

Statement of Compliance

Further to the Annual Report of the Board of Directors on the Affairs of the Company on page 3, given below is the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and amendments thereto and other relevant statutes.

Statement of compliance Table – 14

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 associate	149 and 150
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, 2019	137 to 286
3. Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Independent Auditors' Report	132 to 134
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	149 to 171
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 21 to the Financial Statements: Other operating expenses	180 and 181
		Board Human Resources and Remuneration Committee Report	90 and 91
7. Total amount of donations made by the Bank and its subsidiaries during the accounting period	Section 168 (1) (g)	Note 21 to the Financial Statements: Other operating expenses	180 and 181
8. Information on directorate of the Bank and its subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Governance and Risk Management	62 to 109
		Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank	62 to 67
		Refer "Group Structure" for details of members of the Board of Directors of the Group	358 to 359
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, who, in terms of the Company's Articles of Association retire by rotation, after considering the contents of the affidavits and declarations submitted by them and all other related issues: <ul style="list-style-type: none"> • Mr M P Jayawardena • Mr L D Niyangoda 			
(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].			

Governance and Risk Management © Statement of Compliance

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
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 21 to the Financial Statements: Other operating expenses	180 to 181
10. Auditors' relationship or any interest with the Bank and its subsidiaries (Lead Auditor's independence)	Section 168 (1) (j)	Independence confirmation has been provided by Messrs Ernst & Young as required by Section 163 (3) of the Companies Act No. 07 of 2007 and amendments thereto, in connection with the audit for the year ended December 31, 2019 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 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	
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	3
Other Disclosures as required by Recommended Best Practices (RBP) or Listing Rules (LR) of the Colombo Stock Exchange			1
12. Vision, Mission and Corporate Conduct	RBP	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 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	
13. Review of business operations of the Group and the Bank and future developments	RBP	"Chairman's Statement" and "Managing Director's Review"	16 to 19
		Management Discussion and Analysis	40 to 61
		Note 63 to the Financial Statements: Operating segments	249 to 251
14. Gross income	RBP	Notes 12 and 63 to the Financial Statements: Gross income and operating segments	172 and 249 to 251
15. Dividends on ordinary shares	RBP	Notes 25 and 70 to the Financial Statements: Dividends and Events after the reporting period	184 and 286
		Item 4 of the Section on "Investor Relations"	288 to 305
16. Reserves and appropriations	RBP	Statement of Changes in Equity	140 to 147
		Notes 55, 56 and 57 to the Financial Statements: Statutory reserves, Retained earnings and other reserves	239 to 243
17. Corporate Social Responsibility (CSR)	RBP	Creating a sustainability strategy	53 to 55
18. Extents, locations, valuations, and the number of buildings of the entity's land holdings, investment properties and leasehold properties	LR 7.6 (VIII)	Note 39 to the Financial Statements: Property plant and equipment and right-of-use assets	208 to 218
		Note 40 to the Financial Statements: Investment property	219 to 220
		Note 42 to the Financial Statements: Leasehold property	222
		Note 59.2 to the Financial Statements: Capital commitments	245
19. Market value of properties	LR 7.6 (XII)	Notes 39.5 (b) to the Financial Statements: Information on valuation of freehold land and buildings of the Bank	213 to 217
		Note 40.1 (b) to the Financial Statements: Information on Investment properties of the Group – valuations	219

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
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	236 and 237
20.2 Issue of debentures by the Bank	LR 7.6 (XIII)	Note 52 to the Financial Statements: Subordinated liabilities item 10 of the section on "Investor Relations"	235 to 236 and 298 to 299
20.3 Issue of shares and debentures by the subsidiaries and associates	CA 5.168 (1) (e)	<p>During the year 2019, Serendib Finance Ltd., issued 12,491,070 shares (11,689,070 shares and 73,937,153 shares in 2018) at Rs. 14.01 per share (at Rs. 17.11 per share and Rs. 10.82 per share in 2018) for total considerations of Rs. 175 Mn. (Rs. 200 Mn. and Rs. 800 Mn. in 2018) in order to raise required funds to meet the shortfall in statutory minimum core capital requirement</p> <p>During the year 2019, the Bank invested in 500,000 shares of CBC Mynmar Microfinance Company Limited at USD 1 per share for a total consideration of USD 500,000/- (Rs. 90,750,000/-)</p> <p>During the year 2019, the Bank acquired 40% ownership in Commercial Insurance Brokers (Pvt) Ltd. (CIBL) by investing in 239,999 shares at Rs. 10/- per share for a total consideration of Rs. 250 Mn. Hence, with the direct holding of 40% and indirect holding of 18% (via the investment in Commercial Development Company PLC) the Bank established a controlling interest of 58% in CIBL by the end of year 2019.</p> <p>During the year 2019, the Bank infused additional capital to Commex Sri Lanka S.R.L of EURO 1,182,500/- (Rs. 238,907,000/-)</p> <p>Except for the above share issues, the other subsidiaries and associate of the Bank did not make any debenture or share 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, Float adjusted Market Capitalisation, public holding percentage, number of public shareholders and the option under which the Bank complies with the minimum public holding requirement	LR 7.6 (X) LR 7.6 (III) LK 7.6 (IV) LR 7.13.1	Item 5 of the section on "Investor Relations"	295 to 297
21.2 Financial ratios and market price information	LR 7.6 (XI)	Financial Highlights	8
Information on earnings, dividend, net assets and market value per share		Item 4 of the section on "Investor Relations"	294
Information on listed debt		Item 10 of the section on "Investor Relations"	298 to 299
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"	290 to 294
21.4 Own share purchases	CA 5.64	The Bank does not purchase its own shares	
21.5 Equitable treatment to shareholders	RBP	Statement of Directors' Responsibility – item (k)	104
22. Information on Directors' meetings and Board Committees			
22.1 Directors' meetings	CGR	Details of the meetings of the Board of Directors	76
22.2 Board committees	CGR	Board committees reports	83 to 96

Governance and Risk Management © Statement of Compliance

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s																																					
23. Disclosure of Directors' dealings in shares and debentures																																								
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, 2020, the date being one month prior to the date of Notice of the Annual General Meeting	297																																					
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, 2019. 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	237																																					
		Note 54 to the Financial Statements: Share-based payments	237 to 239																																					
		The Bank and any of its subsidiaries have not, directly or indirectly, provided funds for the ESOPs																																						
		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">2019</th> <th colspan="2">2018</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>184,633</td> <td>110,355</td> <td>98,986</td> <td>57,370</td> </tr> <tr> <td>Vested during the year</td> <td>-</td> <td>-</td> <td>85,647</td> <td>52,985</td> </tr> <tr> <td>Additional options granted due to the rights issue</td> <td>N/A</td> <td>N/A</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Exercised during the year</td> <td>(24,222)</td> <td>(11,119)</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Expired during the year</td> <td>(36,831)</td> <td>(22,784)</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>As at December 31</td> <td>123,580</td> <td>76,452</td> <td>184,633</td> <td>110,355</td> </tr> </tbody> </table>	Description	2019		2018		Mr S Renganathan	Mr S C U Manatunge	Mr S Renganathan	Mr S C U Manatunge	As at January 1	184,633	110,355	98,986	57,370	Vested during the year	-	-	85,647	52,985	Additional options granted due to the rights issue	N/A	N/A	N/A	N/A	Exercised during the year	(24,222)	(11,119)	Nil	Nil	Expired during the year	(36,831)	(22,784)	Nil	Nil	As at December 31	123,580	76,452	184,633
Description	2019			2018																																				
	Mr S Renganathan	Mr S C U Manatunge	Mr S Renganathan	Mr S C U Manatunge																																				
As at January 1	184,633	110,355	98,986	57,370																																				
Vested during the year	-	-	85,647	52,985																																				
Additional options granted due to the rights issue	N/A	N/A	N/A	N/A																																				
Exercised during the year	(24,222)	(11,119)	Nil	Nil																																				
Expired during the year	(36,831)	(22,784)	Nil	Nil																																				
As at December 31	123,580	76,452	184,633	110,355																																				
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	109																																					
		Note 21 to the Financial Statements: Other operating expenses	180 to 181																																					
		Note 64 to the Financial Statements: Related party disclosures	251 to 255																																					
	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"	56 to 61																																					

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
28. Declaration on statutory payments	RBP	Statement of Directors' responsibility – item (h)	103
29. Events after the reporting period	RBP	Note 70 to the Financial Statements: Events after the reporting period	286
30. Going concern	RBP	Statement of Directors' responsibility – item (m)	104
31. Directors' responsibility for financial reporting	CBSL Direction 3.8. (ii) (a)	Statement of Directors' responsibility – Compliance Report	103 and 104
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, 2019 to carry out the audit for the year ended December 31, 2019 and will hold the office until the conclusion of the next AGM of the Bank which is to be held on March 30, 2020. 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 30, 2020 for shareholder approval	
		Expenses incurred in respect of Audit fees and fees for other services rendered during the year are given in Note 21 to the Financial Statements: Other operating expenses	180 and 181
33. Material issues relating to employees and industrial relations	LR 7.6 (VII)	Item 8 of Section on "Investor Relations"	298
34. Risk management and system of internal controls	LR 7.6 (VI)	Risk Governance and Management	110 to 128
		Board Integrated Risk Management Committee report	86 and 87
		Note 69 to the Financial Statements: Financial risk review	257 to 286
		The Directors' Statement on Internal Control over financial reporting	105 and 106
		The Independent Auditors' Report	132 to 134
Independent Assurance Report	107		
35. Corporate governance	RBP	The Directors declare that – <ul style="list-style-type: none"> (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) they have complied with the Code of Best Practices on Corporate Governance; (d) 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; (e) 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; (f) 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 	

Governance and Risk Management © Statement of Compliance

Disclosure requirement	Reference to the relevant statute/rule	Page reference for compliance and other necessary disclosures	Page/s
36. Focus on new regulations	RBP	Requirements of the Sri Lanka Accounting Standard SLFRS 16 on "Leases", became effective for Annual Financial periods from January 01, 2019. SLFRS 16 requires the recognition of lease liabilities and right of use of assets for leases previously classified as operating leases in accordance with LKAS 17 on "Leases". As permitted by the paragraph 5 (b) of the Appendix C of SLFRS 16, the Bank opted not to restate Financial Statements of prior periods, and to recognise lease liability and the right of use asset in line with paragraphs 8 (a) and 8 (b) ii of the Appendix C of SLFRS 16, respectively. Accordingly, the difference arising from reversal of deferred tax assets created on liability o/a straight lining of lease rentals have been recognised directly in equity as at January 01, 2019. Accordingly, comparative information has not been amended to comply with the current presentation	
37. Sustainability	RBP	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	
		Annex 4: GRI Content Index	341 and 342
38. Human resources	RBP	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.	
		Specific measures taken in this regard are detailed in the "Board Human Resources and Remuneration Committee Report"	90 and 91
39. Technology	RBP	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	
		Key achievements in this regard during the year are detailed in the "Board Technology Committee Report"	95
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	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	
		Note 61 to the Financial Statements: Litigation against the Bank	246 and 247
42. Disclosure on Related Party Transactions	LR 9.3.2 (a) & (b)	Note 64 to the Financial Statements: Related Party Disclosures	251 to 255
	LR 9.3.2 (c)	Board Related Party Transactions Review Committee Report	92
	LR 9.3.2 (d)	Statement of Annual Report of the Board of Directors	3
43. Annual General Meeting and the Notice of Meeting	CA S.133 and CA S.135 (a)	The 51st AGM of the Bank will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on Monday, March 30, 2020 at 3.00pm	
		Notice relating to the 51st AGM of the Bank is enclosed at the end of the Annual Report	