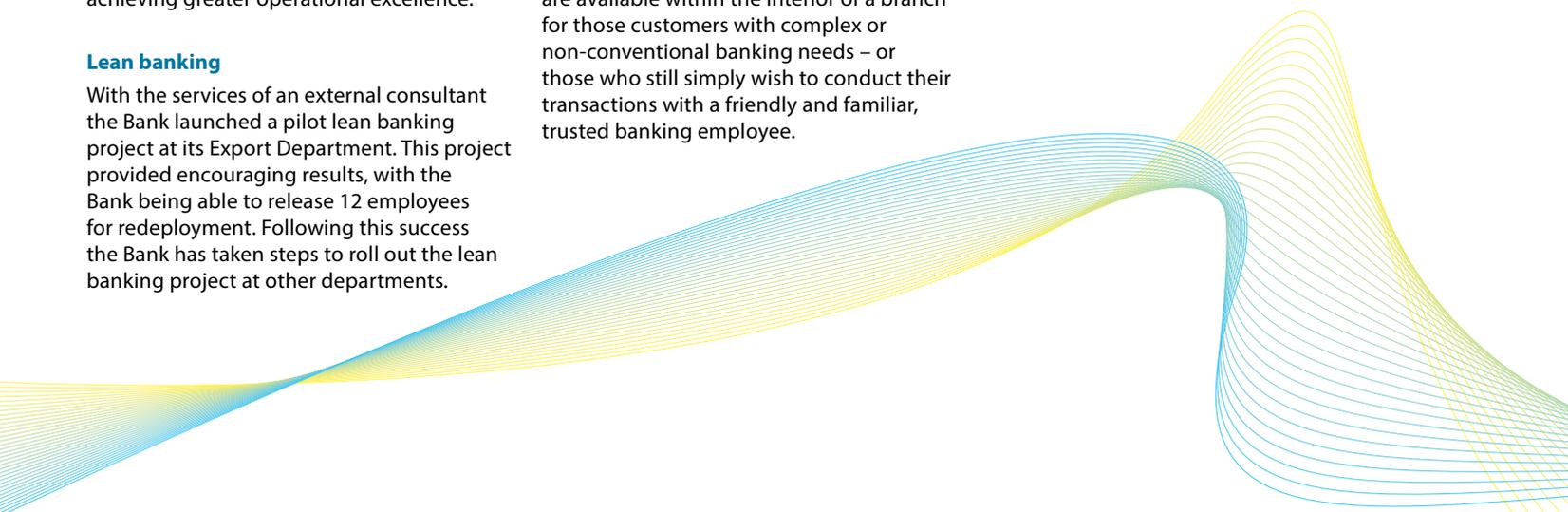
With the services of an external consultant the Bank launched a pilot lean banking project at its Export Department. This project provided encouraging results, with the Bank being able to release 12 employees for redeployment. Following this success the Bank has taken steps to roll out the lean banking project at other departments.

Optimising resources

With the significant increase in demand for commercial and residential real estate in Sri Lanka, the Bank's strategy of ensuring a healthy mix of owned and rented properties is paying dividends 

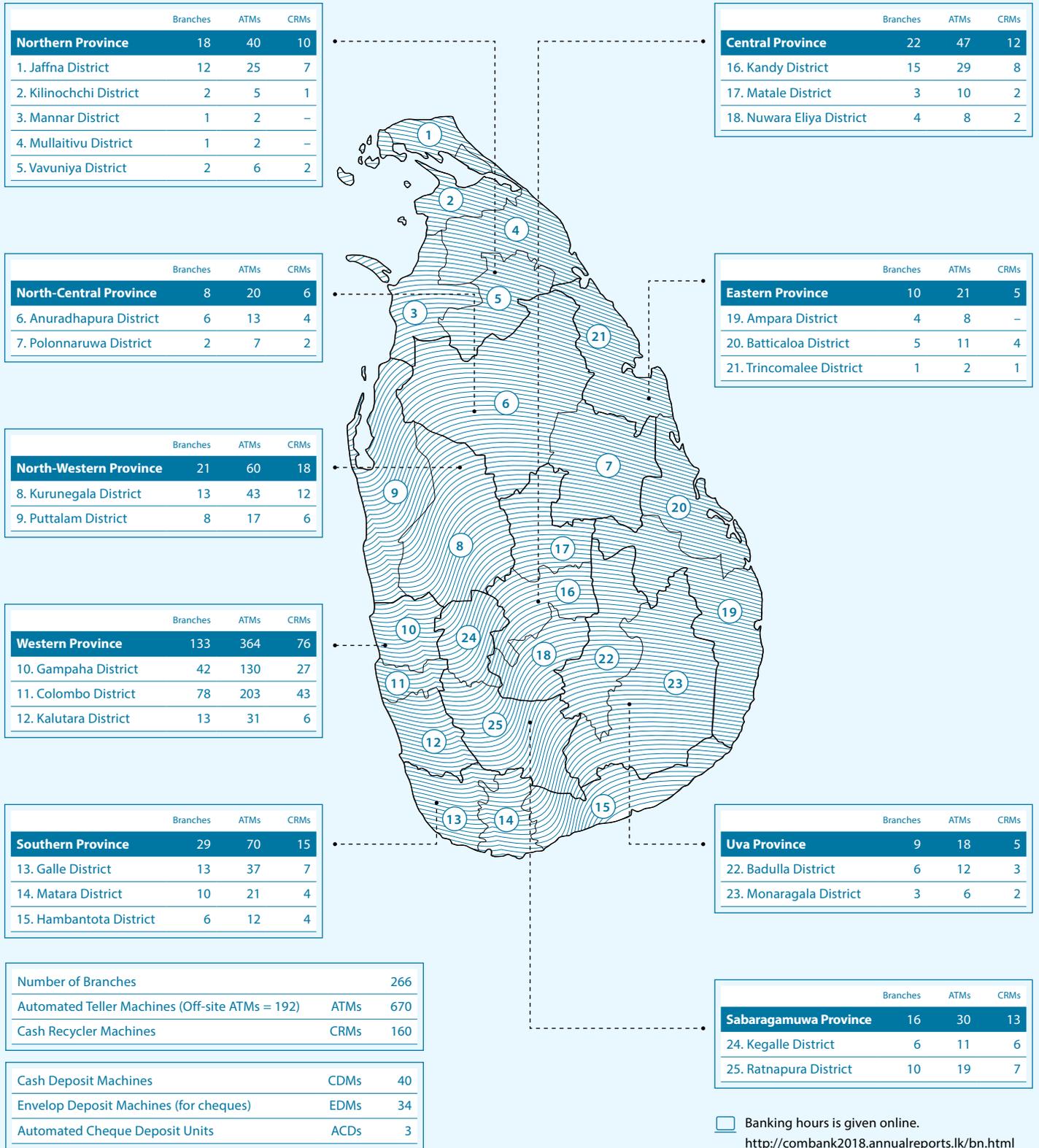
Back office departments occupy many of the Bank's owned buildings while branch employees are placed in strategically located premises in close proximity to the branches – the majority of which are rented. With a number of 10-year rent agreements in high-cost city centres coming to an end in 2019, the Bank will look to optimise utilisation of rented properties. Renting property outside of urban centres remains cost effective as land owners in such areas still value the stability offered by a Bank as the tenant, especially with agreed terms and conditions. The Bank is looking into optimising its branch network together with its strategy of migrating more customers towards digital banking products and services.

With an increasing number of Bank branches presenting a standardised facade and layout, customers are enjoying a better experience at every touch point. Their first point of contact is now automated which provides the services customers require with greater convenience and speed. Manned counters are available within the interior of a branch for those customers with complex or non-conventional banking needs – or those who still simply wish to conduct their transactions with a friendly and familiar, trusted banking employee.



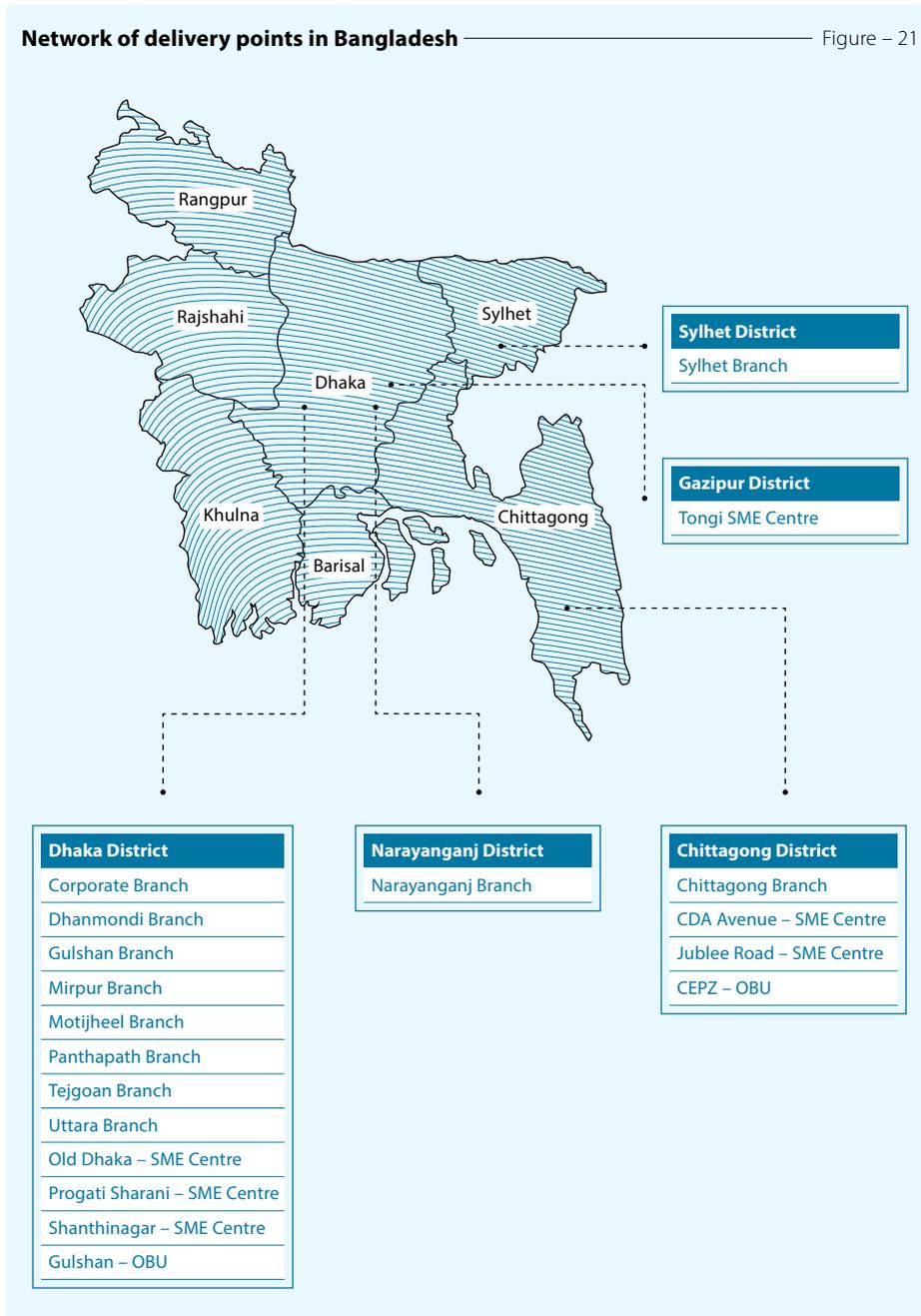
Network of delivery points in Sri Lanka

Figure – 20



Network of delivery points in Bangladesh

Figure – 21



SME: Small & Medium Enterprises OBU: Off-shore Banking Unit

The Bank's network increased by five new branches during the year, taking the total to 266 in Sri Lanka

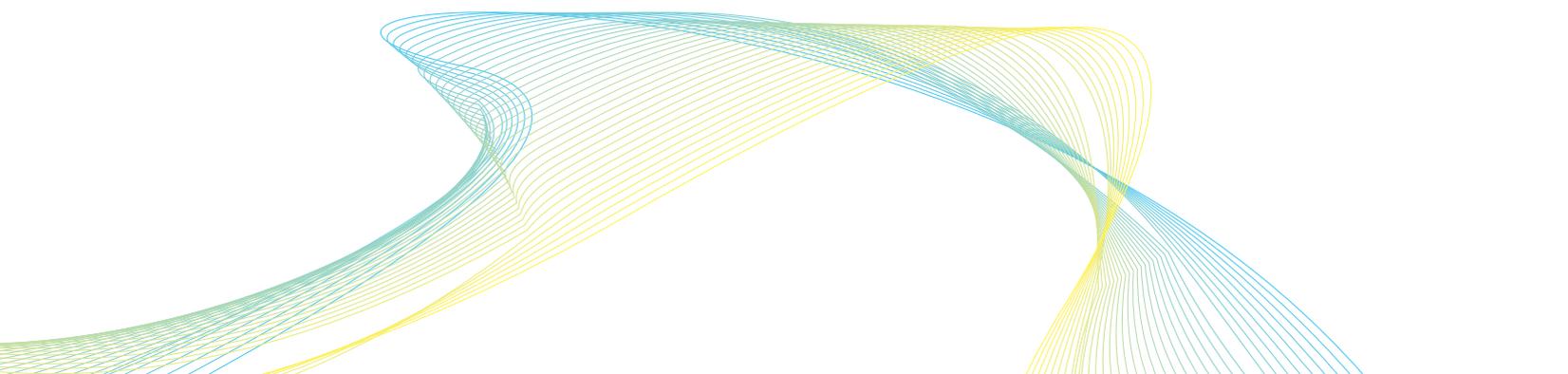
In 2017, we completed the purchase of 100 automated teller machines with the capability of both deposits and withdrawals. This year we purchased a further 60 machines, providing customers with a convenient one-stop solution for their day-to-day transactional banking requirements.

During the year we launched Sri Lanka's first fully-automated cheque deposit service machine at our City Office in York Street, Colombo. Now, customers are no longer required to fill manual forms prior to depositing. They simply need to key in the account number along with the account holder's telephone number prior to placing the cheque in the allocated slot. In total, during the year, we installed three automated cheque deposit machines which are in great demand especially in metropolitan areas.

Investing in employees

Our people's competencies, capabilities and experience, and their motivations to innovate – also referred to as **Human Capital** – are at the heart of our success and our plans for the future. Through their dedication and commitment they create value for the Bank and its stakeholders, and in turn the Bank, creates value for them.

Our excellence in delivering value to our customers is supported by a strong team of over 5,000 employees with a wealth of experience spanning across each level of the Organisation, gathered over the years.



Employees by type and gender

Table – 09

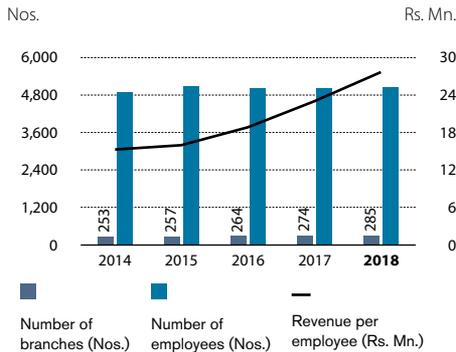
	Sri Lanka		Bangladesh		Bank	
	Count	%	Count	%	Count	%
Female	1,305	24.95	81	27.36	1,386	25.08
Permanent	1,128	21.56	61	20.60	1,189	21.52
Contract	1	0.02	20	6.76	21	0.38
Outsourced	176	3.37	-	-	176	3.18
Male	3,925	75.05	215	72.64	4,140	74.92
Permanent	3,601	68.85	177	59.80	3,778	68.36
Contract	1	0.02	38	12.84	39	0.71
Outsourced	323	6.18	-	-	323	5.85
Total	5,230		296		5,526	

Employee numbers

Over the last five years, permanent employee numbers have remained stable with a total of 4,731 in Sri Lanka and 296 in Bangladesh as at December 31, 2018 although branch numbers and annual profit has maintained a steady upward trajectory.

Revenue per employee vs branch numbers and number of employees

Graph – 05



Employee recruitment and retention

Employee recruitment has been challenging as new opportunities prompt the youth to steer away from choosing banking as a career. The changes introduced to the recruitment selection criteria has helped the Bank to on-board high quality talent to its workforce. During 2018, the Bank recruited 270 (5.74%) employees for Sri Lanka and 42 (15.11%) employees for Bangladesh.

All employment separation processes in every country that the Bank operates in are completely compliant with applicable labour laws. Employees who leave the Bank are interviewed and their feedback escalated to Top Management. Experienced Commercial Bank employees under 30 years of age are in high demand in the markets we serve as is evidenced by the higher attrition rates for this category.

The percentage of employees leaving the Bank in Sri Lanka, and Bangladesh was 5.07% (numbering 239) and 8.36% (numbering 24) respectively during the year.

With employees transforming into digital bankers in the near future, the Bank is confident that employee numbers will remain largely static with more back-office employees being retrained and redeployed to customer touch points. (Refer page 68 for gender, category and age-wise employee breakdown)

Voluntary Retirement Scheme (VRS)

The Bank offered employees of every grade the chance to retire early if they had served the Bank for 20 years subject to certain criteria. A total of 50 staff members took up this offer resulting in cost efficiencies to respective units and career advancement opportunities to staff members.

Pensions

The Bank was happy to make arrangements to re-establish a long standing request for a pension fund for our employees who were recruited after 2000, during the year.

Available balance in the gratuity fund will be transferred to a new fund for those who choose to join the new scheme. Thereafter, on behalf of the employees, a certain monthly contribution is made to the fund by the Bank. Employees are required to remain in employment for over five years to claim the benefits from the fund. Employees who select this scheme would be guaranteed a return equal to or above the existing gratuity scheme and are given a lump sum payment at termination or retirement from employment.

Training and development

During the year under review, the Bank invested significantly in the development of knowledge and skills of its Managers. Training programmes were conducted within Sri Lanka and overseas to ensure that branch Managers have the required skills and exposure to serve our diverse range of customers.

The Bank understands the critical importance of ensuring the best in customer service and is keen to provide employees with the necessary skills to meet customer needs. Designed to take customer service to a higher level the new scientific training programme, launched during the year is focused on activity-based training rather than classroom learning. This means that in addition to product knowledge, front-line employees learn to sharpen their people-skills.

The Bank is focused on ensuring that employees are “future ready” through innovations such as apps, chat bots, artificial intelligence and online training modules that they can engage in at their convenience

Initiatives taken to convert our employees into digital bankers have occupied the Bank's time and energy during the year. This includes ensuring that our people are well-versed in everything from digital banking lingo to actual systems and processes. While training programmes through Branch TV and other digital channels have been successful we are mindful of the needs of our millennial employees. This is the era of search engines where information has to be just a click away. For this reason the Bank is employing a chat bot and many other innovations that will provide employees with the necessary information at their finger tips.

All employees receive annual performance review, a medium through which training needs are identified for each individual.

Leadership transfer and promotions

The Bank's robust succession plan resulted in a successful leadership transfer, following the retirement of the previous Managing Director/Chief Executive Officer. All cascading staff changes subsequent to this leadership change were effected without any disruption to business.

The Bank was proud to promote a total of 100 executives – one of the largest executive grade batches during the year – a strong testament to the skills of the resource pool of its cadre 

Succession planning

While succession planning was previously only conducted for Senior Management level employees (Grades IV and V), during the year under review the Bank extended this to include executive grades as well. In addition, executives in Grade I and above are now focused in talent discussions which will be greater impetus for their career development.

The Bank has also taken the initial steps for purchasing an internationally accepted Human Resource Information System (HRIS) that will ensure that all key systems such as learning and development, appraisals,

and talent management run smoothly and interact seamlessly with each other. This also makes it compulsory for all employees to carry out their regular HR functions through an online system, taking them one step closer to being the digital bankers of the future.

Compensation

Remuneration for our staff consists of a guaranteed "fixed" pay and a variable pay that is based on each employee's performance during the year. The fixed pay is determined through negotiations under the Collective Agreement for Junior Executive Officer Grade and below. For employees in higher grades in Sri Lanka and all staff in Bangladesh the fixed pay is determined by regular market surveys.

Employees in the executive categories are provided with performance based rewards linked to the performance appraisal system, a well-defined rewards matrix aligned with the Bank's overall strategy. All other employee grades working in Sri Lanka are covered by the Collective Agreements signed with Ceylon Bank Employees' Union (CBEU).

The overall compensation review ensures that our executives receive compensation that is on par with market prices. As Sri Lanka's largest private sector bank, Commercial Bank is a trendsetter in the market and ensures fair and competitive payment without discrimination.

Collective Agreement and freedom of association

The new Collective Agreement was signed on time with the concurrence of all parties with effect from January 1, 2018. Commercial Bank was the first in the market to complete the Collective Agreement which is valid for three years. The Management continues to

maintain cordial relations with our branch of the CBEU and the Executive Association of the Bank.

68.55% of our employees in Sri Lanka are members of the Ceylon Bank Employees' Union while 18.41% hold membership in the Commercial Bank Executive Association. Our employees in Bangladesh do not hold membership in any trade association.

The Bank recognises the rights of employees to enjoy freedom of association and ensures that all accepted channels of communication with them remain open for dialogue 

Diversity and equal opportunity



Bank upholds the principle of equal opportunity irrespective of gender, age, race or religion from recruitment to career development and progression. Female representation on our team is lower than in the national labour force despite our commitment to gender diversity. Transferability within our wide network deters females at recruitment.

The mix of female employees receiving training, promotion and representation at Senior Management level in proportion to the overall staff mix evince our commitment to equal opportunity.

Employees by category and gender

Table – 10

Employment Category	Age 18-30 years		Age 31-50 years		Age over 50 years		Total
	Male	Female	Male	Female	Male	Female	
Corporate and Senior Management	–	–	7	–	12	4	23
Executive Officers	132	33	1,350	348	146	79	2,088
Junior Executive Assistants and Allied Grades	1,074	335	661	262	21	65	2,418
Banking and Executive Trainees	351	83	3	–	–	–	437
Office Assistants and Others	–	–	29	1	31	–	61
Total	1,557	451	2,050	611	210	148	5,027

In addition, the Bank continues to ensure that the ratio of basic salary and remuneration of women and men at all locations of operation and across all employee categories remains equal as we work to enhance gender equality while contributing towards Sustainable Development Goals 5: Gender Equality. (refer Table 10 on page 68 for employee category-wise ratios).

Employee well-being and welfare

Human rights and values are upheld by the leaders and Managers of the Bank at all times. The Inspection Department ensures compliance with the Bank’s Code of Ethics and its comprehensive policy framework through regular verification. The Code is based on the UNGC principles and the Universal Declaration of Human Rights proclaimed by the United Nations.

Any information of violations received through the Bank’s Whistle-Blower Charter or “Speak out” web portal, are investigated promptly with disciplinary actions, including even dismissal, swiftly taken against violators.

The Bank added three holiday bungalows for employee use in Anuradhapura, Kirinda and Kandy. As customary, the Bank, organised a range of events to celebrate cultural events, team spirit and employee milestones and talents.

Employee communications

The Bank employs a number of effective communications channels to ensure that every employee is aware of the Bank’s strategic direction, its policies and procedures, the high standards expected, and the corporate values each must display in their day-to-day interactions with external and internal customers.

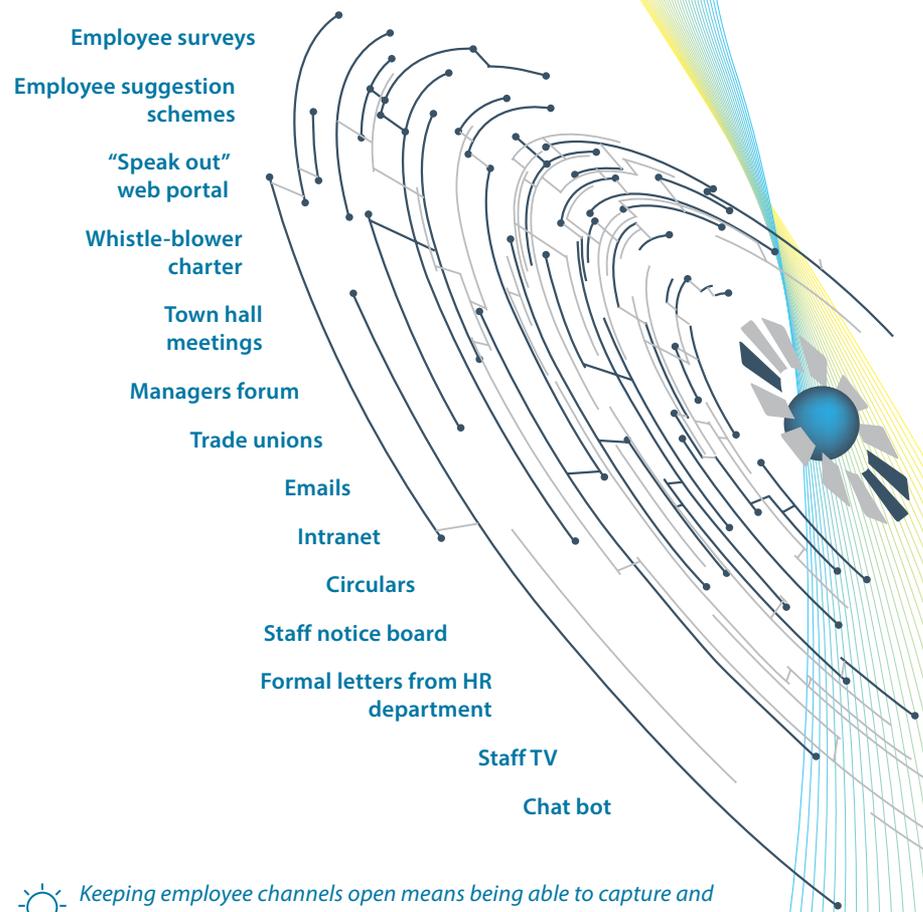
These channels also ensure that the best ideas of our people are captured and acted upon. During the year, the Bank’s Senior Management reached out to employees through skip level meetings for Junior Executive Officers (JEOs) and Executive Officers (EOs). In the absence of their managers these employees were encouraged to suggest improvements to the Bank in their

respective areas of expertise. Many of such ideas and suggestions from the Bank’s Junior Executive Officers and Executive Officers were adopted during the year. Separate town hall meetings were conducted for EOs and JEOs to discuss the Bank’s future strategic priorities enabling them to play an active role in shaping the Bank’s future.

The same was true of the Manager’s forum during which the Bank’s leadership team presented the Bank’s future direction and welcomed questions and views from the audience. Their suggestions were documented and included in action plans to encourage business inclusion. As our employees are the Bank’s front line, we value their suggestions immensely to stay connected with our customers.

Employee communication channels

Figure – 22



 Keeping employee channels open means being able to capture and act on the best ideas and suggestions.

Safeguarding the environment

During the year, we alerted customers to our many paperless banking options such as online banking, mobile banking, e-statements and e-passbook which help to reduce the use of paper. As mentioned previously, we are in the process of converting a majority of all banking transactions to digital by 2020 ( refer Fortifying digital leadership on page 57).

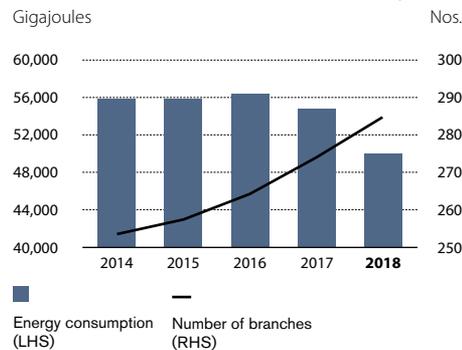
We also eliminated unproductive paper-based processes during the year and continue to look for new ways to reduce the use of paper.

Sustainable energy



During the year the Bank continued its focus on renewable energy. In 2016, we launched a pilot project installing solar panels capable of providing 10% of the energy needs of five branches. This project provided a great value to the Bank, and as a result, in 2017, we increased the number of solar panels at each branch to cover 50% or more of its energy needs. In 2018, this provided us with a higher return on investment than expected, with some branch premises securing a 0% electricity bill, while others, such as our Peliyagoda warehouse, actually transmitting power back to the national grid. This year, we increased the number of solar powered branches from 20 to 34. We will proceed prudently, ensuring cost-effective long-term energy solutions for the Bank. Expanding infrastructure and upgrading technology to provide clean energy is an important initiative that can help the environment as we contribute towards Sustainable Development Goal 7: Affordable and Clean Energy.

Energy consumption vs number of branches



With the cooling of interiors consuming up a bulk of the energy, we have now begun converting our standard air conditioners to inverter types. Although the initial investment will be high, the energy consumption is expected to be very low, bringing the Bank many benefits in the medium term. In combination with our solar powered branches, this initiative has provided a 8% year on year reduction in the Bank's energy costs, while the electricity cost at the Head Office alone reduce by 8% year on year over the last four years.

During the year, the Bank consumed 49,958 Gigajoules (GJ) of direct energy compared to 54,820 GJ in 2017, a reduction of 4,862 GJ year on year (refer Graph 06 above for energy consumption over the past five years).

Carbon footprint

A carbon footprint evaluation was conducted during the year collecting activity data from 11 Greenhouse Gas (GHG) sources covering the entire Sri Lankan operation. The Bank was awarded a Greenhouse Gas verification statement by Sri Lanka Climate Fund (Pvt) Ltd., under the Ministry of Mahaweli Development and Environment, after verifying the total Greenhouse Gas emissions for 2017 in accordance with ISO 14064-1:2006 at a "reasonable level of assurance". The inventory revealed that direct

GHG emission of the Bank (Scope 1) were 1,305 tonnes and indirect GHG emissions (Scope 2) was 8,735 tonnes of CO₂ equivalent. The certification demonstrates the Bank's readiness to manage its carbon footprint. The Bank will begin initiating programmes that will help it become carbon neutral in the future.

The performance of the Bank in 2018 (compared to 2017) as shown in the Financial Statements on pages 157 to 168 and described in the Financial Review on pages 142 to 150 bears testimony to the strategies adopted under each of the four strategic imperatives described above.