

Statement of Compliance

Further to the Annual Report of the Board of Directors on the Affairs of the Company on page 4, given below is the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and other relevant statutes.

Table – 13

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
Mandatory disclosures as required by the Companies Act No. 07 of 2007 and amendments there to (CA)			
1. The nature of the business of the Group and the Bank together with any changes thereof during the accounting period	Section 168 (1) (a)	Notes to the Financial Statements: Item 1.3: Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries and associates	169 and 170
2. Signed Financial Statements of the Group and the Bank for the accounting period completed in accordance with Section 152	Section 168 (1) (b)	Financial Statements of the Group and the Bank for the year ended December 31, 2018	157 to 353
3. Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Independent Auditors' Report	152 to 154
4. Accounting Policies of the Group and the Bank and any changes therein	Section 168 (1) (d)	Notes to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank	169 to 195
5. Particulars of the entries made in the Interests Registers of the Bank and its subsidiaries during the accounting period	Section 168 (1) (e)	The Bank and all its Subsidiaries maintain Interests Registers All Directors have made declarations as required by the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Registers during the year under review The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007	
6. Remuneration and other benefits paid to Directors of the Bank and its subsidiaries during the accounting period	Section 168 (1) (f)	Note 22 to the Financial Statements: Other operating expenses	215
		Board Human Resources and Remuneration Committee Report	95 and 96
7. Total amount of donations made by the Bank and its subsidiaries during the accounting period	Section 168 (1) (g)	Note 22 to the Financial Statements: Other operating expenses	215
8. Information on directorate of the Bank and its subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Corporate Governance Report (CGR)	74 to 116
		Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank	14 to 19
		Refer "Group Structure" for details of members of the Board of Directors of the Group	430 and 431
		Recommendations for re-election	
(i) In terms of Article 85 of the Articles of Association, two Directors are required to retire by rotation at each Annual General Meeting (AGM). Article 86 provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation) have been longest in office, since their last re-election or appointment			
(ii) The Board recommended the re-election of the following Directors, after considering the contents of the affidavits and declarations submitted by them and all other related issues:			
(a) Directors to retire by rotation			
Mr K G D D Dheerasinghe			
Prof A K W Jayawardane			
(b) Directors appointed to fill casual vacancies			
Mr S C U Manatunge			

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
		(iii) Directors who served on the Board for over nine years – None [In terms of the Banking Act Direction No. 11 of 2007 on “Corporate Governance for Licensed Commercial Banks in Sri Lanka”, the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed nine years].	
9. Separate disclosure on amounts payable to the Auditors as audit fees and fees for other services rendered during the accounting period by the Bank and its subsidiaries	Section 168 (1) (i)	Note 22 to the Financial Statements: Other operating expenses	215
10. Auditors’ relationship or any interest with the Bank and its subsidiaries (Lead Auditor’s independence)	Section 168 (1) (j)	<p>Independence confirmation has been provided by Messrs Ernst & Young as required by Section 163 (3) of the Companies Act No. 07 of 2007, in connection with the audit for the year ended December 31, 2018 confirming that Ernst & Young is not aware of any relationship with or interest in the Bank or any of its subsidiaries that in their judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by CA Sri Lanka, applicable as at the reporting date</p> <p>No prohibited non-audit services have been provided by Messrs Ernst & Young as per the Direction issued by the CBSL on “Guidelines for External Auditors relating to their Statutory Duties”. The Directors are satisfied as the BAC has assessed each service, having regard to Auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Messrs Ernst & Young</p>	
11. Acknowledgement of the contents of this report/signatures on behalf of the Board of Directors	Section 168 (1) (k)	The Board of Directors have acknowledged the contents of this Annual Report as disclosed	4
Other Disclosures as required by Recommended Best Practices (RBP) or Listing Rules (LR) of the Colombo Stock Exchange			
12. Vision, Mission and Corporate Conduct	RBP	<p>The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving our “Vision and Mission”, which reflect our commitment to high standards of business conduct and ethics</p> <p>The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the provisions contained therein</p>	3
13. Review of business operations of the Group and the Bank and future developments	RBP	Chairman’s Message and Managing Director’s Review	10 to 11 and 12 to 13
		Management discussion and analysis	36 to 73
		Note 63 to the Financial Statements: Operating segments	309 to 311
14. Gross income	RBP	Notes 13 and 63 to the Financial Statements: Gross income and operating segments	202 and 309
15. Dividends on ordinary shares	RBP	Notes 26 and 70 to the Financial Statements: Dividends and Events after the reporting period	220 and 353
		Item 4 of the Section on “Investor Relations”	362
16. Reserves and appropriations	RBP	Statement of Changes in Equity	160 to 167
		Notes 55, 56 and 57 to the Financial Statements: Statutory reserves, Retained earnings and other reserves	297, 298 and 299

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
17. Corporate Social Responsibility (CSR)	RBP	Social and network capital: CSR trust	61 to 62
18. Property, plant and equipment, Intangible assets and leasehold property	LR 7.6 (VIII)	Note 40 to the Financial Statements: Property plant and equipment	258 to 271
		Note 41 to the Financial Statements: Intangible assets	271 to 273
		Note 42 to the Financial Statements: Leasehold property	274
		Note 59.3 to the Financial Statements: Capital commitments	304
19. Market value of properties	LR 7.6 (XII)	Notes 40.5 (b) to the Financial Statements: Property, plant and equipment and Information on valuation of freehold land and buildings of the Bank	265 to 269
20. Issue of shares and debentures			
20.1 Issue of shares by the Bank	LR 7.6 (XIII)	Notes 53 and 53.1 to the Financial Statements: Stated capital and movements in number of shares	293
20.2 Issue of debentures by the Bank	LR 7.6 (XIII)	Note 52 to the Financial Statements: Subordinated liabilities and item 10 of the section on "Investor Relations"	291 and 292 366 and 367
20.3 Issue of shares and debentures by the subsidiaries and associates	CA S.168 (1) (e)	<p>During the year 2018, Serendib Finance Ltd., issued 11,689,070 shares and 73,937,153 shares (22,624,434 shares in 2017) at Rs. 17.11 per share and Rs. 10.82 per share (Rs. 22.10 per share in 2017) for total considerations of Rs. 200 Mn. and Rs. 800 Mn. (Rs. 500 Mn. in 2017) to the Bank in order to raise required funds to meet the shortfall in statutory minimum core capital requirement</p> <p>During the year 2018, CBC Mynmar Microfinance Company Limited (CBCMMCL) did not issue any shares. During the year 2017, CBCMMCL issued 420,000 shares at USD 1 per share for a total consideration of Rs. 64.512 Mn. to the Bank, upon formation of that company as a fully owned subsidiary of the Bank.</p> <p>Except for the above share issues, the other subsidiaries and associates of the Bank did not make any share or debenture issues during the year</p>	
21. Share information and substantial shareholdings			
21.1 Distribution schedule of shareholdings, names and the number of shares held by the 20 largest holders of Voting and Non-Voting shares and the percentage of such shares held, public holding percentage and number of shareholders representing public holding	LR 7.6 (X) LR 7.6 (III) LK 7.6 (IV) LR 7.13.1	Item 5 of the section on "Investor Relations"	362 to 365
21.2 Information on earnings, dividend, net assets and market value per share	LR 7.6 (XI)	Financial Highlights	08
		Item 4 of the section on "Investor Relations"	362
21.3 Information on shares traded and the number of shares represented by the stated capital	LR 7.6 (IX)	Items 1 – 3 of the Section on "Investor Relations"	357 to 361
21.4 Own share purchases	CA S.64	The Bank does not purchase its own shares	
21.5 Equitable treatment to shareholders	RBP	Statement of Directors' Responsibility – item (k)	108 and 109
22. Information on Directors' meetings and Board Committees			
22.1 Directors' meetings	CGR	Details of the meetings of the Board of Directors	78
22.2 Board committees	CGR	Board committees reports	89 to 101
23. Disclosure of Directors' dealings in shares and debentures			

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s																																							
23.1 Directors' interests in ordinary voting and non-voting shares of the Bank	LR 7.6 (V)	Item 5.4 of the section on "Investor Relations" Directors' shareholdings in ordinary voting shares and ordinary non-voting shares have not changed subsequent to the date of the Statement of Financial Position up to February 05, 2019, the date being one month prior to the date of Notice of the Annual General Meeting	365																																							
23.2 Directors' interests in debentures	LR 7.6. (V) & RBP	Mr S Renganathan, MD/CEO, held 20,000 debentures of the Bank as at December 31, 2018. Except Mr S Renganathan there were no debentures registered in the name of any other Director as at the beginning and at the end of the year																																								
24. Employee share option plans and profit sharing plans	LR 7.6. (XIV)	Note 53.2 to the Financial Statements: Employee share option plan – 2008	294 and 295																																							
		Note 54 to the Financial Statements: Share-based payments	295 to 297																																							
The Group and the Bank do not have any employee profit sharing plans, except the variable bonus scheme																																										
Tabulated below are the details of options available/exercised by the Executive Directors under the ESOPs																																										
<table border="1"> <thead> <tr> <th rowspan="2">Description</th> <th colspan="2">2018</th> <th colspan="2">2017</th> </tr> <tr> <th>Mr S Renganathan</th> <th>Mr S C U Manatunge</th> <th>Mr S Renganathan</th> <th>Mr S C U Manatunge</th> </tr> </thead> <tbody> <tr> <td>As at January 1</td> <td>98,986</td> <td>57,370</td> <td>153,362</td> <td>122,967</td> </tr> <tr> <td>Vested during the year</td> <td>85,647</td> <td>52,985</td> <td>37,933</td> <td>23,467</td> </tr> <tr> <td>Additional options granted due to the rights issue</td> <td>N/A</td> <td>N/A</td> <td>2,014</td> <td>1,566</td> </tr> <tr> <td>Exercised during the year</td> <td>Nil</td> <td>Nil</td> <td>94,323</td> <td>90,630</td> </tr> <tr> <td>Expired during the year</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>As at December 31</td> <td>184,633</td> <td>110,355</td> <td>98,986</td> <td>57,370</td> </tr> </tbody> </table>				Description	2018		2017		Mr S Renganathan	Mr S C U Manatunge	Mr S Renganathan	Mr S C U Manatunge	As at January 1	98,986	57,370	153,362	122,967	Vested during the year	85,647	52,985	37,933	23,467	Additional options granted due to the rights issue	N/A	N/A	2,014	1,566	Exercised during the year	Nil	Nil	94,323	90,630	Expired during the year	Nil	Nil	Nil	Nil	As at December 31	184,633	110,355	98,986	57,370
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25. Directors' interests in contracts or proposed contracts and remuneration and other benefits of Directors during the year under review	CA S.192	Directors' interest in contracts with the Bank	114																																							
		Note 22 to the Financial Statements: Other operating expenses	215																																							
		Note 64 to the Financial Statements: Related party disclosures	312 to 316																																							
	RBP	As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank																																								
	CA S.168 (1) (e) LR 7.6 (XIV)	There are no arrangements that enable the Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its subsidiaries, other than via the market																																								
	CA S.217 (2) (d)	There are no restrictions on the approval of loans to Directors in the Bank's ordinary course of business, subject to compliance with all applicable regulations																																								
26. Directors' and officers' insurance	CA S.218	The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, secretaries, officers and certain employees of the Bank and related body corporates as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium																																								
27. Environmental protection	RBP	The Group and the Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment																																								
		Specific measures taken to protect the environment are disclosed in the section on "Operational Excellence"	70																																							
28. Declaration on statutory payments	RBP	Statement of Directors' responsibility – item (h)	108																																							

Governance  Statement of Compliance

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
29. Events after the reporting period	RBP	Note 70 to the Financial Statements: Events after the reporting period	353
30. Going concern	RBP	Statement of Directors' responsibility – item (m)	109
31. Directors' responsibility for financial reporting	CBSL Direction 3.8. (ii) (a)	Statement of Directors' responsibility	108 and 109
32. Appointment of Auditors and their remuneration	RBP	The Board of Directors of the Bank resolved to adopt a policy of rotation of Auditors, once in every five years, in keeping with the principles of good Corporate governance, although the mandatory requirement is only partner rotation once in every five years. Accordingly, the present Auditors Messrs Ernst & Young were appointed as Auditors of the Bank, at the last AGM held on March 28, 2018 to carry out the audit for the year ended December 31, 2018 and will hold the office until the conclusion of the next AGM of the Bank which is to be held in March 2019. Accordingly, Messrs Ernst & Young will serve for a maximum period of five years consecutively, subject to them being re-elected by shareholders, upon a recommendation of the Board of Directors, annually	
		The retiring Auditors, Messrs Ernst & Young have signified their willingness to continue to function as the Auditor to the Bank.	
	CA S.168 (1) (I)	A resolution to appoint Messrs Ernst & Young as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming AGM to be held on March 28, 2019 for shareholder approval.	
		Expenses incurred in respect of Audit fees and fees for other services rendered during the year are given in Note 22 to the Financial Statements: Other operating expenses	215
33. Information on ratios, market prices of shares and credit ratings	LR 7.6 (XI)	Section on "Investor Relations"	354 to 373
34. Risk management and system of internal controls	LR 7.6 (VI)	Risk Management	115 to 139
		Board Integrated Risk Management Committee report	92 and 93
		Note 69 to the Financial Statements: Financial risk review	319 to 353
		The Directors' Statement on Internal Control over financial reporting	110 and 111
		The Independent Auditors' Report	152 to 154
		Independent Assurance' Report	112
35. Corporate governance	RBP	The Directors declare that – (a) the Bank has complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee; (b) they have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested; (c) the business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's corporate/business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its subsidiaries and associates are prepared based on the going concern assumption; (d) the Bank has complied with the Code of Best Practices on related party transactions and has made the required disclosures in the Financial Statements and to the market when applicable; and (e) they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.	

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
36. Focus on new regulations	RBP	<p>The Bank has quantified the impact on adoption of the Sri Lanka Accounting Standard – SLFRS 9 – “Financial Instruments” and Sri Lanka Accounting Standard – SLFRS 15 – “Revenue from contracts with customers” which became effective from January 01, 2018 and required disclosures have been made in the Financial Statements presented in this Annual Report</p> <p>The Bank has evaluated the implications on adoption of the Sri Lanka Accounting Standard – SLFRS 16 – “Leases” effective from January 1, 2019 and developed the required financial models to assess the impairment on financial assets under the new framework</p>	
37. Sustainability	RBP	<p>The Bank is an early champion of adopting sustainability practices and sustainability reporting. The Bank has considered the sustainability aspects when formulating its business strategies</p> <p>Annex 4: GRI Content Index</p>	412 and 413
38. Human resources	RBP	<p>The Bank continues to invest in human capital development and implement effective human resource practices and policies to improve workforce efficiency, effectiveness and productivity and also to foster collaborative partnerships that enrich the work and learning environment for our staff.</p> <p>Specific measures taken in this regard are detailed in the “Board Human Resources and Remuneration Committee Report”</p>	95 and 96
39. Technology	RBP	<p>As encapsulated in the Vision and the Mission, our business processes are underpinned by technology. All of our processes involve information technology, and we use technology to deliver superior products and services to our customers. Correspondingly, the business is more heavily intertwined with technology than ever before</p> <p>Key achievements in this regard during the year are detailed in the “Board Technology Committee Report”</p>	100
40. Operational excellence	RBP	To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms	
41. Outstanding litigation	RBP	<p>In the opinion of the Directors and in consultation with the Bank’s lawyers, litigation currently pending against the Group and the Bank will not have a material impact on the reported financial results or future operations</p> <p>Note 61 to the Financial Statements: Litigation against the Bank</p>	306
42. Annual General Meeting and the Notice of Meeting	CA S.133 and CA S.135 (a)	<p>The 50th AGM of the Bank will be held at the Galadari Hotel, “Grand Ballroom”, No. 64, Lotus Road, Colombo 01, on Thursday, March 28, 2019 at 3.00pm</p> <p>Notice relating to the 50th AGM of the Bank is enclosed at the end of the Annual Report</p>	